

London Borough of Hammersmith & Fulham

Report to: Public Services Reform Policy and Accountability Committee

Date: 29/01/2020

Subject: ZBB and Efficiency Update Report

Report of: Martin Calleja, Assistant Director, Zero Based Budgeting and Efficiency

Summary

The Zero-Based Budgeting (ZBB) and Efficiency Programme was established in April 2019. The business case for the programme was based on the projected scale of further savings required over the next four-year medium term (£50m between 2020-24) and the need to improve the capability and capacity of the Council to achieve this. The business case also incorporated a mandate to establish a zero-based budgeting system that was aligned to the Council's vision and priorities including being ruthlessly financially efficient.

The programme is now well established as a two-year initiative and has made good progress to date in delivering on its three main aims: Firstly, to establish and mainstream a system and culture for zero based budgeting, secondly to deliver a high-quality service review programme and significantly uplift the level of deliverable savings proposals for consideration in the annual budget setting process and thirdly to develop a corporate strategy, priorities and pipeline for delivering the full scale of savings needed over the medium term.

The agreed budget to deliver the programme is £0.514m for 2019/20. This has been used to establish a programme delivery team of 4.2 FTEs and provide for one-off consultancy services to better understand social care and children's services demand and costs and wider benchmarking. The agreed budget for year two of the programme is £0.24m which will see a tapering down of the team as it delivers a second wave of facilitated ZBB service reviews and continues to promote a mainstreaming of this approach.

This report provides an overview of progress made to date and priorities for the continuing programme across each of the above noted main aims.

Recommendations

That the Committee notes the progress made in the delivery of the ZBB and efficiency programme and plans for addressing the continuing challenge for achieving the scale of further savings that are required.

Wards Affected: ALL

H&F Priorities

Please state how the subject of the report relates to our priorities.

Our Priorities	Summary of how this report aligns to the H&F Priorities
<ul style="list-style-type: none">• Building shared prosperity	ZBB review of supported employment service has been completed and is reported on below.
<ul style="list-style-type: none">• Creating a compassionate council	The ZBB review process incorporates a consideration of this commitment and the relationship between money spent on associated services and the delivery of associated outcomes. The ZBB review programme is also promoting a joined-up compassionate council service offer to residents and families that are most disadvantaged.
<ul style="list-style-type: none">• Doing things with residents, not to them	Review and savings work that reflects a major policy change and/or service re-design must be co-produced. The ZBB review team have prioritised establishing a resident's implementation group to co-produce the delivery of the Resident's Access Programme and the wider range of service development work that is underway.
<ul style="list-style-type: none">• Being ruthlessly financially efficient (RFE)	ZBB, efficiency and RFE are variations of the same theme that is accountability for public money and getting the very best value from every pound spent.
<ul style="list-style-type: none">• Taking pride in H&F	Financial stability and innovation are required to realise this ambition and are being promoted through ZBB and efficiency work.

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Background Papers Used in Preparing This Report

None.

Proposals and Detailed Analysis

1. Establishing a system and culture for zero based budgeting

- 1.1 Zero Based Budgeting (ZBB) is a technique implemented by organisations that usually need to make immediate savings due to an unbalanced budget or where there is a pressing need to reinvest. It works from the principle of beginning a budget at zero and building it up based on verified need, relevance and cost-effectiveness. It does this first by fundamentally challenging if an area of service is needed or making its intended difference. Where appropriate, it then analyses what is driving cost and how this can be managed down as far as possible towards zero.
- 2.2 ZBB aims to build a culture of cost management within organisations that involves cost visibility, cost governance and cost accountability. It requires a culture of fast-paced and evidence-based decision making and an appetite for making fundamental change where necessary.
- 2.3 The approach is evidence-based and aligned to national responsibilities for public bodies to deliver value for money and the Council's local commitment to being ruthlessly financially efficient and delivering a balanced budget. However, the style of execution and business decisions that are made through the process can vary. This is driven by a range of factors including; immediate financial urgency (real and perceived), stakeholder management and tolerance for change, including being willing to let go of things that are no longer affordable or make the grade for what is considered good value for money in a changing financial climate.
- 2.4 In order to establish a system and culture for zero-based budgeting, the ZBB programme has;
- Established a new ZBB budget/service review methodology and detailed guidance in line with the above noted principles and local context.
 - Rolled out implementation by aligning the new review standard to the annual budget setting process and a programme of service reviews facilitated by the ZBB team working closely with Directorate management teams.
 - Worked closely with People and Talent to identify and manage up a range of cross-cutting opportunities to reduce staffing costs and put improved productivity and efficiency at the heart of the Council's People Strategy.
 - Worked closely with corporate finance and governance to pilot a review panel to identify opportunities to reduce contract costs.
 - A set of top ten savings opportunities has been agreed with the Senior Leadership Team to support the development of the strategy and operating model that will be needed through the next medium term.
- 2.5 The programme team undertook a review of progress in applying ZBB review principles in practice in November 2019. The review concluded that;
- Around half of services areas across the Council had taken steps to review their own budgets using the ZBB review methodology, although the quality of this work was very variable and there was a major issue translating opportunities for better use of resources into committed savings.

- In-year overspend pressures and legacy savings commitments that were not delivered were significant issues impacting on confidence in making new savings commitments.
- The facilitated ZBB service review process has been significantly more successful in setting out viable savings opportunities, and in all cases a detailed plan including significant new savings commitments and/or pipeline opportunities was brokered with Directorate management teams. Recommended and detailed savings in the region of 10-30% have been set out for all reviews completed to date.
- There are significant technical and cultural barriers to applying ZBB principles that need attention. This includes a lack of baseline intelligence and analytics to review services quickly and a preference for taking safe and tactical steps to commit to smaller scale savings over the riskier and transformational approach that ZBB drives.

2.6 In order to embed ZBB and further address cultural barriers the programme is now focusing on:

- Working with Heads of Finance and Directorate Management Teams to improve the ZBB review methodology and put in place additional controls and support for its application in 2020/21.
- Align ZBB service and budget review and savings requirements to the Council's People's Strategy and performance management framework.
- Continue to promote the successful peer challenge across Directorates that underpinned this year's budget setting and challenge process.
- Mainstreaming the ZBB programme delivery brief into business as usual services led by Corporate Finance and with substantial support from People and Talent, Programme Management Office, Strategy and Community and Business Analysis services.

2. Delivering a high-quality service review programme and uplifting the level of deliverable savings proposals for consideration in the annual budget setting process.

3.1 Overall the programme is on track to deliver against its programme of service reviews and wider aims. Month on month progress with reviews and associated agreed savings plans and pipeline development opportunities has been demonstrated since the appointment of the delivery team in June 2019. This has made a significant contribution to the plan for achieving a balanced budget in 2020/1 and longer term.

3.2 A summary of the status, findings, recommendations and savings values from each of the first 11 service reviews within the programme is set out in Appendix 1. All reviews are scheduled for completion by the end of January 2020. This is two months behind the original schedule to major issues with establishing baseline data,

3.3 To date, the review programme has led on or provided significant support for the delivery of £5.19m detailed savings plans that are now SLT supported

plans for the medium term. Associated pipeline development plans that require further development, consideration or detail total £8.157m.

- 3.4 This achievement along with improved confidence in achieving a balanced budget next year and the deliverability of new savings commitments set out for 2020/1 has moved the status of the programme from red to amber in December 2019. Amber status is associated with the scale of savings that are needed over the whole medium term and issues identified in section 2 of this report.
- 3.5 This improved confidence has been significantly assisted by the improved settlement projections and flexibilities for next year. This has seen a reduction in required minimum savings levels from £13m to £9m for 2020/21. Firm savings proposals on plan totalled £7.6m as at the end of 2019 of which £2.8m were the first-year aspect of the above noted ZBB supported £5.19m.
- 3.6 The minimum year end Return On Investment (ROI) target for the ZBB investment is £10 of savings identified (fully specified and viable savings plans) for every £1 spent on the ZBB programme - plus substantial added value around pipeline development and delivery and organisational development. The team expect to exceed this position by the end of the financial year and the first aspect is currently £10.1 detailed saving for every £1 spent, based on the £5.19m total savings and £0.514m year one programme budget.
- 3.7 The ROI impact of the team's work is claimed based on two tests; either identification of savings through a ZBB-led facilitated service review process or close involvement and support in successfully developing a saving from an uncommitted or very formative position to a detailed and supported proposal. Issues around appetite, in year overspend pressures and legacy savings commitments that have not been delivered can impact on translation of the team's work onto budget plans, but this does not invalidate the ROI position.
- 3.8 The benefit of delivering the programme in-house over a consultancy contract is three-fold. Firstly, based on a low-end average consultancy day rate of £650, the cost of the staffing element of the programme would be 67% higher (£621k over the current year 1 cost of £371k). Secondly, based on work of consultancy services to provide savings in the past, the viability and detail of savings plans would be significantly lower. Further, an externally commissioned programme may not be proactively working to reduce costs and mainstream the approach.
- 3.9 Appendix 2 provides the executive summary and savings profiles for two reviews in the areas of People and Talent and Housing and Homelessness services to provide a more detailed illustration of this work in a back office and front-line service context.
- 3.10 Continued work on the ZBB service review programme is focused on;

- Completing all wave 1 service reviews including the major review of commissioning and procurement.
- Agreeing and starting work on wave 2 service reviews with the aim of completing them by the end of July 2020. IT and Legal services have been mandated by SLT for inclusion.
- Developing a compressed and agile review process for identifying staff costs and contract costs that can be completed in 2-4 weeks.
- Continuing to support Directorates to undertake further preparatory work to further develop pipeline plans.

3. Developing a corporate strategy, priorities and pipeline for delivering the full scale of savings needed over the medium term.

- 4.1 Appendix 1 sets out the scale and range of pipeline developments that have originated from the programme's service review programme.
- 4.2 The cross-cutting nature of much of this work led to the development of a top ten set of savings priorities in August 2019 as a step toward developing a future strategy and operating model for the long term.
- 4.3 Developing programmes, projects and working groups to support delivery of this cross-cutting work will be an increasing focus for the programme in its second year and as a key aspect of ensuring work continues when the programme is closed.
- 4.4 The table below provides a summary of these top opportunities.

Table 1: Top 10 Savings Opportunities for the Medium Term (2020/1)

Further Savings Opportunities for 2020/21	Key Focal Points
1) Reduce management, high cost agency and back office costs in response to current spans, tiers and scale of spend.	<ul style="list-style-type: none"> • Resource Management Board • Alignment to People's Strategy (Lean Management Operating Model) • Completion of ZBB service reviews for all major back office service functions
2) Increasing efficiency and productivity on the front line	<ul style="list-style-type: none"> • Redefining operating models and business processes • Completion of ZBB service reviews for all major front-line services. • Key cross reference to priority 3
3) Resident Access Programme	<ul style="list-style-type: none"> • Inclusive Digital Development and Service Consolidation
4) Strategic management	<ul style="list-style-type: none"> • Medium term financial strategy

across all funding streams – GF, Capital, HRA and S106/CIL	<ul style="list-style-type: none"> • Application of ZBB principles to the management of areas of the Council’s budget beyond the General Fund
5) Council-wide plan for income and debt management	<ul style="list-style-type: none"> • Continued improvement in Council Tax and NNDR and further development of ethical debt management • Working group to review other income collection and service development plans for all Sundry Income • Operating model aligned to Resident Access Programme
6) Improved contract management and negotiation	<ul style="list-style-type: none"> • Pilot ZBB contract review panel • Directorate-led commissioning and category management • Completion of ZBB Service Review
7) Children’s Services and Adults Social Care – meeting and preventing needs	<ul style="list-style-type: none"> • Specifying and delivering quick wins • Establishing required pilots and projects • Improved analytics and medium-term modelling
8) Compassionate Council – connected and community led support	<ul style="list-style-type: none"> • Options for bringing resources and solutions together are being considered. • Employment and housing solutions
9) Land and Asset Management and Other Commercial Opportunities	<ul style="list-style-type: none"> • Land and Asset Development Strategy
10) Major Directorate Led Policy and Pipeline Developments	<ul style="list-style-type: none"> • Significant opportunities being led within departments

List of Appendices:

Appendix 1 - ZBB Wave 1 Reviews Status

Appendix 2 - Sample ZBB Service Review Executive Summaries

Appendix 1 – ZBB Wave 1 Reviews Status as at 10.1.20

Wave 1 Review and Status	Service/ZBB Leads	Summary of review findings and ZBB recommended savings: <u>Detailed plans that are on or have an SLT mandate to move to budget plan are underlined.</u> <u>Pipeline plans that require further detail or feasibility work are denoted by a dotted underline (only firmer areas specified)</u>
1. Resident Access Review completed – Programme Definition to be completed by end of January 2020.	Nichola Ellis/ Martin Calleja	<ul style="list-style-type: none"> Review complete with up to £4m potential savings and a high-level business case set out. The review sets out an ambitious plan to improve digital, front door and telephone services to residents and businesses and is validated by successful models of service operating in other boroughs. Development of detailed delivery plan for tranche 1 (environment) is now completed with a detailed plan to deliver £1.7m of savings in 21/22. That leaves up to £2.3m further savings as a pipeline plan. The programme is being led by environment with support from the ZBB team, corporate IT and finance.
2 and 3: People and Talent and Communications (within wider Public Service Reform Services) Review completed – Service Restructure to be completed by April 20.	Dawn Aunger/ Veronique Vermeer	<ul style="list-style-type: none"> ZBB led work on wider Public Service Reform secured a £1.797m savings over two years on back office services by; reducing senior management, mainstreaming ZBB and efficiency work in year two of the programme, introducing a new operating model for people and talent management and reducing spend on printing. Review makes recommendations on reduction of spend on senior management, reducing high cost agency posts, back office functions and promoting working flexibly. Reducing staffing costs is a key pipeline opportunity for further development.
4.Homelessness and Housing Solutions Review Completed	Glendine Shepard/ Lydia Land	<ul style="list-style-type: none"> Review found the service to be high performing and managing costs well. Savings opportunities were identified in the further improvement of temporary accommodation cost management and efficiencies through the Resident's Access Programme. £1.373m detailed savings plan to be delivered over 3 years agreed.
4. Regulatory Services Review completed	Matthew Hooper/ Lydia Land	<ul style="list-style-type: none"> Review found this portfolio of service to be meeting statutory needs well within the context of constraints on resources. Savings opportunities were identified across three key areas; management structure and costs, income and resident access and cross-service working (particularly through the development of an integrated enforcement model of service). £0.757m savings recommended which is being considered further within Environment's pipeline plan.
5. Adult Learning and Employment Services Review completed	Karen Gailey/ Veronique Vermeer	<ul style="list-style-type: none"> Review concluded the supported employment service would benefit from a refocus on residents most in need of support to take up employment and progression from entry level jobs. This is now underway. The review concluded that the scale, quality and range of services on offer through the adult learning service is a major strength. It endorsed the planned development agenda for the service in line with the borough's industrial strategy and need to better demonstrate employment and life chance outcomes for residents in most need. £261k savings recommended by closer alignment to the delivery of supported employment and related social care services and outcomes which is being considered further. Adult Learning funding is ringfenced and at risk as it moves to the Mayor's Office so cashable savings cannot be recommended.
7.Commissioning, Contracts and Procurement Review due for completion end Jan 20	Hitesh Jolapara/ Thea Baillie	<ul style="list-style-type: none"> The timeline for completion of this review has been extended as the process has required mapping annual spend on goods and services with an annual gross value of £350m by category and sub-category. The four main categories of service are; corporate services, resident and public realm services, facilities and construction and social services. The review sets out a future operating model that will deliver a good standard of management across

		<p>strategic (commissioning and category management) and operational (procurement and contract management) aspects.</p> <ul style="list-style-type: none"> • This review also sets out recommendations to improve three key themes; procurement compliance and flexibilities, assuring quality and driving cost reductions and strategic forward planning and category management. • The review undertook an analysis of opportunities for reducing contract costs across eight major contracts with associated senior lead officers. • The review has an initial saving commitment of £0.32m to deliver across commissioning and contract costs.
<p>8. Social Care – meeting and managing needs Phase 1 of the review focusing on the largest scale opportunities has been completed wider review has been drafted.</p>	<p>Lisa Redfern/ Katie Estdale</p>	<ul style="list-style-type: none"> • Analysis and final report on top priorities is completed and have informed the department's MTFS approach.
<p>9. Children's Social Care – meeting and managing needs Status – as above</p>	<p>Jackie Mcshannon/ Katie Estdale</p>	<ul style="list-style-type: none"> • Analysis and final report on top priorities is completed and have informed the department's MTFS approach.
<p>10 and 11. Financial Management and Governance Report mid Feb 20 - delayed due to wider budget preparation requirements.</p>	<p>Emily Hill/ Martin Calleja</p>	<ul style="list-style-type: none"> • The review is analysing the structure and cost of the financial management services across the Council against the maturity of directorate management teams, current and developing IBC capabilities and major issues that drive costs. Options and associated savings are being generated. • The review is also focused on a number of key pipeline savings opportunities associated with income and debt management and commercial opportunities.
<p>Current Savings Return on Investment Position:</p>		
<p><u>Detailed savings plans led or supported by the programme and on budget for 20/21 or with a clear SLT mandate for the medium term: £5.19m</u></p>		<p><u>Pipeline development plans led or supported by the programme that require further detail or consideration: £8.157m – developing detail available for PAC members on request</u></p>