

Work in progress

Meeting local needs with lower
workforce costs

Good practice case studies

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Introduction

These five case studies support *Work in progress: Meeting local needs with lower workforce costs*, published by the Audit Commission and the Local Government Association in 2011. They provide practical examples of different approaches councils are taking to reduce the costs of employing people while protecting valuable services.

1 The 2010 Spending Review cut central funding to local government by 26 per cent between 2011/12 and 2014/15. Councils have to make different levels of savings depending on their financial circumstances. But the financial challenge they face means all must reduce workforce costs. Over 145,000 council jobs went in 2011. Voluntary redundancies formed a part of many councils' strategies: compulsory redundancies look set to increase.

2 Councils rely on skilled and committed staff to deliver services that local people need and value. So how councils reduce the costs of employing people has a direct bearing on the range and quality of services people receive and on their quality of life.

3 The five case studies in this paper show how some councils balance service priorities and financial pressures. These councils do not represent all councils: they reflect the range of innovations necessary to manage in tough times.

- **Sunderland City Council** is minimising redundancies to protect the local economy. Organisational restructuring, and staff retraining and redeployment, will help to achieve the savings needed to meet a £58 million shortfall in funding in 2011/12.
- **Devon County Council's** corporate employment strategy includes targeted voluntary redundancies, internal redeployment, and a vacancy management strategy to reduce workforce costs. It will save about £7 million by the end of 2011/12.
- **Cherwell District Council** and **South Northamptonshire District Council** have a shared management team, and plan to integrate staff and services. Cherwell will save £3.4 million and South Northamptonshire £1.8 million over five years.
- **Lambeth Council** has reduced spending on agency workers and senior management. The 'Cooperative Council' approach will increase the role of mutuals and social enterprise companies. Reducing spend on agency workers saved the Council £18 million between 2009 and 2011.
- **Tunbridge Wells District Council** has restructured, shed jobs, and shared services to fill an expected £0.5 million budget shortfall in 2011/12. It has introduced a new pay and rewards system to control pay drift and meet local labour market conditions.

4 Data for the case studies were collected between January and June 2011. The case studies show what the councils did, why they took that approach, and the benefits the councils achieved as a result. They can help councils developing their own thinking. Each case study has contact details for people who can provide more help and information.

Sunderland City Council: minimising redundancies

Background information

Information	Sunderland City Council
Council type:	Metropolitan Borough
Region:	North-East
Total service spending:	£614 million
Total employee spending:	£332 million
Cut in 2011/12 'Revenue Spending Power':	£29 million (8.8%)
Cut in 2011/12 formula grant (after damping):	£20 million (11.3%)
Budget gap 2011/12:	£58 million
Headcount (Q1 2011):	13,000
FTE (Q1 2011):	9,900
Deprivation level (2010 IMD Rank):	38/326

Source: Audit Commission

Summary

5 Sunderland City Council created an internal job market and retrained and reskilled staff to reduce redundancies. The Council is the largest employer in a deprived area of the country: it aims to minimise the impact of spending cuts on the local economy. Early planning initiatives, from 2008/09, to reduce the pay bill, and extensive staff engagement enabled Sunderland to restructure with minimal job losses, and preserve good workforce morale.

Context

6 Sunderland's unemployment rate in 2010 was 10.7 per cent. This was higher than the North-East average (9.8 per cent) which was higher than the GB average 7.7 per cent¹.

7 The 2010 Spending Review cut several ring-fenced grants leading to a budget gap of £58 million in 2011/12 and £23 million in 2012/13, from a controllable budget of around £260 million.

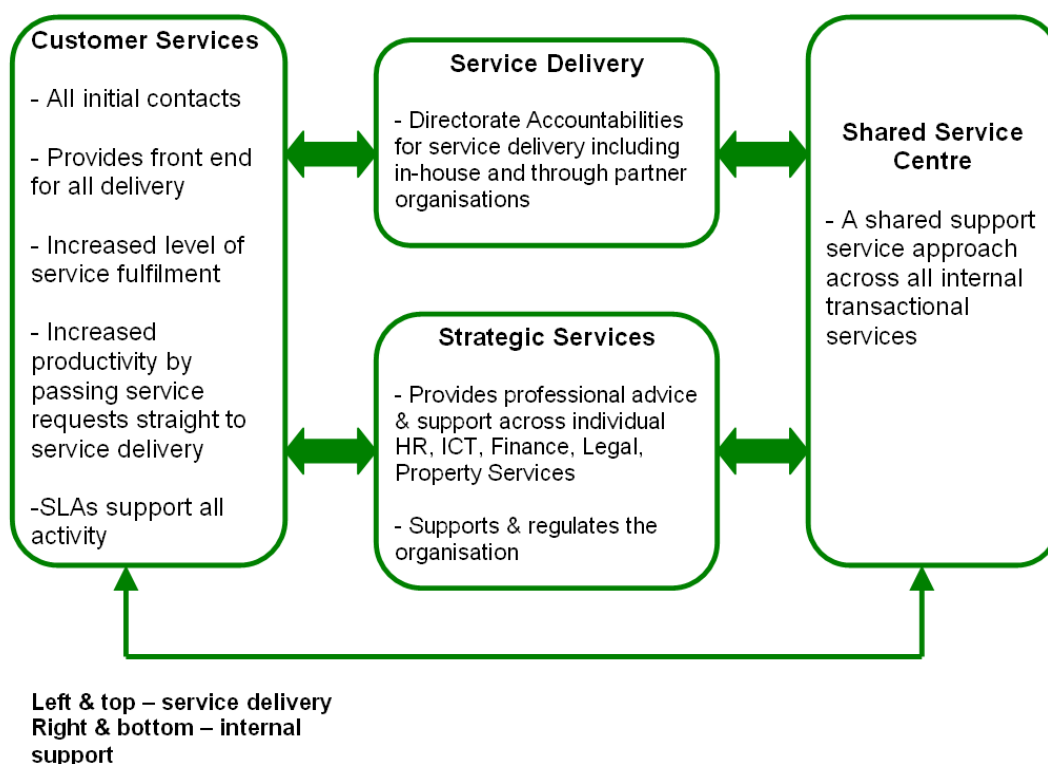
¹ Source: [Office of National Statistics](#)

8 The Council had two main priorities: to provide good public services tailored to local needs; and to regenerate the local economy. The Leader and Chief Executive were clear that this meant no mass redundancies.

Sunderland’s transformation programme

9 The Council started its business transformation programme in 2008/09 in preparation for funding cuts. Over four years Sunderland will move to a new operating model that aims to be leaner and more responsive to customer needs. Every service will be reviewed so the new organisation can create £50 million of savings by the end of 2013/14. Consultants are helping the Council in the restructuring project.

Figure 1 – Sunderland City Council new operating model



Source: Sunderland City Council

10 Sunderland’s previous arrangement had four directorates with back office roles in each. Service reviews concentrate on cutting waste and back office roles, to protect front-line services, which have enabled it to react to the large fall in grant at the latest settlement. The new operating model (Figure 1) has four service blocks:

Customer services – aims to resolve queries at the first point of call, and lessen queries that arise from poor council information or communication.

Shared services – aims to streamline business processes, end unnecessary work, and use ICT more effectively.

Strategic services – brings Finance, HR ICT, Performance, Communications and Policy together.

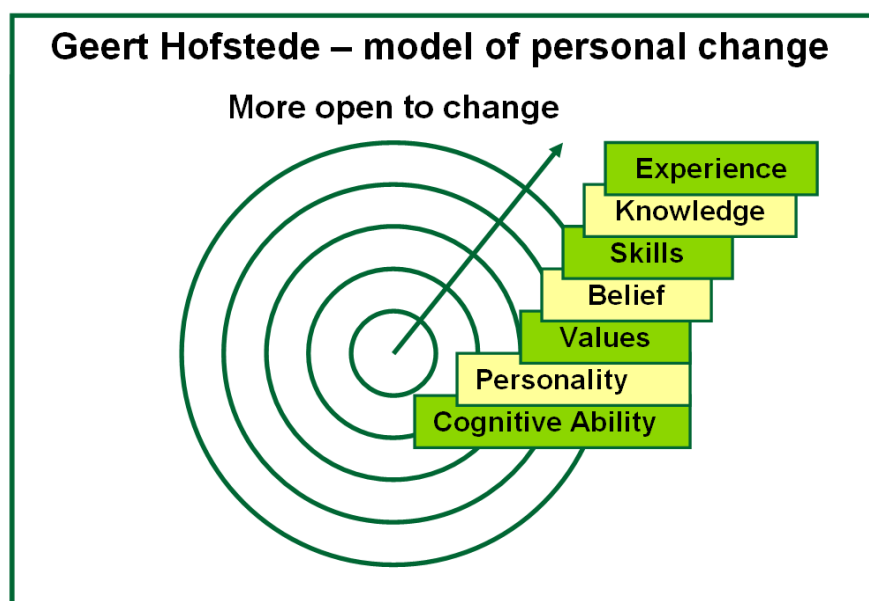
Service delivery – ensures the Council’s commissioning approach designs services around the needs of local people and delivers them efficiently and effectively.

Creating an internal jobs market

11 The Council knew it had to make large savings during the CSR2010 period. It reviewed three broad approaches for reducing the headcount: mass redundancies; traditional redeployment; and an internal jobs market. The first had no political or senior officer support, and the second would mean employees moved to jobs they didn’t want with managers having to accept unsuitable employees.

12 The Council created an internal jobs market (IJM) that relies on ‘pull factors’ to get the best mix of people and jobs. It follows the Hofstede personal change model (Figure 2), which suggests it is easier for individuals to gain experience, skills and knowledge, while beliefs, values, personality and cognitive abilities are more inherent and harder to change. The Council used this model (recruiting using cognitive ability and personality traits) to find the existing staff best suited to future jobs.

Figure 2 – Hofstede model of personal change



Source: Sunderland City Council

13 Each employee has a web-based assessment of their personal qualities, skills and personality traits. The assessment provides a profile for each individual matched to vacancies in the IJM. Managers then interview shortlisted employees. The online test is adaptive: it assesses the competency of the individual by how fast they answer more or less challenging questions. Staff only need one test: saving time and money.

14 The Council enforced an external recruitment freeze in January 2010, and ran internal jobs fairs from February 2010 onwards. They launched the web-based assessment in March 2010, and began matching vacancies the following month. By July 2011, the details of 3,216 employees were in the internal jobs market and 278 jobs filled. There could be up to 7,000 people in the market once every service is reviewed.

Introducing staff working in transition and change (SWITCH)

15 The employees who do not get a specific role in the new structure following reorganisation or cannot get immediate IJM redeployment join the SWITCH team. This is a pool of employees who can fill temporary vacancies and undertake other useful short- to medium-term projects, including support to efficiency review teams, rather than using agency staff or external contractors. The pool also covers sickness absence and maternity leave.

16 Employees in the SWITCH pool have access to e-learning opportunities to support their development towards a permanent role. They get one-to-one mentoring and support from others in the SWITCH team (for example, there are several ex-Connexions careers advisers in the pool). Some SWITCH team members have retrained as coaches to support HR staff running the Council's leadership development programme. In July 2011 there were 230 people in SWITCH. Once all services are reviewed, the Council expects over 400 SWITCH members. It plans to empty the SWITCH pool over the following three years, mainly by redeployment or staff leaving voluntarily, however a few redundancies may be necessary.

17 The IJM and SWITCH programme have saved around £3 million in redundancy and recruitment costs, by filling almost 300 posts, half of which would normally be recruited externally. The early set-up costs of the IJM and SWITCH projects were relatively small (around £200,000), and involved redeploying existing staff. Six people formerly in the recruitment team now work full-time on IJM. The Council uses a financial modelling tool to project costs and savings (over three years) from the number of people going into and out of the programmes. This enables officers to forecast where they will be in three years to see if they will hit their targets.

Parallel savings initiatives

18 The Council is also making short-term workforce savings. It is reviewing travel and transport related expenses that has the potential to save up to £1.5 million a year, including:

- the subsidised car lease scheme;
- car mileage rates;
- essential car user allowances; and
- car parking charges.

19 The Council has reduced workforce training budgets by adopting e-learning as far as possible. They took £350,000 out of the training budget in 2010/11 with the aim to cut more in future years.

20 The Council now offers flexible working temporarily, with the choice to revert to previous hours, if individuals' personal circumstances change. The most popular choices are buying extra leave, compressing hours over a four-day week and term-time only working. Over 300 people have started working flexibly saving £660,000 a year. The aim is to increase this annual saving up to £2 million each year, for the next two years.

21 The Council aims to stop using external agency workers by the end of September, relying instead on the SWITCH team to meet temporary staffing needs. At one stage the Council employed 400 agency workers, mainly in Street Scene, Children's Social Care, and back office roles.

Increasing staff turnover

22 To reduce the overall headcount the Council has imposed an external recruitment freeze except for some roles where there is a legal requirement for specific qualifications, such as social workers. A simple way to reduce headcount is by not filling vacancies or replacing staff who leave. But difficult labour market conditions mean that staff turnover has fallen in the last year (currently under 4 per cent, down from an average of 11 per cent a year). The Council has undertaken the following initiatives to boost staff turnover:

- Fixed term workers with fixed-term contract of two years or less cannot join SWITCH, and their contracts are not renewed.
- Early retirement is encouraged and offered without enhancement. So far 130 employees have had their early retirement applications approved.
- Local businesses planning to expand, but with concerns about recruitment during the downturn can apply for secondments. Staff remain on the Council's payroll and transfer back at the end of their secondment. In July 2011, five SWITCH team members were on secondment. The Council charges businesses a fee for the staff time.
- The "Be Your Own Boss" scheme is for staff displaying entrepreneurial traits, identified by the online personality assessment. The scheme offers 20 days paid leave to develop business ideas and regular contact with a business adviser. At the end, employees can stay in their job; start up a part-time business with reduced hours at the Council; or start a full-time business and leave. By July 2011, 55 employees had applied for the scheme and ten businesses were in start-up phase.
- External job search is available through the Council's online facility. Staff can build their CVs, assess their choices and future careers, and look for opportunities at the Council or elsewhere.

Managing change

23 More than the financial challenge, the major issue identified by the Chief Executive was encouraging staff to change. Regulators and the public had told the Council that it was high performing. This encouraged a sense within the organisation that change was not necessary. But the Chief Executive saw a need to modernise, to respond to the likely pressures on public finances caused by the financial crisis in 2008. Paradoxically, this was harder in a high performing organisation, with a skilled and able workforce, used to recognition for achieving success.

24 Using the financial crisis as a lever for change, the Council planned a new operating model, the 'Sunderland Way of Working', to improve productivity, reduce costs, and realise efficiency gains. It wanted to do this before circumstances forced it to, and to do so in a way that followed the Council's values. In that way, the Council would manage change rather than respond to it.

25 But staff and members needed convincing. The Council set in train a series of discussions with staff, their trade union representatives, elected members and partners. The key message was they could respond to the economic circumstances by reducing costs and improving local services. This dialogue ensured the new operating model was owned across the organisation and beyond.

26 Matching behaviour to organisational values was important in ensuring the success of the change programme. While some in the Council wanted large-scale redundancies to make immediate savings, for example, staff nearing retirement, the Chief Executive and the Leader did not. Mass redundancies would have been affordable, but redundancy history. Two-thirds of employees live within the city, so mass redundancies would have a strongly negative impact on the local economy. The Council also wanted to avoid 'survivor' syndrome – the strain felt by staff who stay, with more work to do and continuing doubt about their own security of employment.

27 Retaining, retraining, and redeploying has deep historic significance locally because of the area's recent industrial staff helped achieve high levels of support, measured through regular 'pulse' surveys of staff. Trade unions are broadly supportive too, given the value of benefits such as personalisation of contracts, help in setting up businesses, and flexible retirement. While there remains uncertainty, and posts will go, staff and their representatives can see what is happening elsewhere. Seeing redundancies elsewhere, without the support offered by the Council, helps to engage staff more quickly with the modernisation programme.

28 Avoiding staff cuts involved major change and restructuring. The Council's historically strong performance meant they had little experience of significant change. Sunderland used a consultancy firm as a 'critical friend', to support changes that included redesigning services through reverse engineering: they agreed an outcome and then designed the service to deliver it.

A different council

29 Within five years the Council will look quite different. It will employ fewer people and use a full range of delivery models. There will be more local procurement and more local providers with the council acting as a stimulus for the local economy. Services will be more responsive to, and delivered within, local communities, with local ward councillors taking a more active role in their local areas.

Contact for further information

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Devon County Council: being prepared

Background information

Information	Devon County Council
Council type:	County
Region:	South West
Total service spending:	£1,197 million
Total employee spending:	£525 million
Cut in 2011/12 'Revenue Spending Power':	£10 million (1.8%)
Cut in 2011/12 formula grant (after damping):	£26 million (12.1%)
Budget gap 2011/12:	£54 million
Headcount (Q1 2011):	22,401
FTE (Q1 2011):	15,180
Deprivation level (2010 IMD Rank):	n/a

Source: Audit Commission

Summary

30 Devon County Council started reducing its pay bill in 2008/09 in anticipation of the 2010 Spending Review. As a result, there were no large-scale redundancies in 2010/11. The Council's Corporate Employment Strategy delivered 'quick wins' by tightening vacancy management, redeploying existing staff, and adjusting terms and conditions. Its medium-term plan involves moving to a leaner operating model with a reduced pay bill. The long-term objective is a commissioning model, using alternative delivery models to save more money.

Context

31 Devon County Council serves a population of 775,000 and is one of the 20 largest councils in the country. The Council employs a core non-schools workforce of 7,000 FTE. The 2010 Spending Review led to a 12.1 per cent cut in formula grant and the Council must make cuts of £133 million over four years. In response, the Council's 'Tough Choices' consultation initiative, prioritised service changes for the next three years. It has begun a long-term strategic transformation programme that will restructure the Council into a smaller organisation.

Starting early

32 The Council's approach to managing the workforce until 2008/09, focused on developing skills and personnel. The recession led to reassessment and the Council began creating a workforce for an era of reduced spending. The four-year Corporate Employment Strategy, published in November 2009, expected huge funding cuts and outlined short (1 year), medium-term (2-3 years) and long-term (3-4 years) initiatives to reduce the pay bill. Savings from the short-term initiatives meant the Council has had no large-scale redundancies in 2010/11 or 2011/12.

Redundancies, vacancies, and redeployment

Targeted voluntary redundancies

33 The Council's experience of blanket voluntary redundancies was that it could lower morale. The current approach follows detailed service reviews and extensive public consultation in autumn 2010, led by the Leader. Employees in targeted services have the opportunity to take voluntary redundancy rather than wait for posts to be deleted. Employees wishing to stay must apply in competition for ring-fenced posts.

Managing vacancies

34 The most important part of the Corporate Employment Strategy is the Council's vacancy management strategy, started in November 2009. This introduced a recruitment freeze, except for hard-to-fill vacancies like children's social care. With a historic turnover of 1,200 a year, the Council has avoided large-scale redundancies. An ageing workforce has also helped, with those nearing retirement age encouraged to take early retirement.

35 Only 480 of the 1,200 turnover vacancies created in 2010/11 were replaced. Each replacement required a business case. Vacancy management should deliver £7 million savings by the end of 2011/12. The process requires strong discipline and close checking. Managers have an appeals process if they feel strongly about filling a particular vacancy. The Council is using existing staff on extra hours or bringing in temporary staff on short-term contracts to react to short-term needs.

Redeployment

36 The Council aims to minimise redundancies: a key priority of the vacancy management strategy is the "reskilling and transfer of staff to avoid redundancies and to retain the experience of valued employees". The Central Placement Unit retrains and redeploys staff. It encourages staff at risk of redundancy to apply for jobs away from their current roles, and supports them through the transition. Since 2009 it has redeployed over 100 employees.

Terms and conditions

37 The Council has been in close communication with its local trade unions for the last two years. Following consultation with Unite, Unison, and GMB, changes to terms and conditions will permanently remove £1.6 million from the pay bill. These include:

- removing overtime payments for employees on or above Spinal Column Point 29 (saving £700,000 a year);
- ending broadband supplements to homeworkers (saving £30,000 a year);
- harmonising mileage expenses rates with HMRC rates (saving £600,000 a year);
- scrapping honoraria payments (saving £100,000 a year); and
- lowering salary protection from four years to two years, for employees redeployed to lower salaries and those who incur extra costs to get to work (saving £170,000 a year).

Transforming the organisation

Building a new structure

38 The Corporate Employment Strategy is part of the Council's wider business transformation programme with its four objectives of:

- achieving savings targets;
- reworking and harmonising current operating policies;
- looking at new service delivery models; and
- moving to large-scale organisational restructure.

39 The organisational restructure is the Council's medium-term response to the government's 2010 Spending Review. All services are systematically reviewed and organised into a streamlined structure. Four strategic directors will reduce to two. Fourteen heads of service now sit directly beneath this: having been reduced from about 30. All corporate support staff will migrate into the centre. The new overall structure will be in place by October 2011.

40 The new structure sees a fall from between seven and nine management layers to a maximum of five. Managers will have larger spans of control in a flatter structure. There will be no deputies or assistant managers, and apart from where there are statutory requirements for extra supervision, the outline for the model will be:

1. strategic director
2. head of service
3. head of subdivision of service
4. team leader
5. front-line staff

41 Savings from the restructure will crystallise from 2012/13. The Council recognises that changes in national policy (such as the Education Bill, NHS Reform Bill, Localism Bill, and Public Service Reform Bill), will affect its duties and responsibilities. The Council is therefore adopting a flexible and practical approach to restructuring to secure efficiency savings.

Creating new business models

42 For the longer term, the Council is considering alternative business models that can provide better value for money, including social enterprises and joint ventures. The Council plans to outsource 4,000 staff, including those working in residential care homes and domiciliary care. The next reviews covered manual occupations such as education support services (about 600 staff), and cleaning and catering services (400 staff).

43 The long-term aim is that up to 2,500 more posts can be removed from the pay bill, leaving a core of 3,000. This core group will adopt a targeted commissioning approach focusing on individual citizens, places and communities.

Managing change

44 In 2009 the new administration made it clear that minimising redundancies and redeploying staff to keep skills and knowledge was a priority. Politically there is a consensus between the largest parties over the Council's approach to workforce savings. This enabled the Council to begin planning for workforce decline long before the 2010 Spending Review. The Chief Executive believes the key to the Council's successful pay bill reductions is the fact it started early and anticipated challenges.

45 Relations with trade unions remain good, but have been tested through negotiations over changes to terms and conditions. The next 12 months will see more tests over some potentially controversial areas (for example sick pay).

46 Managing public expectation has been important too. The Council Leader made a concerted effort to drive the message that every community will be affected and they can't do it through back office savings alone. He undertook a series of meetings with the public in the autumn 2010, the "tough choices roadshow". About 4,000 public responses fed into a wide-ranging service prioritisation exercise for the 2011/12 budget.

A different council

47 By 2014, the Council will be smaller and leaner, and more flexibly organised with fewer management layers and front-line staff with more responsibility. It will have fewer locations as the property base falls by 25 per cent: there will be more home and flexible working. The Council will be a professional commissioning organisation with a central core surrounded by different arm's length delivery vehicles.

48 The Council's commissioning plan should lead to more joint working across local public services. The Council aims for permeable boundaries with partners in Fire, Police and Health. The Multi-Agency Safeguarding Hub (MASH) already organises safeguarding referral services under one roof: it includes police, health, social workers, and education staff.

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Cherwell District Council & South Northamptonshire Council: sharing the management team

Background information

Information	Cherwell District Council	South Northamptonshire Council
Council type:	District	District
Region:	South East	East Midlands
Total service spending:	£43.5m	£23.1m
Total employee spending:	£17.3m	£10.1m
Cut in 2011/12 'Revenue Spending Power':	£1.3m (7.3%)	£0.8m (6.1%)
Cut in 2011/12 formula grant (after damping):	£1.3m (13.2%)	£0.9m (16.2%)
Budget gap 2011/12:	£1.8m	£0.8m
Headcount (Q1 2011):	480	262
FTE (Q1 2011):	435	240
Deprivation level (2010 IMD Rank):	240/326	323/326

Source: Audit Commission

Summary

49 Cherwell District Council (CDC) and South Northamptonshire Council (SNC) have merged senior management teams following the new joint chief Executive's appointment in May 2011. Senior manager posts reduced from 31 to 15 by October 2011. Between them, the Councils will save over £1 million a year in salary costs. The project is expected to produce net savings of £2.6 million for CDC and £1.2 million for SNC over a five-year period, once start-up costs of £1.4 million are discounted.

50 The shared management team is the first phase in a longer process of sharing and integration between the two councils.

Context

51 Both councils had already reduced running costs by securing efficiencies and transforming services. Senior officers and members recognised the need for fundamental change to deal with projected funding shortfalls. Members wanted sharing arrangements that address funding cuts and guarantee each council's sovereignty.

52 Both councils had explored the possibility of sharing senior personnel since late 2009, but neither had found a suitable partner. The leaders of both councils met early in 2010, and in June both sets of members received a formal proposal to progress the project. In December 2010, South Northamptonshire's Cabinet and Cherwell's Executive formally agreed a draft business case covering three main objectives of saving council taxpayers money; preserving services; and responding to cuts.

Two into one

53 Senior managers across the two organisations reduced from 31 to a single team of 15, by October 2011. The new arrangements have eight heads of services, three directors, and one chief executive. An executive support team of three oversees communications, programme management, and performance management. The joint chief executive was appointed in May 2011, and remaining positions filled in September 2011.

54 Existing management post holders were able to apply for any roles in the new management team (reversing the initial business case that had restricted officers to applying for jobs at their current level).

55 Officers could also apply for voluntary redundancy. Once all vacancies were filled the council considered the need for compulsory redundancies and any transitional arrangements.

Costs and savings

56 Arrangements before the planned sharing cost £2.6 million a year (Table 1). The new management team will cost about £1.6 million a year, producing an annual saving of about £1.0 million (£0.3 million for SNC and £0.7 million to CDC). The planned 5-year savings are £1.8 million for SNC and £3.4 million for CDC.

57 The councils estimate the one-off costs of the restructure at £1.4 million. CDC will bear 60 per cent of these costs because of its larger size. The payback period of the set-up costs for both councils is 1.3 years, with a contingency of £0.3 million to cover any slippage.

58 Following evaluation, salary bands for the new posts are lower than those assumed in the business case: so savings will be greater than initially planned.

59 The original business case also proposed savings from a fourth tier of management. Savings at the tier below Service Head could deliver £0.2 million to £0.3 million a year for SNC and between £0.3 million and £0.5 million a year for CDC. Over five years this would be £1.1 million to SNC and £2.0 million to CDC. These are indicative figures – the councils will move to more detailed planning now the first phase is complete.

Table 1 – The new structure takes £1 million out of costs

	SNC		CDC		Current total		New total	
	No.	Cost £000	No.	Cost £000	No.	Cost £000	No.	Cost £000
Chief Exec	1	144	1	144	2	288	1	157
Directors	3	340	2	213	5	553	3	371
Heads of service	4	381	11	878	15	1259	8	850
Other staff	5	295	4	252	9	547	3	223
Total	13	1,160	18	1,487	31	2,647	15	1,601

Source: CDC/SNC Draft business case, Joint Working Group

Wider benefits

60 Both councils reviewed the experiences of other councils that had merged management teams to learn about wider risks and benefits. The process helped the two councils develop a culture of sharing expertise and good practice that should have a positive impact on organisational capacity and service quality.

61 An unpredicted benefit of a smaller senior management group focused on strategic issues is that junior officers have the opportunity to gain responsibility for delivering services.

62 The business case left open the possibility of adding other authorities in a 'confederation' that could deliver further benefits.

Sharing services

63 The new heads of service first priorities are to review their services and find opportunities to share staff and activities, and to reduce duplication across the two councils. The councils agree that not all services are suitable for sharing, and that partnerships with other councils may sometimes be more appropriate.

64 The process of drafting and carrying out the business plan brought teams from the two councils together even before the senior management team appointments were confirmed. This informal approach led to benefits for:

- Legal and Democratic Services Management Support
- Committee and Administration Services
- Electoral services
- Health and Safety
- Communications
- Licensing
- Public Protection

These have provided a mix of savings, from reduced costs, and more resilience for critical services such as electoral registration and democracy.

65 The two councils had also started joint procurement exercises before completing the management reorganisation. For example:

- internal audit services (a joint contract for services provided from 1 April 2012);
- IT Services (taking advantage of South Northamptonshire Council's need to retender services from April 2012);
- financial systems (because of the two councils having the same financial systems, although different versions).

66 The two councils are integrating ICT with a priority of ensuring that senior managers and other officers can pick up emails and phone calls wherever they are working – including working at home.

Managing change

67 The most important early challenge for the two councils was ensuring political support from both sets of members. The thorough consultation and scrutiny process that preceded the business case, ensured member consensus and their recognition that merging management teams would not threaten the sovereignty of either council.

68 The two councils also learned from existing partnership arrangements and their shared service arrangement for building control. This taught them to *plan* joint service delivery (rather than sticking two separate services together), and the role of the management team in actively leading service sharing projects (rather than just expecting them to happen).

69 A second important challenge was that of keeping each council's workforce informed. Councillors insisted on transparency and wide consultation with staff, their unions, and the public throughout. The councils' joint communications strategy included joint press releases, and internal communications to staff to quash rumours. By July 2011, the councils had issued six joint briefings to update staff on progress.

The future

70 2011/12 will see the bedding-down of the new senior management team and more joint working arrangements developing. The aim is to reduce costs for each council without compromising service delivery.

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Lambeth Council: reducing spend on agency staff and delayering

Background information

Information	Lambeth Council
Council type:	London Borough
Region:	London
Total service spending:	£786 million
Total employee spending:	£337 million
Cut in 2011/12 'Revenue Spending Power':	£30 million (7.7%)
Cut in 2011/12 formula grant (after damping):	£28 million (11.3%)
Budget gap 2011/12:	£39 million
Headcount (Q1 2011):	3,543
FTE (Q1 2011):	3,271
Deprivation level (2010 IMD Rank):	14/326

Source: Audit Commission

Summary

71 Lambeth Council reduced agency workers from about 900 to under 300 full-time equivalents (FTEs) between 2009 and 2011, saving £18 million. The Council's business transformation programme streamlined the Council into fewer departments and reduced middle management by delayering. Overall FTE numbers have reduced from about 4,000 to 3,300 since 2006. The Council has made savings through restructuring, voluntary redundancies and other short-term initiatives in response to the grant cuts for 2011/12. The Council expects local communities to play a significant role in re-shaping services, as it develops flexible solutions and provides greater efficiency.

Context

72 The Council has a strong tradition of engagement with the voluntary and community sector. Since 2010 it has described itself as a 'cooperative council' aiming to put local residents in control over the services they use and the places where they live.

Reducing reliance on agency workers

The problem

73 Staff shortages towards the end of the 1990s led to a culture of reliance on agency and temporary staff. By 2005 nearly a quarter of the workforce (950 out of 4,570 non-schools staff) was agency workers. Reliance on agency workers cost £50 million a year by 2005/06. They worked at all levels and in all parts of the council, with managers able to make appointments without any corporate controls or guidelines.

74 Agency workers, even at senior levels, failed to embrace the culture and values of the organisation. The presence of agency workers with different loyalties – but often on higher pay for the same work – undermined overall staff morale.

75 Reliance on agency workers is not unique to Lambeth. As a proportion of staff spend, London boroughs spend three times as much on agency workers as other councils (7.5 per cent and 2.4 per cent). This reliance on agency workers arises from pay inflation as employers compete for the best candidates, and the effect of the high costs of living in London on recruitment and retention.

What Lambeth did

76 The HR Director joined the Council in 2005 and the Chief Executive in 2006. They recognised a problem that had financial and performance costs. Addressing the agency worker issue is a key objective in the Council's People Management Strategy. HR now collects standardised data on numbers and costs of agency workers, and both the management team and the unions receive this information weekly.

77 Since 2005, about 340 agency workers have moved to fixed-term or permanent employment contracts at the Council. A concerted effort in 2009, when 110 agency workers moved to council employment in nine months, meant that spending on agency workers fell by £18 million between 2009 and 2011. The proportion of the workforce on agency contracts fell from 20 per cent to just 8 per cent. Spending on agency workers fell from 25 per cent to 14 per cent of the Council's annual non-schools pay bill.

78 In February 2010, the Council agreed a new pricing strategy for its vendor-neutral agency worker contract with a large external provider. This standardises day rates across the council - saving an extra £660,000.

79 Since 2009, internal processes for recruiting agency staff have been tightened. Managers have to produce a rigorous business case if they want to recruit an agency worker for three months or more; and the business case requires a senior budget holder's sign-off.

Changing the shape of the workforce

Delaying

80 The business transformation programme has included detailed service reviews and delaying: cutting middle management and back office roles to protect front-line services.

81 For example, delaying helped the Council cut the 2011/12 customer services division budget by a third (from £7 million to £4 million). The cuts, made after staff consultation, came largely from back office, middle management and support roles (65 per cent decrease), with only 5 per cent coming from front-line staff. There are now four layers in customer services: director; heads of service; managers; and front-line staff. Support services now sit in one central team.

Voluntary redundancies

82 The Council increased the intensity of the existing change programme to meet budget cuts. In 2011-12, the Council will remove 1,000 FTE. The Council granted 139 of the 282 voluntary redundancy requests received by June 2011; balancing requests against the need for continuity and skills retention. A further exercise will shortly be rolled out.

Reducing additional workforce costs

83 The Council has taken other steps to reduce the pay bill, focusing on reducing spending on extra payments and expenses that don't require changes to staff terms and conditions. This includes reducing:

- honoraria payments;
- payments for working unsociable hours;
- overtime payments;
- sick leave (through management action)
- professional subscriptions, and
- Chief Officer travel allowance.

84 Flexible working is available as an alternative to overtime and unsocial hours payments – there is high take-up.

Managing change

85 The Council reduced from seven departments to four between 2005 and 2010. These restructures were largely opportunistic rather than following an overarching strategic plan. HR functions devolved to each department in 2009 to cope with the people issues resulting from such rapid changes. But the cumulative transformation helped the Council adapt to the funding cuts following the 2010 Spending Review.

86 The Council began reviewing organisational design and service delivery models after the 2010 General Election expecting funding cuts for 2011/12. They went through a process of reviewing services using a 'stop, continue, and start' approach. Each service review covers: the reasons for change; the number of people currently

employed; an outline of the new structure; the number of people required in the new structure; the appointment method; and the contingency for redundancies. The cases are peer-reviewed by another director, before consultation with trade unions. The number of redundancies is then finalised.

87 A pool of agency staff was needed in the short-term while each service underwent a review. These agency workers are either assimilated to become permanent staff or are let go on completion of the service reviews.

88 The Council has a 'healthy relationship' with the local trade unions, keeping them well-informed on workforce issues and numbers. The unions understand the service review process and heavily scrutinise each review. While the unions understand the cuts follow central government decisions, they feel strongly that Lambeth should use the £28 million of unallocated reserves to protect services and job losses.

The 'Cooperative Council'

89 Lambeth's longer-term vision involves a much larger role for the voluntary and community sectors in delivering services is the 'cooperative council' approach. Although the Council outsourced many services to the private sector in the past it will now focus on extending competition to cooperatives, social enterprises, and mutuals, as well as the private sector. The Chief Executive describes mutualisation as being "in the DNA of Lambeth", with the existence of the cooperative movement in the borough for over a hundred years.

90 Greater accountability will be a by-product of more community-delivered services, as the Council can keep more influence over service delivery than if left to the private sector. Elected members, for example, will have a significant role in governing outsourced arrangements.

The future

91 More restructuring and delayering will create an organisation with 'three clusters' (universal services, targeted services, and support services). Managers will have wider spans of control. The Council will have less significance as a direct employer, but will still have influence on local employment. While the overall number of staff directly employed will continue to reduce, the Council will still have influence through contracts, arm's length delivery vehicles, and arrangements with neighbouring boroughs and the NHS.

92 The Council recognises that, for its vision to succeed, it needs better risk management, quality assurance and strategic commissioning skills, particularly at senior level. Job roles in the remaining in-house services will become more generic and cross-cutting as the professional specialisms of the past are eroded.

93 Lambeth's Strategic Leadership Board has agreed an organisational development plan that focuses on sustainable cooperative working. A leadership programme will prepare the senior workforce. The council is redesigning its employment competencies, changing the performance management and appraisal system, and ensuring succession planning and talent management.

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Tunbridge Wells Borough Council: a new pay and rewards system

Background information

Information	Tunbridge Wells Borough Council
Council type:	District
Region:	South East
Total service spending:	£31.4 million
Total employee spending:	£15.8 million
Cut in 2011/12 'Revenue Spending Power':	£0.9 million (6.4%)
Cut in 2011/12 formula grant (after damping):	£0.9 million (15.2%)
Budget gap 2011/12:	£0.5 million
Headcount (Q1 2011):	390
FTE (Q1 2011):	345
Deprivation level (2010 IMD Rank):	246/326

Source: Audit Commission

Summary

94 Tunbridge Wells Borough Council took action in 2009/10 to tackle the expected cuts in government grant, by removing 29 posts. These actions have helped the Council balance its budget in 2011/12 without large cuts in services. A strong communication campaign included regular staff briefing sessions to minimise the impact on staff morale. The Council has also lowered workforce costs by sharing services with other councils and is introducing a local pay and rewards scheme that will go live in 2012/13. In the long-term, this will reduce pay drift and will help to control the pay bill.

Context

95 The Council prepared for up to a 30 per cent cut in grant funding before the 2010 Spending Review, but hadn't expected the degree of front-loading in the first two years. As a result, a grant cut of almost £1 million left a shortfall of £0.5 million in the draft budget for 2011/12. However, action to reduce the pay bill over the past three years enabled the Council to deal with this budget gap successfully.

Restructuring

96 Between 2006 and 2011, the Council headcount reduced by around ten per cent from 385 to 345 FTE. In the first phase of change, opportunistic restructuring meant that three strategic directors reduced to two (when one director retired) with responsibilities reallocated. The nine heads of service reduced to seven after two voluntary redundancies following an internal competitive recruitment exercise. This first phase cut £345,000 from salary costs.

97 In the second phase, the new heads and directors developed proposals to streamline their departments and reduce posts. The second phase removed another £700,000 in salary costs, beating the Council's target of £1 million for both phases.

98 In all, the Council removed 29 posts and mitigated the impact on services through a combination of partnership working, innovation and service reshaping. Pest control was withdrawn, and other services, such as graffiti cleaning, have been outsourced. The net saving in the first year was £200,000 after redundancy costs of £900,000.

99 Regular communication with staff, led by senior management and the HR team, ensured trust and understanding among the workforce during uncertainty. The latest results of the staff satisfaction survey showed marked improvement in 2010/11 from 2009/10, with staff appreciation for and trust in management achieving the strongest scores.

New pay and rewards system

Designing the new system

100 The Council opted out of the national pay bargaining agreement in 2009/10 partly because it wanted to reflect local labour markets in designing its pay and rewards offer. External consultants were paid £30,000 to help set up a new performance-related pay scheme, which had to meet several important criteria. It had to:

- be equitable;
- be seen as fair;
- reward contribution rather than time served;
- be affordable; and
- provide flexibility to redeploy staff and encourage partnership working.

101 Consultants benchmarked 50 job roles against the regional labour market for the private sector and public and not for profit (PNFP) sector. This exercise showed the existing pay structure was competitive, but that a few grades needed repositioning to protect the Council's ability to recruit in the future.

102 Under the new system, introduced from April 2012, the Council will reward employees' contributions through a 'merit matrix'. Employees can receive up to four 'merit points' which translate into financial rewards, within an overall pot agreed by the Council's Joint Consultative Committee each year. This system provides all staff with the potential to receive a salary increase. The old system could 'trap' employees at the top of their grade.

103 The number of merit points an employee receives depends on their current pay relative to the median for their grade. All staff are within ± 5 percentage points of the median. Outstanding performers who are between 2.5 to 5 per cent below the median

will receive four merit points. Outstanding performers who are already between 2.5 and 5 per cent above the median will receive 2 merit points.

Table 1 – Performance Merit Matrix

Merit Matrix Weightings	Relationship to the Mid-Point on the Salary Scale		
	95% to 97.5%	97.6% to 102.4%	102.5% to 105%
Outstanding Performance	4 merit points	3 merit points	2 merit points
Good Performance	3 merit points	2 merit points	1 merit point
Developing Performance	0 merit points	0 merit points	0 merit points

Source: Tunbridge Wells Borough Council

104 Weighting merit points in relation to the mid-point of each grade enables high performers to move more rapidly through the pay scales than under the previous system. Employees who do not meet the required standard will not receive any merit points (and therefore no pay increase). The system includes moderation and an appeals process to ensure fairness and transparency. The Council has provided guidance for staff about how the Merit Matrix deals with part-time working, maternity leave and sickness absence.

105 Initially, moving away from national pay bargaining has cost the Council more, having awarded a 1 per cent and 2 per cent pay increase in the last two years when there has been a national pay freeze. But after four to five years it will start to save money, as national pay rises but incremental pay drift at the council slows. The Council will not shadow the national agreement but will periodically benchmark back to the regional PNFP market median.

Performance measurement

106 The new performance management system will reward ‘contribution’, not just performance. It will use a competency framework that assesses both employees’ performance and behaviours, with a weighting of 60 per cent and 40 per cent respectively. Behaviours will be assessed against the Council’s values and objectives, and the system will include examples of negative indicators.

107 The Council had already introduced a people management software system following a ‘weak’ CPA inspection score in 2004 which criticised the Council for a lack of effective performance management. The performance management software is understood by staff. The only extra cost is a new appraisal module that will enable the Council to measure performance, skills and competencies. This cost around £10,000 to set up in the first year (including staff training costs), and will cost £6,300 a year to run from year 2. The performance management module measures “what staff have done” while the competencies measure “how they have done it”.

Staff reaction

108 An extensive communication campaign, including regular staff briefing sessions, helped to gain support for the new scheme. Consultation with staff found there was a

general appetite for contribution-related pay, provided the system is open and transparent. The management team was keen to stress to staff that the primary goal is to distribute what the Council has more equitably rather than simply to make savings.

109 The Directors and the Chief Executive took a voluntary pay cut, despite being below the market median, to send a positive message to the rest of the workforce that the new scheme wouldn't favour management. This resulted in all bar one employee agreeing to move to the new scheme voluntarily.

110 Despite the decrease in staff numbers and the move to local pay determination, the workforce remains largely positive, with the most recent staff survey showing improvement in satisfaction from 2010.

Shared services

111 The Council's shared services initiatives play an important role in reducing workforce costs. The Council is part of the Mid-Kent Improvement Partnership (MKIP) with Maidstone and Swale Borough Councils. This is a flexible partnership: members are free to collaborate with other organisations.

Table 2 – Tunbridge Wells Borough Council - service delivery partnerships

Service	Partners
Audit	Maidstone Borough Council, Ashford Borough Council, and Swale Borough Council
Legal	Maidstone Borough Council and Swale Borough Council
Benefits and fraud	Maidstone Borough Council
Planning and licensing	Sevenoaks District Council
Equalities partnership	Sevenoaks District Council
CCTV	Tonbridge & Malling Borough Council
Recycling	Tonbridge & Malling Borough Council
Customer services 'Gateway'	Kent County Council, Connexions, Citizens Advice Bureau, HM Revenue & Customs, and several other public sector partners
Community safety unit	Kent Police & Kent County Council

Source: Tunbridge Wells Borough Council

112 In 2011/12 the Council had around a dozen different service delivery partnerships saving around £380,000, with a further £250,000 of savings planned for 2011/12.

113 A business transformation unit now works across the MKIP partners to review services and identify sharing opportunities, but it is not always possible to share staff between organisations because of different terms, conditions and pay.

Managing change

114 The Chief Executive feels strongly that public services have to innovate to change, as the private sector does. The chief executive recognised that Google and other companies carve out time to think about new ideas and wanted to replicate this in the

Council. An internal business delivery unit now acts an internal cost and project management consultancy, and an 'ideas factory' run by one of the directors, allows staff to suggest innovations to improve services. So far this has produced over 190 ideas.

115 But the initial driver for change occurred before the financial crisis, and the measures put in place from then helped the Council respond to it. Following poor inspection reports in 2004, the resulting journey of improvement under a new Chief Executive and management team led to strong performance in 2008. Working directly to the Chief Executive, HR has become an 'agent of change' alongside senior management. They have consulted widely about various matters; including roadshows as part of local pay bargaining.

116 The pace and scale of the change in the last two years have created difficult and challenging employee relations, as the Council reviewed the jobs it needed. Not all staff could cope with the change in work and working practices. The HR team spent time to get to know employees' interests and values and had practical conversations about whether staff career paths lay inside or outside the Council. One approach stressed the opportunity for people who wanted to leave but had stayed because of concerns over job security. HR also offered out-placing support to help people choose future careers.

117 This approach balanced risks for the organisation in keeping the people with the right skills against to the cost of tribunals and disputes over fairness. It was important to respect and promote the dignity and self-esteem for staff made redundant - the 'human aspect' of restructuring.

118 Relations with trade unions remained professional, although they came under strain on occasion. Low pay and local pay bargaining mechanisms are concerns, as is the change process being fair and equitable to all grades.

119 Challenges remain. The various benefits and special payments available to staff need rationalisation by harmonising terms and conditions, benefits, expenses, overtime, and shift patterns. The links between HR and financial data systems should be strengthened, so they can monitor costs like overtime more effectively.

The future

120 The Council is not planning any more major reorganisations. It will continue to explore new ways of working including partnerships with the public, private and voluntary sectors. Work is already at an advanced stage in sharing ICT services within MKIP. The Council is part of the Kent locality budgeting pilot which is looking at how public money can be more effectively spent in an area. The Council is reviewing staff benefits to make sure that they are equitable and support the Council's core values.

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