

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Cabinet
Date:	19 June 2017
Title:	Transformation to 2019: Report No. 1
Report From:	Chief Executive

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1. Executive Summary

- 1.1 This is the first dedicated Transformation to 2019 (Tt2019) report to Cabinet setting out the programme targets, the timetable, early progress and some key issues. Cabinet have previously agreed the overall £140m programme target, individual Department targets and the headline timetable as part of Medium Term Financial Strategy (MTFS) reports from the Director of Corporate resources in June and October of 2016. Additionally Tt2019 featured in the last Transformation to 2017 (Tt2017) report in December of last year.
- 1.2 Following the local government finance settlement in January 2016, the four year picture for the County Council to 2019/20 significantly deteriorated. The MTFS approved by Cabinet in June 2016 confirmed that further to the full delivery of Transformation to 2017, the County Council will still be required to achieve an additional £140m of recurring savings by April 2019, after assumed council tax rises of the equivalent of 3.99% each year for the four years from 2016/17.
- 1.3 In late 2016, the Government offered upper tier local authorities the opportunity to re-profile the adult social care precept rises to take effect over two years rather than three e.g. allowing for 3% in this year and next but then followed by a 0% increase of that precept in 2019/20 instead of 3 consecutive 2% increases. The County Council agreed to adopt this approach at its budget setting meeting this February as a means to improve cash flow and provide up to £16m of earlier receipts that will be used to support the enabling costs of delivering Tt2019. Otherwise, the overall medium term financial position for the wider Council remains largely unchanged (actually marginally worse rather than better) and thus there is still a requirement to deliver £140m of additional recurring savings through the Tt2019 programme.

- 1.4 Over the past six months, early opportunity assessment work in respect of Tt2019 has been progressed by Departments alongside the final delivery (except for Adult Services, see below) of Tt2017 changes and savings. Pleasingly, Tt2017 delivery has been exceptionally strong and to time, meaning there are no legacy implications for Tt2019. The value of this strong starting position cannot be over-stated. In Adults, Cabinet had agreed in December 2015 to allow the Department to deliver their £43.1m programme over three years and not two, recognising the risks and complexity involved with the standard timeframe. It was agreed that £30m of savings would be targeted to be achieved by the end of 2016/17, leaving £13.1m to be secured in the current financial year, 2017/18. Positively, for both Adults and for the wider programme(s) the Department marginally exceeded the £30m challenge and remains firmly on course to bring the remainder of the programme on target this year alongside being able to make a meaningful start to the successor Tt2019 programme at the same time.
- 1.5 The early opportunity assessment work is summarised later in this report and will feature in a public consultation exercise that is due to commence in July and run for six weeks over the summer of this year. The public consultation, which will be similar in nature to an exercise completed two years ago ahead of Tt2017, will seek residents' and stakeholders' views on options for managing the anticipated budget shortfall. The options will necessarily extend beyond cost reduction and income raising possibilities to areas such as Council Tax increases, possible legislative changes and the organisation (structure) of Local Government in Hampshire. These broader considerations are required by previous national legal judgements. Moreover, with the squeeze on public finances anticipated to extend into the next decade and the general uncertainties that surround BREXIT, it is almost certain that further savings, beyond those required for Tt2019, will be needed in the future. This might or might not influence the views of residents and stakeholders regarding the preferred way of closing the future budget deficit.
- 1.6 At the conclusion of this proposed consultation exercise, a final set of detailed savings proposals will be prepared and presented to Select Committees and Executive Members for consideration and agreement in September of this year. At the same time, Cabinet will be updated on the outcome of the public consultation and will be asked to approve the consolidated budget savings position for the Council ahead of Full Council considering the full set of proposals at a special budget setting meeting in November. This outline timetable mirrors that successfully adopted for Tt2017 and reflects the necessity of early planning to achieve the required changes on time and in a way that service disruption is kept to a minimum.

2. **Financial Context**

- 2.1 Cabinet has previously noted that each successive programme of 'transformation' over the past seven years was, in itself, harder than the previous one as the scope for early and easier removal of spending was further diminished. To this end, Tt2019 is set to test the Council like no other

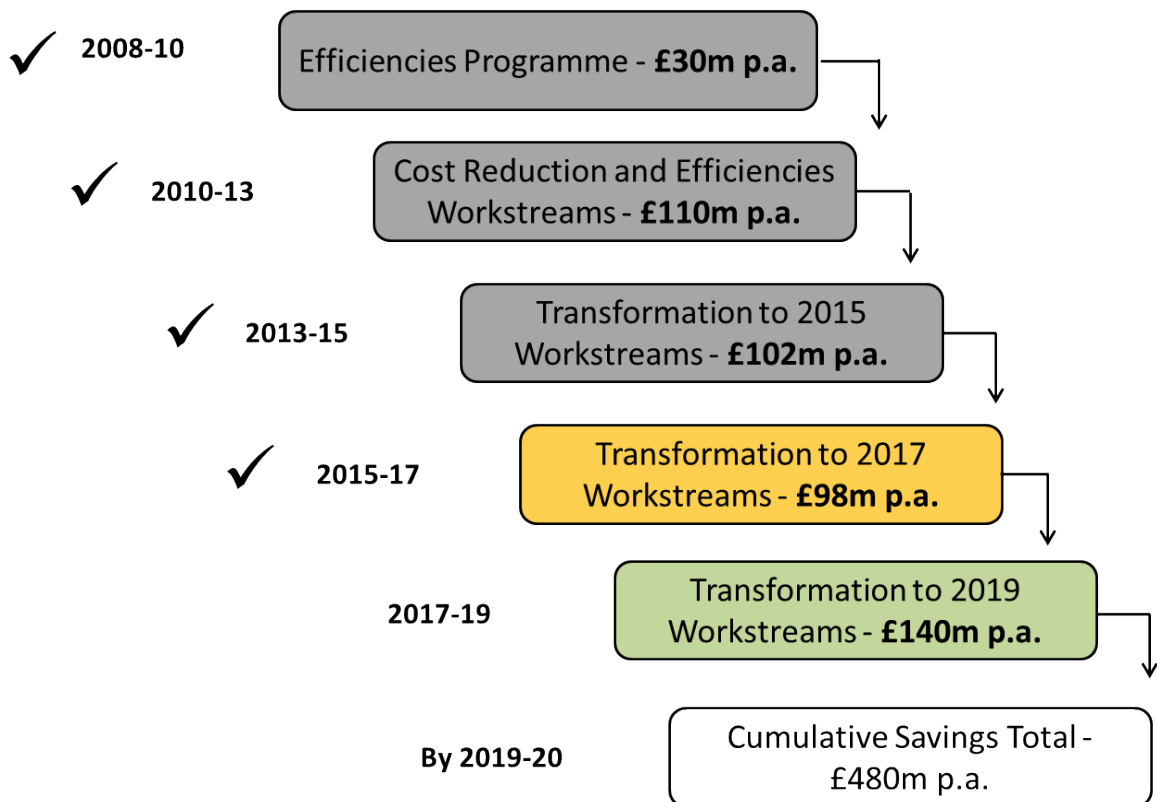
programme has to this point. It is numerically and proportionately greater than anything we have achieved before, against a reduced backdrop following the previous programmes.

- 2.2 Throughout the austerity period the County Council's financial performance has been very strong. Leaving aside the planned later delivery of £13.1m of the Adults Tt2017 programme, cumulative savings including the Tt2017 achievement, have seen some £340m being removed from revenue budgets since 2010. Year end outturn reports, including this year's one on today's agenda, have demonstrated that Departments have continued to manage their resources, create capacity for one off investment to support the on-going transformation challenge and at the same time maintain and even improve service outcomes and performance.
- 2.3 Whilst this performance has been sustained to date, the cumulative impact of numerous savings programmes together with sustained pressure on all Departments, but in particular social care, show a different picture beginning to emerge. As we look to 2017/18 and immediately beyond, both Adults' Health and Care and Children's Services are unlikely to remain within their cash limited expenditure positions in, or by the end of these years with cost of change reserves for these Departments set to be exhausted. Cabinet were apprised of this changing financial position in November 2016.
- 2.4 The MTFs presented to Cabinet in June 2016 provided more background to the overall financial position to 2019/20. Of particular importance, is the fact that not only is the County Council able to meet, on a one off basis, the forecast additional budget deficit in 2017/18, but it has also identified sufficient resources to bridge a larger estimated budget deficit of £70m in 2018/19, enabling the continuation of the County Council's successful strategy of setting two year savings programmes. The ability to include within the overall budget, higher social care precept increases over the next two years, and the positive outturn position (reported elsewhere on today's agenda) means that improved levels of one-off reserve monies will continue to accrue and will be available to support both the cost of delivering the programme and to provide cash flow support to cover off acceptable levels of later savings delivery. This model of prudently developing cost of change reserves with which to safely plan and fund transition has been key to the organisation's general stability during this difficult period and should remain the model for the future where possible.
- 2.5 One of the key features and underlying success factors of the transformation programmes within the County Council is that the planning, development and implementation of the programmes are undertaken well in advance. This has meant that where possible early savings can be safely achieved and used to bridge budget deficits in 'interim' years. This has given the time and capacity to properly implement the savings over a longer time frame with greater care and less disruption.
- 2.6 Whilst this has been a key feature of previous cost reduction programmes it must be recognised that as we begin to focus on Tt2019 there is absolutely no doubt that this fourth major cost reduction exercise for the County Council

since 2010 will be significantly more challenging than any previous transformation and efficiency programme against the backdrop of a generally more challenging financial environment and burgeoning service demands.

- 2.7 Inevitably, Tt2019 will involve complex transformational, policy and service change across all services at the same time over the next few years alongside the requirement to deliver the final year of the Adults Tt2017 programme, an unrelenting business as usual agenda and in the context of a range of external factors such as Brexit and devolution. Tt2019 will require the Council to look at all areas of spend and to seek every conceivable business opportunity in order to deliver against the target. The Tt2019 programme will mean a cumulative £480m of revenue cost reduction for the County Council over the past decade per Figure 1 below.

Figure 1. Revenue Cost Reduction Exercises including the Tt2019 Programme Requirement



3. Tt2019 – Targets and Timeframe

- 3.1 Cabinet approved the overall programme target of £140m and the breakdown of the programme, including Department targets, when considering the medium term financial strategy report of the Director of Corporate Resources in June 2016.
- 3.2 It was agreed that £120m of the overall programme should be met by Departments, equating to a further cash limit reduction of some 19%. This means the cumulative Tt2019 challenge for the Departments will be one third again, the size of what was asked of them for Tt2017.
- 3.3 The remaining £20m will be secured from corporate “housekeeping”. In the main this will result from changes in accounting practice in respect of depreciation and minimum revenue provisions (MRP) but this will also cover management of debt, inflation, reserves and financial transactions. This aspect of the programme is likely to be delivered in part this year providing a sensible and solid start to the programme overall. The programme breakdown and individual Department targets are shown in Appendix 1.
- 3.4 At their June 2016 meeting, Cabinet also approved the headline programme timetable including an earlier budget setting process to take place in September and October this year aimed at allowing the maximum possible time to plan, work on and implement the range of service changes required to enable the programme to be delivered. Protecting this timetable will be essential given the scale of work required and the cost implications of any delays. The programme timetable allows for a public consultation exercise to be completed this summer ahead of the budget setting period so that proposals being considered by Select Committees, Executive Members, Cabinet and then Full Council can be appropriately informed by the views of residents and stakeholders. The public consultation exercise is due to commence in July and is described in more detail in section 6 of this report. The different elements of the programme timetable are also shown in Appendix 1.

4. Tt2017 Achievement

- 4.1 Over the past two plus years, a lot of hard work and commitment has gone into ensuring that the £98m Tt2017 programme, the hardest cost reduction exercise yet by some margin, could be delivered in full. Knowing that Tt2019 was going to represent an even tougher challenge, it was essential that the Council delivered on Tt2017 and did not add any material legacy to the successor programme.
- 4.2 Pleasingly, with the exception of Adults Services (see paragraph 4.3) the Tt2017 programme has been delivered in full and to time. There remain a small number of savings areas still to materialise but these are low in value and are mainly technical timing issues. From a financial point of view, they have been covered off by cost of change contributions and from a programme point of view, save for an imminent Children’s Services service specific consultation, all of the decisions and necessary work have been

completed. This represents a noteworthy achievement and is especially welcome given the extent of the Tt2019 challenge. The strong and timely progress made also allowed Departments to give early thought to their Tt2019 planning and this has proved invaluable.

- 4.3 The position in Adults is different but is now also very positive. Cabinet agreed in December 2015 to allow the Department an additional year to deliver their full £43.1m programme recognising the special challenges that exist and wanting as far as possible to allow transformation to take place but with the least possible disruption to service users and communities. As part of the agreement for the extra year, an interim target of £30m was set for secured savings by the end of 2016/17. This in itself, was considered to be a tough proposition, but aided by strong leadership, focused contributions from staff at all levels across the Department and targeted input from the Council's private sector partner, the £30m target has been very marginally exceeded.
- 4.4 Savings performance into the current financial year remains strong and two months in, there is a high degree of confidence that the full programme target of £43.1m will be achieved by the end of 2017/18. Further, planning work for Tt2019 has been progressed in line with other Departments and without impacting on Tt2017 delivery with the likelihood that some early Tt2019 savings will be deliverable this year as well.
- 4.5 Progress through 2017/18 with the remaining elements of the Adults Tt2017 programme will therefore now be covered as part of the on-going monthly budget monitoring arrangements allowing any issues to be identified in a timely manner and appropriately responded to. Cabinet will be apprised of progress through periodic budget monitoring updates.

5. Tt2019 Opportunity Assessment Work

- 5.1 Over the past six months, Departments have been looking closely at potential opportunities to achieve yet further savings equating to a required circa 19% reduction to 2017/18 cash limits. Not surprisingly the exercise has been extremely tough because a) significant savings have already been driven out over the past seven years, and b) the sheer size of the 19% target requires a complete re-look with previously discounted options having to be re-considered. This has been a significant challenge for all Departments to develop a set of proposals that, together, can enable their share of the Tt2019 target to be delivered.
- 5.2 The Tt2019 programme is set to be very broad in nature. Extensive public engagement and co-design of services will need to feature strongly. We will need to continue and build on the work started in Adults' in the past year to begin to reset public expectations of what our residents should expect from the Council in the future, including changes to expectations of the way in which people's needs are met.
- 5.3 Getting to the Tt2019 target will require the Council to work much harder and succeed with demand prevention and early intervention work programmes

and will also inevitably mean reduced levels of paid for care as family, friends, communities and technology are required to do more. Some relief is likely from the next iteration of the Better Care Fund and we must await the outcome of the National Elections which may influence further the funding of Adult Social Care.

- 5.4 In Children's Services their target of £30m requires reduced spending levels in all service areas including Social Care and children looked after. The Department is one of the best performing but lowest funded Children's Services operations in the Country. Perversely, it is compelled by legislation to spend close to £30m of its limited resources on non-means-tested Home to School Transport, just one area where legislative change could ease the general burden. For Tt2019 the Department is considering a new approach, supported partly by Government innovation funding, which they estimate will need to result in a reduction to children looked after over the next three to four years. Current levels are broadly stable following years of rising demand Senior officers believe this demand can in future be safely managed down but are keenly aware this would be a fine balance.
- 5.5 For ETE the picture is comparable. Some 80% of the Department budget is tied up in long term service arrangements with external contractors e.g. Waste and Highways. In both of these areas, recent re-negotiation work has led to reduced spending and improved performance but left little room for further opportunity. Meeting the Tt2019 target is likely to mean significant changes to public transport bus subsidies and reduced levels of winter maintenance. District Council agency arrangements and the School crossing patrol service could also be impacted.
- 5.6 For CCBS, changes in terms of Library service operations, including opening hours and overall service levels will need to be considered. Established income earning opportunities will need to be pursued further and the Department's property team will work to reduce again the number of buildings that the Council operates from in the future in order to reduce overall running costs. For Corporate Services, each of the professional areas including, but not limited to Finance, HR and I.T will see greater moves to self-service with resulting reductions in staff numbers which will affect Managers and Councillors in the way they currently work.
- 5.7 The opportunity assessment work has also confirmed the sheer complexity and challenge behind some of the proposals meaning that in a number of areas more than two years will be required to develop plans and implement the specific service changes. There will also be a significant I.T enabling requirement before many of the different opportunities can be delivered. This will provide real service redesign opportunities to be pursued and will result in different types of public interaction and greater levels of self service. These enhancements to the way business is currently conducted will mean, after an initial one-off outlay, that the Council will be able to operate at lower cost in the future and will help to optimise the Council's already substantial investment in new digital capabilities. Again the programme of work will be extensive, initially costly and not without risk.

- 5.8 The Tt2019 programme will challenge our leaders, senior managers and operational staff. Optimising productivity, partly through agile and mobile working will be a necessity, making the best use of technology will be critically important for our staff and so that we can redesign services and processes for the benefit of residents. By strategically combining these two important cost reduction enabling themes the Council will operate at lower cost with less staff, from fewer fixed points, thus requiring less office space.
- 5.9 The opportunity assessment work has also uncovered up to or even beyond some £40m of recurring benefit that could result from changes in legislation over this new parliamentary period. This could involve changes, freedoms and/or the ability for the Council to introduce service charges in Home to School Transport, Concessionary Fares, Household Waste Recycling Centres and Home Care. The next section of this report outlines how future legislative change possibilities will be considered by the public alongside other strategic choices that are available to contribute towards the future £140m budget gap.

6 Public Consultation

- 6.1 As part of the approval process for the detailed savings plans that must follow, a public consultation exercise is set to begin in early July and will be open for six weeks. The consultation document will set out the options available for meeting the anticipated funding shortfall and seeks views on those options. The consultation will principally be on-line, via the County Council's website but the document will also be available in hard copy.
- 6.2 Responses to the consultation will help to inform the decision making by Cabinet and Full Council in October and November of 2017 on setting the content for the 'financial envelope' for 2018 - 2020. The relevant timescales are set out below:

Public Consultation	July to mid August 2017
Savings proposals and consultation feedback considered by Select Committees and Executive Members	September 2017
Savings proposals and consultation feedback considered by Cabinet	October 2017
County Council to consider savings proposals and consultation feedback	November 2017
'Normal' budget setting process for setting the 2018/19 budget and Council Tax	January and February 2018

- 6.3 The public consultation process provides an opportunity for residents and stakeholders to express their views on how best the County Council should go about the challenge of balancing a forecast future budget gap of some £140m.
- 6.4 A set of high level, strategic options will be set out for public comment. These will include potential strategic changes to services, ways to generate income (including from possible legislative changes), different uses of reserves, increases to Council Tax and proposals for simplifying Local Government in Hampshire.
- 6.5 A series of more detailed, service specific consultations will then be undertaken throughout the Tt2019 programme in accordance with legal best practice. Outcomes from that second round of service specific consultations will help to inform further detailed decisions by Executive Members over the next year, allowing Departments to move to implementation to achieve required savings and service transformation by 2019, wherever possible.
- 6.6 It must be understood that any failure to achieve the overall timetable will delay the savings programme and risk destabilising not just the programme but the wider organisation. It is arguable in some authorities that that process of destabilisation has already begun with its consequent impact on vulnerable service users. There is a determination that Hampshire County Council should avoid such a position for the sake of the organisation and the people who depend upon it.

7. Conclusion

- 7.1 Despite impressively strong and consistent financial performance over many years, further to last year's finance settlement for Local Government, the County Council is facing a forecast budget gap of some £140m by 2019/20 that requires closing. This is after safely removing close on £340m of revenue savings over the past seven years and within that, delivering in full on the latest Tt2017 programme.
- 7.2 Cabinet approved the overall programme target of £140m for Tt2019 in June 2016 together with a breakdown and a cumulative target for Departments of £120m (33% higher than Tt2017) with the remaining £20m coming from corporate housekeeping. Cabinet also approved a headline programme timetable, including a public consultation exercise this summer followed by an early budget setting process in September and October in order to allow maximum time for the range of savings proposals to be developed and then implemented over the next few years. The public consultation exercise is scheduled to commence in July and will run for the next six weeks.
- 7.3 There is no doubt from early planning and opportunity assessment work completed by Departments over the past six months, that Tt2019 is set to test the Council like no other programme before. The savings targets are daunting, representing a further 19% reduction to Department cash limits. Delivery, in full, solely from cost reduction and transformational work will see every area of Council business affected and impacted. There will inevitably

be some tough decisions ahead and the Council's approach to risk will necessarily need to change. Alongside this will be the need to work even more closely with partners, residents and communities to appropriately change public expectations of what the Council is for and can be expected to do.

- 7.4 In some areas, services will be delivered closer to the acceptable minimum of statutory requirements. This will require careful and close monitoring to ensure we continue to meet our statutory requirements with adjustments made where necessary. This way of operating will place a greater emphasis on the Council's enabling and influencing roles and will rightly involve closer working with partners, community organisations and volunteers. All Departments and all areas of business will be impacted and inevitably the Council will operate with lower staff numbers. The organisation, its partners and its customers, will have to operate with still greater flexibility and harness digital capacity to the maximum. Our already extensive commercial and income generating activities will have to extend wherever possible, acknowledging the limitations of this capacity and the markets within which we operate (largely similarly pressed public sector partners).
- 7.5 The public consultation exercise will seek the views of residents and stakeholders not only on the potential priorities for cost reduction or income opportunity areas but also on a small but important range of strategic matters. These include but are not limited to: the extent that higher levels of Council Tax might make a contribution; the structure and organisation of Local Government in Hampshire; and the extent that there may or may not be support for legislative changes to be pursued, particularly around the Council's ability to charge for services. These strategic matters take on greater importance given the likelihood that there will be a need for the Council to make yet further savings beyond this decade. The uncertainties around BREXIT and the continuing economic challenges especially in terms of the deficit and public spending mean that it is probable that Tt2019 will be succeeded by a further financial challenge. This could well influence opinion.
- 7.6 Further to the public consultation and then the earlier budget setting process (planned for September to early November this year) a good deal of hard work remains ahead. The challenge presented by complex transformation and our recent programme experiences, mean that it is quite possible that some critical aspects of the programme may take longer than two years to complete. We must plan for this eventuality but also strive to minimise its likelihood and impact. The positive year end position reported elsewhere on today's agenda and the Council's decision in February to include the maximum permissible profile in relation to the social care precept, at least mean that one off funds are beginning to build to provide much needed support for the programme overall.
- 7.7 Whilst Tt2019 represents an immense challenge, the County Council does have significant capability and experience to tackle the task. It should also be remembered that with other parts of public services facing their own fiscal challenges, there are clear opportunities for real service transformation to

come to the fore. As tough as the forward agenda is, we also know that the County Council is as well placed as any other Local Authority to deliver on the continuing financial challenges that apply in the sector.

8. Recommendations

8.1 It is recommended that Cabinet:

- a) Notes the £140m Tt2019 programme breakdown, the Department targets and the headline programme timetable – section 3;
- b) Notes the Tt2017 delivery achievement, the positive position reported in respect of Adults and acknowledges that there are no legacy implications for the Tt2019 programme and therefore the Tt2017 programme is formally closed – section 4;
- c) Notes the early opportunity assessment work completed by Departments to this point and in particular acknowledges some of the specific challenges of this programme including timing, complexity and the inevitability of a changing service delivery risk profile – section 5;
- d) Notes, per the programme timetable, the commencement in July of a public consultation exercise aimed at helping to inform the early autumn budget decision making process – section 6.

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

Hampshire safer and more secure for all:	No
Corporate Improvement plan link number (if appropriate):	
Maximising well-being:	No
Corporate Improvement plan link number (if appropriate):	
Enhancing our quality of place:	No
Corporate Improvement plan link number (if appropriate):	

Other Significant Links

Links to previous Member decisions:		
<u>Title</u>	<u>Reference</u>	<u>Date</u>
Medium Term Financial Strategy to 2020	7482	20 June 2016
Transformation to 2017 – Report No. 8	7798	19 Sept 2016
Budget Setting and Provisional Cash Limits 2017/18	7886	12 Dec 2016
Transformation to 2017 – Report No 9	8000	12 Dec 2016
Direct links to specific legislation or Government Directives		
<u>Title</u>		<u>Date</u>
Section 100 D - Local Government Act 1972 - background documents		
<p>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.)</p>		
<u>Document</u>	<u>Location</u>	
None		

IMPACT ASSESSMENTS:

1. Equality Duty

- a) 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.

b) 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:

- a) Not applicable

3. Climate Change:

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

Not applicable

**T19 – Cabinet Approved (per Medium Term Financial Strategy - MTFS)
Departmental Financial Targets and Programme Timetable**

Table 1 - Programme Financial Targets

Department	£m's
Adults	55.9
Children's	30.1
ETE	19.0
CCBS	6.3
Corporate Services	7.9
P&R Other	0.8
Programme Sub Total	120.0
Housekeeping	20.0
T19 Overall Programme Total	140.0

Table 2 – Programme Timetable

Milestone	Date
Public Consultation Exercise (Stage One) 6 weeks	July to mid August July 2017
Select Committee and Executive Member meetings to approve Departmental savings proposals	September 2017
Cabinet consideration of Public Consultation response and savings proposals	October 2017
Full Council consideration of savings proposals and budget envelope for April 2019	November 2017
Continued delivery of projects, programmes and savings	November 2017 >