

Report subject	Organisational Design – Acceleration of Transformation Savings for 2021/22 Budget
Meeting date	16 th December 2020
Status	Public Report
Executive summary	Cabinet and Council have previously adopted our Organisational Design and Operating model as the basis of the BCP Council Transformation Strategy. This paper sets out an approach to accelerate the identification and delivery of savings that are consistent with both the ambitions and approach of our Transformation Programme in order to help the Council address the impact of the pandemic on the financial position.
Recommendations	<p>It is RECOMMENDED that Cabinet:</p> <p>a) Approves the proposed approach for the identification of accelerated savings proposals based on the wider transformation approach of the Council;</p>
Reason for recommendations	To support the delivery of the Council's Medium Term Financial Plan while accelerating the delivery of benefits already identified within the Council's Transformation Strategy.
Portfolio Holder(s):	Councillor Drew Mellor, Leader of the Council and Portfolio Holder for Transformation and Finance
Corporate Director	Julian Osgathorpe, Corporate Director Resources
Report Authors	Julian Osgathorpe, Corporate Director Resources
Wards	Council-wide
Classification	For Decision

Background

1. In November 2019 Cabinet considered the output from the Organisational Design Project. This was facilitated by KPMG and co-designed with Members and Officers

and expressed a view of the potential Operating Model for BCP Council following the successful delivery of the Local Government Reorganisation of Dorset.

2. Accompanying the Operating Model was a high-level business case which showed potential net benefits of up to £36 million per annum (£43.9 million per annum gross) of savings in return for an estimated one-off investment of up to £29.5 million.
3. Cabinet approved the next stage in the development of an implementation programme for the Organisational Design and Operating Model programme, which was to
 - a. Carry out a Pre-Market Engagement exercise with potential partners and/or suppliers to test the underlying assumptions, costs and delivery models for the implementation of the programme, and
 - b. Assess the impact of the costs and benefits arising from the implementation of the programme on the Medium Term Financial Plan (MTFP) and develop a financial strategy to support them
4. In June/July 2020 Cabinet and Council endorsed and adopted the Organisational Design and Operating Model programme and budget as the basis of the Transformation Strategy for BCP Council. However, given the impact of the pandemic there was a clear expression of the need to accelerate the delivery of some aspects of the programme. This included a need to consider the potential to bring forward some of the benefits realisation, subject to the needs of the MTFP which would be clarified later in the year.
5. In November 2020 Cabinet considered the MTFP outlook and the forecast budget deficit for 2021/22, and preserved the assumption within the Financial Strategy of a savings target of £15m for the 2021/22 financial year to be realised from "Transformation". In addition, Cabinet requested that the Director of Corporate Resources/Transformation bring forward a report to outline the approach to be adopted to identify, quantify and realise savings to meet this target in a way that was consistent with the ambition and approach to transformation already adopted by the Council.

The Benefit Classes

6. The KPMG report referred to in the reports above, outlines three principal sources of benefit realisation that when combined produce the anticipated total of (up to) £43.9m. These are
 - a. Reduction in the number of FTE's (Full time Employees, i.e. salaries/wages costs) of the Council over the next four years;
 - b. Reduction in the Third Party Spend (e.g. external spending; procured contractual relationships) of the Council over the next four years;
 - c. Optimisation of our income levels (e.g. commercial activities; Fees; Charges)
7. With regard to c. above, this is the smallest anticipated source of benefit and is dependent of the harmonisation of the Council's policy framework. All service areas of the Council are currently working on this and the impact of will begin to be felt in the coming years as these revised Policies are approved, adopted and implemented. The pandemic has caused some delay with this process, and an extension to the two year time horizon for the harmonisation exercise has been agreed with MHCLG where appropriate.

8. For the purposes of realising £15m in savings for the 2021/22 financial year, it is therefore proposed that the focus of the effort will be in the benefit classes outlined in a. and b. above. We will use the output from the KPMG activity for both of these classes, but we will also develop them further through the use of
 - a. With regard to the FTE reductions, we have done a huge amount of work within our Pay & Reward Programme to identify, develop and map common Job Families, Roles and structures across the organisation. We will utilise this work to identify opportunities for savings;
 - b. With regard to Third Party Spend reductions, we will utilise the first full year outturn for BCP Council (this was not available during the work undertaken with KPMG) in order to identify opportunities for savings.
9. Each of these benefit classes will be considered in turn below. However, it must be understood that everything that is outlined below is consistent with the transformation ambitions and approach for the Council. Furthermore, each of the proposed approaches below were scheduled to be delivered within the wider transformation programme – the change that is being proposed is to change the point at which they are delivered within the wider transformation programme.

Reductions in FTE (Full Time Equivalent) Employed by the Council

10. It is critical to remember that both the Local Government Reorganisation (LGR) proposals and programme, as well as the Organisational Design and Operating Model Programme, are predicated on the Council reducing the number of people that it employs.
11. While the LGR Programme met its savings predictions for the “Transition” phase, it is also important to note that the work to further consolidate structures and roles is by no means complete. The conclusion of this process will be facilitated by the transformation of the Council through the Organisational Design and Operating Model Programme, and as a result it has always been completely clear that this programme anticipated a reduction in FTE's of up to 622 (£22.6m) over the next four years.
12. This reduction is believed to be possible as a result of two principal forms of transformation
 - a. The identification and consolidation of roles across all parts of the organisation that are undertaking similar tasks within small, discrete teams across the Council. By bringing them together it is possible to reduce both the number of roles as well as the management and supervisory structures that support them; and
 - b. Investing in technology, business process change and new ways of working to improve the efficiency and effectiveness of the work being undertaken by these roles/structures.
13. The interaction between these two forms of transformation is why the anticipated profile of the benefits realisation presented to Cabinet in November 2019/June 2020 showed the majority of the benefits being realised in the last two years of the programme, i.e. the investment in technology, business change and new ways of working would be made and then these changes would allow the reduction in FTE to be undertaken in return for the efficiency and effectiveness improvements.

14. However, given the impact of the pandemic on the financial position of the Council, it is proposed to change this sequencing within the programme. The effect of this change will be to bring forward a significant proportion of the FTE reductions to be prior to the delivery of the technology, business process change and full introduction of the new ways of working.
15. The Corporate Management Board (CMB) has established a project to review each of our twenty five newly defined Job Families. These reviews will be focussed on developing proposals to deliver savings within each of these Job Families applying the core principles referred to in the Organisational Design and Operating Model Programme and outlined above, e.g. consolidation of similar work and role types; the rationalisation of these roles and the management/supervisory structures that support them.
16. Proposals will be presented to CMB for initial review and consideration over the next two months before making their way into and through the budget setting process for the Council and beyond that into implementation should they be approved. While it is not possible to be specific about the level of savings that this process will produce at this early stage, it is anticipated that the majority of the £15m target for 2021/22 is likely to come from this source.
17. It must be clearly understood that while this approach is possible, it presents some significant issues for the Council should the proposals be accepted by Cabinet and Council through the budget setting process for 2021/22. These are
 - a. It will involve a reduction in capacity and capability within the organisation without the full effect of the wider transformation programme to offset these reductions through improved efficiency and effectiveness; and
 - b. It may involve consequential impacts and therefore changes to some services delivered by the Council. Where this is the case, these consequences will be identified for Cabinet and Portfolio Holders to assess throughout the budget setting process for 2021/22; and
 - c. We will be undertaking these changes while responding to the effects of the pandemic.
18. However, and accepting the issues referred to above, given the scale of the financial impact of the pandemic the Council would have to consider the rationalisation of structures and roles in order to meet the savings requirements expressed within the MTFP. The way in which the Council has approached this in the past would be to expect each individual service and/or team to identify and deliver their own restructuring and reductions in FTE. The effect of this approach has been, through the last ten years of delivering significant budget savings, to create smaller and less sustainable teams that cannot be further reduced without potentially significant negative impacts on our service outputs.
19. The benefit of the approach that is being proposed in this paper by comparison to our historical practice is that
 - a. By undertaking it within the wider transformation programme we can identify and deliver reductions in consolidated teams while preserving an appropriate level of capacity and capability for the Council going forward;
 - b. By building larger, professional “Job Families” we can provide more attractive career paths while also providing more focussed learning and development opportunities. These improvements, when combined with the final delivery of

our Pay & Reward Programme, will help us address some of our recruitment and retention issues in some job family and/or role areas;

- c. By delivering these changes within the transformation programme at an enterprise level, we are more effectively able to identify and deliver the required changes to technologies, business processes and ways of working that will complete the transformation of the Council in line with the vision and ambitions expressed in both the LGR proposal and the Organisational Design and Operating Model Programme.

Reductions in Third Party Spend

- 20. The LGR proposal and programme clearly anticipated that the newly formed BCP Council would have the opportunity to realise savings by
 - a. Rationalising contractual spend across the four preceding Councils into single, new contractual relationships over a period of time as the legacy contracts expired and are re-procured; and
 - b. Benefitting from a significantly increased scale of Council operations and the enhanced attractiveness of BCP Council to the market when/where relations are procured/re-procured; and
 - c. Removing some contractual spend through the wider and ongoing transformation programme for BCP Council
- 21. While some savings were delivered through the “Transition” phase of the LGR programme, the expression of anticipated benefit in the KPMG work on the Organisational Design and Operating Model programme shows that there is still a great deal of work that can be done to improve our position. The upper range of benefits expressed is 7% of our influenceable spend or £19.8m over the next four years.
- 22. It is also the case that to a large extent our ability to significantly accelerate the delivery of these benefits is constrained by the contractual lifecycle of existing relationships, it is also clear that there are opportunities that are not necessarily dependent on these constraints.
- 23. CMB have established a project team to establish and implement a Procurement Category approach across all influenceable spend based on our first full year outturn for BCP Council. By applying similar principles to these Categories as those outlined above (e.g. enterprise rather than individual service level view; aggregation; consolidation of budgets; enhancing purchasing controls) it is believed that it is possible to identify opportunities to accelerate the delivery of savings for the 2021/22 financial year.
- 24. Proposals will be presented to CMB for initial review and consideration over the next two months before making their way into and through the budget setting process for the Council and beyond that into implementation should they be approved. While it is not possible to be specific about the level of savings that this process will produce at this early stage, it is anticipated that these proposals will contribute a smaller proportion of the £15m target for 2021/22.

Summary of financial implications

- 25. At this early stage, it is not possible to accurately assess the financial implications of the activity outlined above. Notwithstanding this, the following points are salient

- a. The activity is intended to contribute to the delivery of the required savings expressed in the MTFP;
 - b. It is clear that some elements of the proposals outlined above will involve costs being incurred, for example the likelihood of redundancy costs for any staff whom are displaced by the process of reducing the size of the organisation.
 - c. While potential redundancies are likely to contribute to the majority of the costs of these proposals, it is neither appropriate or possible to speculate on the outcome of selection process and/or the specific costs attributed to individuals.
 - d. Through the development and approval of these proposals within the Council's budget setting process any such costs will be identified, calculated and submitted for approval along with a clear funding strategy to deal with them. In that regard, £6m of the total £37.62 million total transformation programmed costs has previously been earmarked to cover redundancy costs.
 - e. £1.5 million in employee costs was permanently removed from the establishment as part of the mitigation strategy put forward as part of the Covid19 2020/21 Budget Monitoring report to Cabinet in June 2020.
26. In setting the budget for 2021/22 and in determining the level of transformation savings that can legitimately be assumed, the council will need to differentiate between those savings that can be itemised and approved, and those savings which although they cannot be itemised there is sufficient evidence for their inclusion. In the budget statement on the robustness of the budget and the adequacy of reserves the s151 Officer will need to consider the risk associated with any savings not itemised and ensure that the level of reserves is set accordingly.

Summary of legal implications

27. There are no direct legal implications arising from the approach outlined in this report.

Summary of human resources implications

28. While there are no human resources implications arising as a result of the approach outlined in this report that were not explicit in the reports to Cabinet in September 2019 (Pay & Reward Programme) and November 2019 or June 2020 (Organisational Design Programme) the effect of accelerating the delivery of FTE reductions creates issues that have not previously been considered.
29. BCP Council has strong policies and procedures in place to ensure that any process that involves the potential to displace members of staff are conducted openly and fairly for everyone involved in those processes. However, the delivery of a potentially large scale programme of people change during a pandemic is a challenge that the organisation has not confronted before and as specific proposals are developed and approved for implementation there will be a real need to focus on engagement, consultation, support and wellbeing.
30. The combined effect of the pandemic response as well as accelerating the delivery of these proposals is likely to impact the delivery of the Pay & Reward Programme by

approximately three to six months. While there is a significant cross over between the two programmes (e.g. the development of Job Families and common role profiles for all staff) it is not advisable to try and implement a potentially large scale consultation on restructuring and redundancies while also engaging around, and holding a staff ballot on, the proposed new employment relationship that will be delivered through the Pay & Reward Programme.

Summary of sustainability impact

31. There are no direct sustainability impacts arising from this report.

Summary of public health implications

32. There are no public health implications arising from this report.

Summary of equality implications

33. As with para 27 above, the high level equalities impacts of the Programmes that form the basis of the approach outlined in this report have been previously considered by Cabinet.

34. At this stage, and until specific proposals have been developed and considered, it is not possible to identify and therefore mitigate any potential equalities impacts that may arise. As these proposals are developed, it will be necessary to assess the equalities implications on all stakeholders (internal and external to the Council) and ensure that all appropriate actions are taken.

Summary of risk assessment

35. While there may be proposal specific level risks that will have to be identified and managed, there are some high level risks to be conscious of and manage as we move forward.

36. Clearly, the approach outlined in this report is intended to contribute to the delivery of the savings that are required by the MTFP. In the event that the approach outlined in this paper is unsuccessful in identifying proposals that are capable of achieving this outcome, or that the consequences of delivering them are considered to be too onerous, alternative savings proposals will need to be identified, considered and implemented.

37. Based on previous exercise of large scale restructuring within the legacy authorities to BCP Council, the financial cost of delivering some of the proposals that may arise as a result of the approach outlined in this report could be significant. However, it is not possible to accurately forecast these costs until specific proposals are developed and approved. Furthermore, with the impending introduction of the public sector redundancy “cap” it is possible that the historic cost modelling referred to above may not be a reliable indicator of future costs of large scale restructuring.

38. The delay to the Pay & Reward Programme caused by the combined effect of the pandemic response and the adoption of the approach outlined in this paper represents a risk to the organisation. One of the principal outcomes of the Pay & Reward Programme, and the reason that it was the first major element of our wider transformation programme to be approved by Cabinet in September 2019, is the removal of the equal pay risk that was inherited by BCP Council as a result of the LGR process. The delay of approximately three to six months to the final delivery of

this programme extends this risk beyond what was originally intended and communicated to staff and Trade Unions.

Summary

39. The Cabinet and Leader have been clear that they want to be more ambitious about the pace of our transformation journey and the benefits to be achieved. The quicker we can deliver the benefits of transformation then the quicker that our resources can be diverted to deliver the priorities for investment in front line services.
40. The proposals contained in this paper therefore represent the necessary next stage in BCP Council's already award winning transformation into a vanguard local authority. While it is acknowledged that delivery of these proposals will be happening outside of the intended sequence within the wider transformation programme, there must be no doubt that they were always intended to be a critical component within that programme.
41. The delivery of the proposals out of the originally intended sequence will be challenging for the organisation at both a Member and Officer level. These challenges must be acknowledged, embraced and overcome throughout the whole organisation and at every level if we are to be successful in delivering not only the required budget outcomes but also our wider transformation and change objectives.

Background papers

Appendices

None