



Committee report

Committee	EXTRA-ORDINARY EMPLOYMENT COMMITTEE
Date	11 JULY 2016
Title	REVISED OPERATING MODEL: PART ONE – SENIOR MANAGEMENT STRUCTURE
Report of	CHIEF EXECUTIVE

EXECUTIVE SUMMARY

1. The Employment Committee is asked to consider proposals for maintaining and building the organisation's senior management capacity to deliver regeneration and transformational change, including any necessary support for the preparation, evaluation and implementation of schemes in response to its budget challenges and to ensure the organisation remains sustainable.

BACKGROUND

2. When it met in April the Committee considered proposals for changes to the chief officer structure. This was the first stage in amending the operating model of the council in response to its budget challenges and to ensure the organisation remains sustainable. It raised a number of issues with the proposals which have been taken into account in the further consideration of the chief officer structure which has informed this report.
3. The postponement in agreeing to then proposed chief officer structure has also allowed officers further time to reflect on how the council can best respond to the financial challenges facing the organisation. This has included taking account of the conversations held with the Secretary of State for Communities and Local Government and his officials about the council's financial challenges. Officers have also been able to draw on some of the early findings of the forensic analysis (referenced in the previous paper) of its services in order to better understand what it must provide and the degree to which it must provide and fund it.
4. It is increasingly apparent that over many years, and at least from the date of its formation, the council has been extremely effective at taking costs out of the organisation to successfully meet its financial challenges. This has allowed the council to set lawful and balanced budgets but has required significant reductions in services over time. These reductions have been achieved in the context of the 'island factors' which add costs to the delivery of services on the Island arising from its segregation from the mainland and include costs due to:

- Premium pricing
- Self sufficiency
- Dislocation

Consequently it can be soundly argued that the council has cut further and deeper than its comparators in almost every area of service.

5. Over this same time frame, it is clear that the council has been much less effective in growing its income from either the council tax base or business rate base. Given the control that central government has held and continues to hold, over the setting of tax levels, this growth would need to have come from an increase in the number (and/or size) of homes and businesses. This would be achieved from active and effective regeneration activity at scale.
6. One of the consequences of cutting further and deeper than other local authorities is that the council has also denied itself the capacity, skills and knowledge, necessary to address the other side of the funding equation. It has also been unable to develop the schemes and bids which the council could promote in order to bring financial growth to it and the Island.
7. In his meetings with the council's political groups and officers in June the Secretary of State for Communities and Local Government, was 'sympathetic' to the case presented to him in respect of the costs associated with the 'island factor'. He was keen to see this case made as part of the review he has commissioned to secure a fair funding formula for local authorities. The council is working with Portsmouth University to present an objective case to government as part of the review process, but the impact of any changes as a result of the review is unlikely to be felt until 2019/20 at the earliest. The government's intention is that a revised funding formula is introduced at the same time as its proposals for local authorities to retain 100 percent of business rates to fund local public services.
8. The Secretary of State was unable to offer any additional revenue support to the council to help mitigate its financial challenges. Even transitional funds to help until the outcome of the fair funding review is known, and implemented alongside the business rate retention proposals were not available. Therefore, as a minimum, the council must still consider how best it can meet its financial challenges for the next two financial years and prepare for the possible impact of the changes that will follow.
9. The Secretary of State was keen to point to the capital funds being made available by the government for economic growth. In his view the council could access these funds to stimulate and grow the Island's economy and generate additional revenue to it, from an increase in the overall tax base, or reduce its revenue costs by introducing facilities and activities which make the delivery of its services more efficient and effective. Whilst the council has bid to many such grant programmes over a number of years, on reflection, it is clear that it needs to make big, bold and ambitious bids, of sufficient scale to deliver a 'step change' in the council's and the Island's economic position. The development of bids of this nature will always entail a degree of managed risk but could provide the necessary rewards to help to balance the budget.
10. The capital funds referred to by the Secretary of State broadly fall into three categories:

- 10.1. **Devolution growth funds:** Most devolution deals have been underpinned by the offer of additional funds from government to invest in economic growth, housing delivery and create jobs. The previously reported, proposed Solent devolution deal came with an offer of £30 million per annum of investment funds over thirty years.
- 10.2. **Local growth deal funds:** The government's 2016 budget included provision for £1.8 billion in funds to build strong local economies. The funding will be allocated across the England's 39 local enterprise partnerships by a competitive process (£460 million per LEP on average).
- 10.3. **Other 'targeted schemes':** For example the £90 million coastal communities fund (grants of £50k to £4m); or the starter homes fund.
11. It is clear that these funds offer a route to securing capital funds which can be used to develop the Island's economy and generate revenues for the council, thereby allowing it to be self-sustaining in the long term. What is also clear is that the development of proposals for capital schemes, to deliver the degree of step change required by the Island and the council, requires a commitment of time and resources so that the council (and the Island) can secure real benefits of successful bids for these funds. Before any potential scheme can be developed the council will need to be clear about a wide range of parameters that will impact on the scheme, for example:
- The extent of a scheme and its deliverability – including how it can be funded using the best mix of public and private sector resources.
 - The outputs expected from it (jobs, housing, employment assets, and income to the economy).
 - The costs/benefits to the council that will be delivered by the project.
 - The timescales and key risks associated with its delivery.
12. One option to the council therefore, is to look to invest in sufficient capacity, to properly identify and develop regeneration schemes and seek the necessary resources to ensure their delivery, with consequent benefit to the council's financial position and the Isle of Wight's economy. The alternative being a further cycle of budget cuts and service reductions, which will ultimately see the council with insufficient resources to meet its legal duties and responsibilities.
13. The proposals set out in this paper are intended to help the council be more proactive in seeking its own solutions and to make the most of any and every opportunity it has to make itself financially sustainable.

THE SENIOR MANAGEMENT STRUCTURE

14. The recruitment to a new position of Director of Regeneration will be central to a new and proactive focus on regeneration activity and economic development, to stimulate growth in the council's income and the Island's economy. The post will be supported by two dedicated regeneration officers at senior level and a property management specialist to align the council's asset base in support of the regeneration activities.

The focus of all of these roles must be identifying, developing and implementing regeneration schemes so it is not envisaged that they will have wider corporate responsibilities. All the posts will be offered for an initial fixed term of two years to tie in with the resources that can be made available to fund them.

15. One of the first tasks of the Director of Regeneration will be to make a high level assessment of the benefits to the council of the potential schemes it could pursue. This will make a significant contribution to the council's business planning processes over the medium term, and allow it to get to a position where it can understand the benefits of the fair funding review and the devolution agenda. The Director will have a central role to play in developing and making proposals to the council's devolution partners for an allocation of the devolution investment fund to the Island and for working closely with the Solent Local Enterprise Partnership for funds to deliver the Island's key regeneration schemes.
16. The role of Director of Adult Social Services (DASS), is the subject of statutory guidance headed "Guidance on the Statutory Chief Officer Post of the Director of Adult Social Services" issued by the Secretary of State pursuant to s.7(1) Local Authority Social Services Act 1970. This is guidance that a Local Authority is required to follow; effectively it is law emanating from the executive rather than the legislature. One of the requirements of the guidance is that local authorities shall ensure that the DASS is directly accountable to the Chief Executive of the local authority and comparable, in terms of seniority, with the Director of Children's Services. Any appointment at Head of Service level rather than Director will not achieve comparability in terms of seniority.
17. Recruiting to the DASS role will strengthen the council's drive towards health and social care integration securing the capacity and skill base to move this agenda forward, and secure the council's statutory obligations in respect of adult social care. The DASS will be supported by the two new roles for the commissioning and provision of adult social care services as discussed at the previous meeting. Both posts will be jointly funded; one by the Health Trust and the other by the Isle of Wight Clinical Commissioning Group (CCG) and consequently they will be subject to matrix management by the council and its partners. Ultimately these posts could be absorbed into whatever organisational forms the My Life a Full Life programme recommends is best for the delivery health and adult social care services in the future.
18. In the current management structure senior management accountability for 'place based' activities (for example, planning, waste, highways, grounds maintenance) sits with the position of Deputy Managing Director and Head of Place. This position can be extinguished and replaced with a Head of Place to be drawn from the three Heads of Service in this area. The Head of Place will effectively be the lead specialist for one of these three areas but the corporate strategic lead for all three. There may be a need for some additional resources to provide the capacity to undertake the dual role but this will depend on the final appointments.
19. In a revised approach to the council's financial challenges, which looks to invest in its capacity to generate growth, it would also seem sensible to sustain its existing capacity until at least there is some clearer view about what advantages the council may be able to secure from its regeneration activities.

OTHER ASPECTS OF THE OPERATING MODEL

20. Savings from the operating model were assumed to come from three principal sources:

- Senior Management Structure
- The way the council does business
- Staff terms and conditions

The position taken in this paper is that the council should seek to fund its existing senior management capacity and add to that capacity for at least the next two years, in order to give itself the opportunity to introduce regeneration activities that will make it financially sustainable and, to take advantage of any funding that may be available from other sources (devolution deals, local enterprise partnership).

21. The same approach may also be taken to the other two elements of the proposed operating model saving; on the basis that further reductions to staff terms and conditions may actually take further capacity out of the organisation. Such changes would certainly be demotivating at a time when investment in growth and regeneration would be expected to energise the organisation.

22. Work should still be able to progress for both of these elements for implementation if necessary and is considered in part 2 of the paper.

FINANCIAL / BUDGET IMPLICATIONS

23. The budget approved by the council in February 2016 for the financial year 2016/17 required the withdrawal from general reserves of £4.0m in order to balance spending with funding and left the council with just £1m of general reserves over and above the minimum level required for an organisation of this size and risk profile. The use of the remaining £1m was intended to support the 2017/18 budget in order to reduce the savings requirement for that year from £13.5m to £12.5m. This means that the council only retains a "buffer" of £1.0m for any unforeseen budget overspendings.

24. Since the budget was approved, the draft accounts for 2015/16 have been prepared and indicate an overall underspend against the budget of £1.8m which has accrued to general reserves, therefore increasing the level of general reserves over the minimum amount to £2.8m.

25. The approved budget for the financial year 2016/17 also included a saving of £3.0m relating to the "Development of a new operating model for the Council". This necessarily reduces the capacity of the organisation to deliver "business as usual services", the transformation required by the council to meet its overall savings requirement of £35m between 2016/17 and 2019/20 and the capacity of officers to support members in their duties. At present, this £3.0m saving is being reported as an overspend against the current year's budget alongside a further £1.4m of net overspendings resulting in an overall forecast overspend for the council at this early stage of 2016/17 of £4.4m. Clearly, the council does not have sufficient available general reserves (£2.8m) to offset the forecast overspend of £4.4m and neither would it be advisable to do so.

26. The council therefore needs a comprehensive strategy for dealing with both the current £4.4m forecast overspend in 2016/17 as well addressing the currently unidentified savings requirement for the future years 2017/18 to 2019/20 to £22.4m (i.e. total unidentified savings of £26.8m).
27. The council is continuing to pursue its current medium term financial strategy which includes forensically evaluating all areas of its activity, the extent to which that activity is statutory or discretionary and determining where that activity is at variance from its comparators, all of which is intended to inform where future savings can be made. In parallel, the council is also seeking financial relief from Central Government over the short term whilst it makes the case for an improved funding settlement from Government in 2019/20 as part of the Fairer Funding review.
28. From the meeting with the Secretary of State for Communities and Local Government held on the 14 June it is clear that short term transitional funding from the government is not available and the council now needs to revisit its medium term financial strategy in the context of the latest engagements with government, with renewed vigour and ambition and with sufficient organisational capacity and talent to be able to deliver its savings requirements.
29. The council has long been aware that direct transitional revenue funding may not be available and Officers have been started to work on a new medium term financial strategy. Whilst the new strategy must continue to have a relentless drive towards making the council more cost effective in its activities, if it is to avoid drastic cuts to public services, it must have a much stronger focus on increasing income and the council's funding base through both council tax and business rates.
30. Key features of a new Medium Term Financial Strategy will include the following:
- Island Regeneration - Improving the Island Economy (Increasing Council Tax and Business Rates)
 - Increasing Income
 - Reducing the Demand for Council Services (Prevention Activities to protect the cost base and also reduce costs)
 - Improving the Cost-effectiveness of the Council
 - Reductions in Council Services with the least impact on residents
 - Financial Policy changes to support Financial Resilience, Responsible Spending and Longer Term Financial Planning
31. To provide some assurance of the delivery of such a strategy with the organisational capacity to deliver will require that the necessary level of savings are "smoothed out" over a longer period of time so that both longer term initiatives and the impact of the Fairer Funding review in 2019/20 can take effect.
32. Officers are still exploring options to release funding to support the delivery of a comprehensive plan to meet the remaining unidentified savings of £28.8m, phased more evenly (i.e. not front loaded as at present) and potentially over a longer period. This is likely to involve re-phasing the council's debt repayment obligations but some considerable work and negotiation with the external auditor is still required.

33. In the meantime and as discussed with government officials, officers have already identified the opportunity to use up to £9m of the £17.5m ASDA capital receipt in 2016/17 to support the revenue budget, with the balance of £8.5m available for 2017/18. Whilst not ideal, and there is the opportunity cost of this receipt then not being available to fund schemes that improve the council's longer term financial position, it does provide both temporary funding to delay further reductions in the council's capacity plus funding to enhance capacity in those areas that will support the transformation of public services as well as the regeneration of the Island.
34. Pending the outcome of discussions regarding the re-phasing of the council's debt obligations and a comprehensive revision of the council's medium term financial strategy, it is an option that the council reassigns but still retains its objectives for the approved earmarked use of the ASDA capital receipt, amounting to £17.5m as set out in the report to council in February 2016 as follows:
- £6.0m across the financial years 2016/17 and 2017/18 to defer any changes that would have the effect of diminishing the council's capacity to transform or regenerate the Island economy - these being the driving influences of any revised medium term financial plan
 - £2.0m to be used across the financial years 2016/17 and 2017/18 to support the creation of additional capacity for regeneration and transformational change, including any necessary support for the preparation, evaluation and implementation of transformation / regeneration schemes
 - £9.5m to be held to support the forthcoming revision to the medium term financial strategy aimed at "smoothing out" the necessary savings over a longer period of time so that both longer term initiatives and the impact of the fairer funding review in 2019/20 can take effect.
35. Whilst the council has yet to receive and consider a comprehensively revised medium term financial strategy, the financial position of the council is such that it needs to act early on what will be the key features in that strategy in order to accelerate the path to financial sustainability and exploit opportunities that currently exist.
36. Equally, it is vital that the council uses the limited resources and flexibility it has available to make the largest contribution it can towards financial sustainability. This necessarily means reviewing all resources available, including the ASDA capital receipt, and ensuring that any investment that it does make delivers the maximum impact with the context of comprehensive and joined up strategy.

LEGAL IMPLICATIONS

37. Section 2.5 of the terms of reference for Employment Committee affords the authority to consider the senior management structure and to make recommendations to Full Council of any proposed changes. Full Council is the authorised body to determine the overall structure but in doing so will take account of comments from the Head of Paid Service (who is currently the Chief Executive).
38. Section 2.14 of the terms of reference for Employment Committee also affords the authority to agree to the recruitment to all posts at chief officer level and in the event of such agreement being given the committee can establish a politically proportionate

sub-committee of five members, quorum of three to make appointments to all such posts. The membership of this sub-committee may be taken from outside the membership of the Employment Committee.

39. All proposed staffing changes to the senior management structure will need to be undertaken in accordance with the council's organisational change policy and other related employment policy and procedures.

OPTIONS

40. The options for the Committee are as follows:

- (a) Support the authorisation to recruit for the appointment of a Director of Regeneration and related support staff, and recommend its recruitment to Full Council and that this increase in transformational capacity should be funded by allocating £2.0m from the ASDA capital receipt across the financial years 2016/17 and 2017/18.
- (b) Support the authorisation to recruit for the replacement of the post of Deputy Managing Director and Head of Place with a Head of Place and recommend to Full Council that it is ring fenced to the service managers in that area.
- (c) Agree to provide authorisation to recruit for the appointment of a Director of Adult Social Services.
- (d) Agree and recommend to Full Council that it delays any changes to the operating model at this time in order to sustain the organisation's capacity to change and that the cost of this action is funded by £6.0m from the ASDA capital receipt across the financial years 2016/17 and 2017/18 to defer any changes that would have the effect of diminishing the council's capacity to transform or regenerate the Island Economy.
- (e) Not to support any changes to the chief officer structure as set out in this report.

RISKS

41. Continuing to focus on cost reduction may allow the council to set a lawful and balanced budget in the next two years, but there is a risk in further hollowing out the core of the organisation that it may miss opportunities to grow its tax base and contribute to, and hopefully benefit from, the fair funding review.
42. There is a risk the regeneration schemes that are under consideration may not be deliverable in a time that best suits the council's needs. Nevertheless a clear plan of what may be deliverable, when and what the impact would be for the council and the Island would add value to, and support conversations with government and other local authority partners about securing the financial sustainability of the council.
43. The ASDA receipt can only be used once and Full Council has agreed to the capital schemes to be undertaken with it in order to either reduce costs or raise income for the council. Utilising these funds to provide the council with much needed short term capacity to undertake transformational and regeneration activities does not

necessarily mean that these schemes will not proceed. The risk is that they might not proceed as quickly as had been hoped. A new Director of Regeneration may however, be able to speed up the process of developing the business cases, completing the feasibility studies and identifying sources of funds to complete the schemes.

44. There is a risk to the council in terms of claims for negligence arising from a failure to follow statutory guidance. The mitigation would be to demonstrate absolutely in conjunction with the relevant bodies that any planned actions would accord with the statutory guidance before the action was taken. Although it is unlikely that many government agencies would want to give such an assurance given the existence of the guidance.

EVALUATION

45. The meeting with the Secretary of State for Communities and Local Government, on 14 June, made it absolutely clear that the government will not be able to provide any transitional funding to help the council in meeting its financial challenges. The expectation being that the council will have to do all that it can to overcome the financial challenges it is facing using every available financial resource at its disposal (including its capital funds, land and assets).
46. Work undertaken to prepare for the Secretary of State's visit has confirmed that the council has over many years been very effective at taking costs out of the organisation but less good at generating new tax based income streams that would derive from a growth in homes and businesses.
47. The approach taken in this paper seeks to create a senior staff structure that can focus on generating new income streams over the next two years and ensure that the council is best placed to respond to the opportunities that may come from a devolution deal and/or the review of the fair funding formula. The approach seeks to retain the existing organisational capacity and strengthen its regeneration activities with a team that will only focus on developing the schemes that can be of the greatest benefit. Schemes such as:

- East Cowes Regeneration
- Newport Harbour
- Ryde Regeneration
- Sandown Regeneration
- Newport Transport Model
- Developing Extra Care capacity

can all be taken forward with a dedicated team working with public, private and voluntary sector partners, the harbour authority and, at worst, can be designed to a point, where they can be used to support funding bids to government for the impact they can bring the Island and the council.

48. The proactive approach to regeneration activity proposed in this paper is not guaranteed of success, but it does allow the council the capacity and drive to take an alternative view to resolving its financial challenges, making use over a two year period, of the funds it has available to it. The intention would be that the overall return

on these funds in terms of the levels of investment secured would be far greater than simply investing the funds on their own as planned.

RECOMMENDATIONS

49. It is recommended that the Employment Committee agrees to:

- (a) Support the appointment of a Director of Regeneration and related support staff and recommend its recruitment to Full Council and that this increase in transformational capacity should be funded by allocating £2.0m from the ASDA capital receipt across the financial years 2016/17 and 2017/18.
- (b) Support the replacement of the post of Deputy Managing Director and Head of Place with a Head of Place and recommend to Full Council that it is ring fenced to the service managers in that area.
- (c) Agree the recruitment of a Director of Adult Social Services.
- (d) Agree and recommend to Full Council that it delays any changes to the operating model at this time in order to sustain the organisation's capacity to change and that the cost of this action is funded by £6.0m from the ASDA capital receipt across the financial years 2016/17 and 2017/18 to defer any changes that would have the effect of diminishing the council's capacity to transform or regenerate the Island Economy.

APPENDICES ATTACHED

50. [Appendix 1](#) – Current Chief Officer Structure

51. [Appendix 2](#) – Proposed Chief Officer Structure

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