



WALES AUDIT OFFICE
SWYDDFA ARCHWILIO CYMRU

Archwilydd Cyffredinol Cymru
Auditor General for Wales

Review of Pembrokeshire County Council's Transformation Programme

Audit year: 2017-18

Date issued: October 2018

Document reference: 857A2018-19



This document has been prepared for the internal use of Pembrokeshire County Council as part of work performed under section 2 the Local Government (Wales) Measure 2009 and section 17 of the Public Audit (Wales) Act 2004.

No responsibility is taken by the Auditor General or the staff of the Wales Audit Office in relation to any member, director, officer or other employee in their individual capacity, or to any third party.

In the event of receiving a request for information to which this document may be relevant, attention is drawn to the Code of Practice issued under section 45 of the Freedom of Information Act 2000.

The section 45 Code sets out the practice in the handling of requests that is expected of public authorities, including consultation with relevant third parties. In relation to this document, the Auditor

General for Wales and the Wales Audit Office are relevant third parties. Any enquiries about disclosure or re-use of this document should be sent to the Wales Audit Office at

infoofficer@audit.wales.

We welcome correspondence and telephone calls in Welsh and English. Corresponding in Welsh will not lead to delay. Rydym yn croesawu gohebiaeth a galwadau ffôn yn Gymraeg a Saesneg. Ni fydd gohebu yn Gymraeg yn arwain at oedi.

Mae'r ddogfen hon hefyd ar gael yn Gymraeg. This document is also available in Welsh.

The team who delivered the work comprised Jeremy Evans, Alison Lewis and Gareth W. Lewis directed by Huw Rees.

Contents

Background	4
What we looked at	4
Why transformation is important	4
How we approached the review	4
Findings	5
The Council has moved forward with its transformation programme but planned savings targets have not been met and issues remain with clarity, pace and the assessment of outcomes	5
The Council has changed its approach to transformation and the delivery of financial savings, but needs to be clearer about its desired operating model and how that goal will be achieved	5
Some projects in the transformation programme have made progress, but overall pace remains slow	8
The delivery of savings continues to fall short of planned targets and arrangements for evaluating and reporting on the transformation programme's outcomes are underdeveloped	9
Proposals for improvement	11

Report

Background

- 1 As part of our 2016-17 performance audit programme at councils we undertook a project entitled 'Aligning the Levers of Change'. We were aiming to find out how well councils were addressing current challenges in managing change. That review was designed to help councils promote what was working well, identify barriers and develop local improvement opportunities.
- 2 In Pembrokeshire County Council (the Council) we looked at the Council's transformation programme. We held a number of workshops with officers and councillors, and gathered their views on the Council's transformation programme.
- 3 We provided feedback to the Council in September 2017. We asked the Council to consider how to respond to the key observations made to drive change, with pace, to achieve their transformation goals.

What we looked at

- 4 This review built on the 'Aligning the Levers of Change' work, looking again at the Council's approach to its transformation programme. This time, we also looked at the delivery of the associated savings identified in its medium term financial plan (MTFP). We sought to answer the question **'Is the Council effectively managing its transformation programme to deliver the savings required to meet its medium term financial plan?'**

Why transformation is important

- 5 The continued pressures on councils due to a reduction in financial settlements and increased costs are leading to funding gaps that need to be addressed. As the Council's transformation programme is critical in helping it respond to funding pressures and increasing demand for services, we decided to review the Council's approach to transformation as part of our programme of audit work.

How we approached the review

- 6 This report is based on our findings from reviewing documents and undertaking workshops and interviews with key staff and councillors during March 2018. However, because the transformation programme's governance arrangements were under review in March 2018 we continued to review relevant documentation and track the Council's progress in this area until the end of July 2018.

Findings

- 7 Overall we found that: **The Council has moved forward with its transformation programme but planned savings targets have not been met, and issues remain with clarity, pace and the assessment of outcomes.** We came to this conclusion because:
- the Council has changed its approach to transformation and the delivery of financial savings, but needs to be clearer about its desired operating model and how that goal will be achieved;
 - some projects in the transformation programme have made progress, but overall pace remains slow; and
 - the delivery of savings continues to fall short of planned targets and arrangements for evaluating and reporting on the transformation programme's outcomes are underdeveloped.

The Council has moved forward with its transformation programme, but planned savings targets have not been met and issues remain with clarity, pace and the assessment of outcomes

The Council has changed its approach to transformation and the delivery of financial savings, but needs to be clearer about its desired operating model and how that goal will be achieved

- 8 In 2014 the Council asked PricewaterhouseCoopers (PwC) to help them shape their approach to transformation. The Council wanted a new, more sophisticated approach to the delivery of 'cost reductions/efficiencies/service transformations' in future years. The Council felt that the approach they were taking, cutting a set percentage off service budgets as a way to identify 'cost reductions/efficiencies/service transformations', was no longer an effective or efficient mechanism.
- 9 In its 2015 report PwC set out this new approach to transformation. The Council's initial transformation programme was developed from this in 2016-17. Under this transformation programme there were 11 transformation work streams that were targeted to deliver £30.6 million of savings within the Council's MTFP 2017-2021.

Exhibit 1: extract from Pembrokeshire County Council's Corporate Plan 2017-18

The table below maps out how the Council's transformation programme was intended to delivery savings under the MTFP across different work streams and financial years.

	17-18 £m	18-19 £m	19-20 £m	20-21 £m	Total £m
Income Growth and Full Cost Recovery	4.0	-	-	-	4.0
Establishment Control	1.0	-	-	-	1.0
Procurement and Category Management	3.9	-	-	-	3.9
Service Prioritisation				3.2	3.2
Customer Management				2.6	2.6
Information Management – Included in Other Work Streams		Included in other work streams			
Digitally Enabled Re-design	-			14.2	14.2
Strategic and Support	-			1.5	1.5
Assets and Agile	0.2	-	-	-	0.2
Collaboration and Shared Services	-	New work stream			-
Investment Portfolio	-	New work stream			-
Total	9.1			21.5	30.6

- 10 Since our earlier work in 2017, the Council has re-assessed the target savings and identified a number of areas where the savings were unlikely to be achieved. The Council has also fundamentally changed its approach to identifying savings, it has removed the savings targets against the transformation programme, re-allocating the required savings back to individual service budgets.
- 11 The Council aims to bridge £10.0 million of the projected £16.4 million funding gap for 2018-19, and the funding gap (less increases in Council tax and contributions from reserves) for the remainder for the MTFP 2018-22, by requiring each service (except ICT) to deliver a 5% saving on their controllable net expenditure budget each year. This 'percentage annual cut to budgets' approach was one that the Council were originally trying to move away from in commissioning PwC to undertake the work on transformation back in 2015. The difference in the Council's approach this time is that it hopes to use the transformation programme to help services to identify and deliver their savings. However, there is no clarity at a strategic level that this 20% reduction in the controllable net expenditure budget of service departments during the four-year term of the MTFP, is an approach that is either achievable or desirable. As the Council's approach to savings may change in the future the Council has agreed that the MTFP will be an evolving document that can be amended and refined in-year.

- 12 Following the revised savings approach, a new structure for the transformation programme was approved by Cabinet on 16 April 2018¹. The new structure aims to simplify the previous arrangements, which were viewed by some officers and Cabinet members as being too complicated. The number of work streams/projects that were in the original transformation programme remain, but these have now been grouped under three overarching themes. The themes are: technological, cultural and relationship transformations. This approach more clearly demonstrates that the Council is taking a wider approach to transformation, beyond simply making financial savings.
- 13 The Council has also revised the governance arrangements for the transformation programme. Alongside the Cabinet Member for Transformation and IT there is a new Senior Responsible Officer for Transformation, a role which is being undertaken by the Director of Resources. The new governance arrangements more clearly set out the roles and responsibilities for the transformation programme.
- 14 The Council has set the objective for the transformation programme as, 'We will seek to create an efficient, cost effective and modern Council that is focused on working together to improve the lives of people in Pembrokeshire'. However, the Council has still not agreed its target operating model for the future. The Council states that finalising the target operating model will take place after it completes the review of the senior management structure. Some interim changes to the senior management structure were agreed by Council at the meeting on 26 July 2018 following a recommendation by the Senior Staff Committee, but a final structure remains outstanding. The delay in finalising the management restructure is also holding up starting or progressing other elements of the programme, including the strategic and support² work stream.
- 15 Project management arrangements for the overall transformation programme are underdeveloped. While some work streams have project initiation documents and delivery plans, many do not. The lack of: clearly defined outcomes, delivery timelines, and resources required, is weakening effective programme management. The lack of an overall delivery plan also means that linkages between work streams are potentially not identified and there is a lack of understanding about whether the programme is working together as a whole.
- 16 The Council has taken steps to improve communication about the transformation programme including appointing, in March 2018, a communications officer to support the programme. The Chief Executive and Cabinet members have also run sessions with staff and managers to discuss the transformation programme. The

¹ Pembrokeshire County Council, **Transformation Programme Governance Arrangements and Remodelled Transformation Programme**, Report to Cabinet, 16 April 2018

² For the strategic and support work stream the Council states that it intends to, 'consider how support and back-office processes work and the most appropriate way to operate these. We will develop a clear definition of roles and responsibilities for back office functions' (source: Pembrokeshire County Council Corporate Plan 2017-18)

Council is using its new intranet site to communicate messages about the transformation programme to staff. The publication of a new transformation newsletter is also helping to keep staff informed. The Council has developed a new social media strategy and is using social media more effectively. Relevant Cabinet members and the Senior Responsible Officer for Transformation are also engaging with councillors more over transformation matters. For example the proposals for the remodelling, redesigning and refocusing of the transformation programme were taken to the Policy and Pre-Decision Overview and Scrutiny Committee in March 2018 for their comments, prior to agreeing the changes at Cabinet.

Some projects in the transformation programme have made progress, but overall pace remains slow

- 17 Some work streams within the Council's transformation programme have made progress in the last year. Cabinet members have been integral to driving and supporting this progress. The following areas have moved forward: category management, income growth and full cost recovery, digitally enabled redesign, assets and agile. However, many other elements of the programme have not moved forward significantly. These include: service prioritisation; customer management; strategic and support; and collaboration and shared services, all of which remain largely at the concept stage.
- 18 Progress on the establishment control³ work stream has also been slow. The Council has still not produced or published an up to date workforce plan. This is a key strategic plan that is essential in supporting this work stream. We identified the need for a workforce plan during the Corporate Assessment of the Council in 2015. One of the findings was that '...strategic workforce planning is underdeveloped.'⁴ The Council, in its Human Resources Service Plan 2018-19, has an action to, 'Undertake an organisation wide workforce planning exercise and produce a Workforce Development Strategy to support the organisation's transformation agenda and align HR/ OD /L&D⁵ service to this strategy and associated work plans'. The start date for this is given as 1 April 2018, with a completion date of 31 March 2019.
- 19 Delays in the senior management re-structure, and the lack of a clear workforce plan and strategy, mean that the future size, shape and skills requirement of the workforce of the Council is yet to be agreed. The length of time being taken to address these issues is hindering support of the transformation programme.

³ For establishment control the Council 'anticipate that in future, we will employ fewer people' (source: Pembrokeshire County Council Corporate Plan 2017-18)

⁴ Auditor General for Wales, **Corporate Assessment Report 2015 – Pembrokeshire County Council**, Wales Audit Office, December 2015

⁵ HR means human resources. OD means organisation development. L&D means learning and development.

- 20 Reduction in workforce will almost certainly be required to bridge the funding gap over the term of the MTFP (as workforce is the most significant area of Council expenditure). The Council wants to manage any reduction in staffing numbers through its early retirement plan, and through vacancy management and redeployment processes.
- 21 Some early work on the service prioritisation⁶ work stream, undertaken in 2016, has been revisited and a discussion was held at a members' seminar on 25 May 2018. However, there is still no agreement about which services are to be prioritised and which services are to be reduced or cut. Early decisions on these matters are fundamental if the transformation programme is going to be able to move ahead at pace.
- 22 Since our fieldwork the Council has taken steps to strengthen the resources to support the transformation programme. The introduction of director sponsors for the three streams of the programme, and four additional transformation officer roles are all positive in helping to provide greater support to programme delivery. The Council has established a fund of £7.4 million⁷ to support transformation from reserves. Services can apply to the transformation fund for invest to save schemes, for example a £0.6 million investment in information technology from the fund has already been agreed. This money will help support innovations and developments in digital transformation. The Council is still considering whether it needs to enhance capacity and capability in other key skills areas to enable it to deliver the transformation programme at greater pace.

The delivery of savings continues to fall short of planned targets and arrangements for evaluating and reporting on the transformation programme's outcomes are underdeveloped

- 23 During 2016-17 £1.0 million (7.2%) and 2017-18 £2.9 million (34.6%) of the planned 'cost reductions/efficiencies/service transformations' were not achieved. Of the £10.0 million of planned 'cost reductions/efficiencies/services transformations' identified for 2018-19, over £4.0 million (40%) are RAG⁸ rated red by the Council meaning their deliverability or achievability will be challenging. £2.8 million are rated amber and £3.2 million rated green. The Council has increased Council Tax by 12.5% in 2018-19 and used some money from reserves to bridge

⁶ For service prioritisation the Council intend to 'review all services to see if there is scope to make savings by reducing service levels, exploring trading opportunities and by introducing alternative models of service delivery' (source: Pembrokeshire County Council Corporate Plan 2017-18)

⁷ Overall value of the transformation reserve as at 31 March 2018 (source: Pembrokeshire County Council's Published Statement of Accounts 2017-18)

⁸ RAG stands for red, amber and green. The rating here relates to risk where red is a significant risk, amber is a moderate risk and green is a low risk

the funding gap, but recognises that reserves should not continue to be used for this purpose.

- 24 The Council views the scale of the £52.7 million funding gap over the term of the MTFP 2018-22 as considerable, and that it will be extremely challenging to meet. In our 2017 Saving Planning report⁹ we recommended that future savings proposals should be more detailed with robust savings proposals developed covering the term of the MTFP. Service departments now have clear savings and efficiency targets to meet, but the detail and the likely deliverability of the plans for savings are not widely visible. The departmental service plans for 2018-19, that we reviewed, were of variable quality and lacked clarity over the actions to be taken to deliver the efficiency savings and the associated risks that they posed.
- 25 The Council is reporting its progress on meeting its 'cost reductions/efficiency/service transformation' targets planned through its quarterly financial reporting. The under-delivery of the 2017-18 savings was picked up through financial management reporting, and mechanisms were put in place to address the issue (including a moratorium on non-essential expenditure). The issue of ensuring an early enough understanding over the risk of non-delivery of savings, and having alternative plans, will be particularly important in the 2018-19 year. For 2018-19 the budget is set based on a 100% of savings being delivered to avoid using reserves. In future years the MTFP has been developed so that the deliverability of the savings is set at less than 100% (the assumption is that only 75% of the planned 'cost reductions/efficiencies/service transformations' will be achieved in the period 2019-20 to 2021-22).
- 26 There is currently no risk register for the transformation programme, although there is an overall risk on the Council's corporate risk register relating to the MTFP and transformation. The risk description relates to the failure to deliver the Council's transformation programme in a timely manner. This could lead to a funding gap and non-deliverability of the MTFP, resulting in short-term fixes to achieve a balanced budget and the possible inability to maintain current services. The Council intends to create a risk register for the transformation programme, with work stream and project risk registers created as appropriate. The Council accepts that in order to implement the transformation programme at pace, some risks will need to be taken.
- 27 For a number of transformation work streams the Council has not clearly defined the outcomes that it wants to achieve, or set success measures against which it will assess the programme. The Council does not have a process in place to monitor and review the outcomes and impact of its transformation programme.

⁹ Auditor General for Wales, **Savings Planning – Pembrokeshire County Council**, Wales Audit Office, March 2017

Proposals for Improvement

Exhibit 2: proposals for improvement

The table below sets out the proposals for improvement that we have identified following this review.

Proposals for improvement	
P1	Clarify key elements of the transformation programme by: <ul style="list-style-type: none">• agreeing the future operating model for the Council (including completion of the service prioritisation exercise);• urgently developing a workforce plan; and• reviewing the organisational capacity and capability required to deliver the transformation programme at greater pace.
P2	Strengthen programme management by: <ul style="list-style-type: none">• developing an overall delivery plan for the transformation programme;• developing project plans for all work streams and projects, to include:<ul style="list-style-type: none">– clear outcomes;– identification of resources required;– timescales/delivery milestones;– interconnections/interdependencies between work streams; and– risk identification and mitigation measures; and• establishing a process to monitor and review the outcomes and impact of the transformation programme.
P3	Strengthen financial planning arrangements by: <ul style="list-style-type: none">• agreeing the future approach to the delivery of savings within the MTFP; and• ensuring there are robust savings proposals to cover the period of the MTFP.¹⁰

¹⁰ This proposal for improvement has been made previously. It was included in the report of the Auditor General for Wales, **Savings Planning – Pembrokeshire County Council**, Wales Audit Office, March 2017

Wales Audit Office
24 Cathedral Road
Cardiff CF11 9LJ

Tel: 029 2032 0500

Fax: 029 2032 0600

Textphone: 029 2032 0660

E-mail: info@audit.wales

Website: www.audit.wales

Swyddfa Archwilio Cymru
24 Heol y Gadeirlan
Caerdydd CF11 9LJ

Ffôn: 029 2032 0500

Ffacs: 029 2032 0600

Ffôn testun: 029 2032 0660

E-bost: post@archwilio.cymru

Gwefan: www.archwilio.cymru