

12 December 2014

Jo Turton  
Chief Executive  
Lancashire County Council  
County Hall  
Fishergate  
Preston  
PR1 8XJ

Dear Jo,

**RE: LANCASHIRE COUNTY COUNCIL CORPORATE PEER CHALLENGE**

On behalf of the team, I would like to say how much we enjoyed spending time in Lancashire to work with you on the recent corporate peer challenge. The team very much appreciated the welcome we received and the honesty and openness with which people engaged in the process and the support provided in the lead up to, and during the course of, the challenge.

It is testimony to the council's desire for constructive external insight that Lancashire commissioned the peer challenge. Peer challenges are managed and delivered by experienced elected member and officer peers. The peers who delivered the peer challenge were:

- Joanna Killian, Chief Executive, Essex County Council (lead peer)
- Councillor Simon Henig, Leader, Durham County Council
- Sarah Pickup, Deputy Chief Executive, Hertfordshire County Council
- Martin Nottage, Tri-Borough Director of Innovation & Change Management, London Borough of Hammersmith & Fulham
- Neil Shaw, Programme Manager, Local Government Association

It is important to stress that this was not an inspection. Peer challenges are improvement-orientated and tailored to meet individual council's needs. The peers used their experience and knowledge to reflect on the evidence presented to them by people they met, things they saw and material that they read. The guiding questions for all corporate peer challenges are:

- ❖ Does the council understand its local context and has it established a clear set of priorities?
- ❖ Does the council have a financial plan in place to ensure long term viability and is there evidence that it is being implemented successfully?
- ❖ Does the council have effective political and managerial leadership and is it a constructive partnership?

- ❖ Are effective governance and decision-making arrangements in place to respond to key challenges and manage change and transformation?
- ❖ Are organisational capacity and resources focused in the right areas in order to deliver the agreed priorities?

The council wished to explore these issues within the context of the changing landscape for local authorities and specifically the transformation agenda the council has begun to embark on in 2014.

## **Executive Summary**

Lancashire is a county of contrasts. It has a large geographical area, with densely populated areas often associated with historical heavy industry as well as large rural areas. The demography includes significant pockets of deprivation particularly in East Lancashire and other areas where traditional industries have declined. This is combined with relatively prosperous areas in central Lancashire and some parts of the coast. Employment rates, ethnicity and health statistics also vary widely.

A new minority Labour administration came into power in 2013 and has changed the direction of the council. Within the context of the council having a minority political administration, the Labour and Liberal Democrat Groups have created a stable political environment for decision-making. The council has undergone considerable change over the last three years and taken some tough decisions, largely as a result of the reducing financial environment within which it has had to operate.

The future changes to the council will be even larger in scale. The council projects it will need to reduce its budget by a further £300m over the next three years. Leaders in the organisation are communicating the proposed future change and have worked hard to engage with staff since the process began in recent months. There is general acceptance from staff that the council needs to change.

The council has a number of strengths on which it can continue to build. Its work on economic development is a particular strength, including the City Deal and Growth Deal in the county. Wider work with public sector partner agencies is also generally strong. There have already been changes to parts of the council, particularly within Adults and Childrens services.

The leadership's work with local communities and partner agencies, including the county's district, borough and unitary local authorities has always been important. This will take on increasing importance as the nature of public services change. Historically the relationship with each of the county's fourteen borough, district and unitary local authorities has been very different. There are extensive opportunities for much better joined up work to deliver better outcomes between the council and the other fourteen local authorities in the county. However, this can only be founded on a collective will from all parties to collaborate more effectively and extensively than happens at present. In the current environment the council is likely to see most benefit in working with a 'coalition of the willing' with the other local authorities most inclined to see the collective benefits arising from greater collaboration and to try and build better working relationships with the other local authorities. Health and wellbeing is an important issue in Lancashire and there is a need

to revisit the purpose and focus of the existing Health & Wellbeing Board. All of this work with partner organisation means the council's leadership needs to dedicate more energy to building these relationships and progressing practical partnership working at a strategic level.

The council is moving forward on a major change programme begun in 2014. Over the last few years, the council has not made the progress on reducing demand or implementing early intervention services at the pace of many other large local authorities. Having a larger scale plan for reducing demand could play a significant role in changing the emphasis of the council's role and help deliver large financial savings. Careful consideration also needs to be given to significantly improving capacity in specific areas, particularly in areas like procurement.

The council is proposing a bold new organisational structure as its first major transformation project, but it also needs to define the key programmes that will deliver both the savings and the administration's better outcomes. This should include communicating the narrative of the longer-term vision, being clearer on the outcomes it is trying to achieve, having a written transformation plan, changing the organisational culture and maintaining a tight control of financial resources.

Robust governance controls should play a key part in ensuring there is a sound platform on which the change can take place effectively. Unfortunately, there are still a number of fundamental concerns about the rigour of internal controls. The pace of improvement on these governance controls has been insufficient to date and this needs to be addressed as an immediate concern.

Overall, the council has good opportunities to change the nature of its 'offer' to local communities. This will mean changing the way services are offered in order to deliver better outcomes for local people. Embarking on large-scale change is extremely challenging, but if the council can take prompt action to address core issues like sound internal controls and stronger financial management it has the opportunity to deliver large changes at pace effectively.

## **Detailed findings**

### **Leadership and governance**

1. A new minority Labour administration assumed control of the council in 2013. Earlier in 2014 the council appointed a new Chief Executive. Together this change in political and managerial leadership represents a new chapter for the council. Within the context of the council having a minority political administration, during the last eighteen months the Labour and Liberal Democrat Groups have created a stable political environment for effective decision-making. Elected members as a whole, show a considerable passion for the different communities which make up Lancashire and have a realistic recognition that the financial challenges facing the council have to result in significant changes to the organisation.
2. The council's key governance structures, including the Executive and arrangements like the new Executive Scrutiny Committee, are clear and appear to work well. The

Executive Scrutiny Committee is innovative and has contributed to creating a stable political leadership environment.

3. The council has undergone considerable change and taken some tough decisions, largely as a result of the financial environment within which it now has to operate. The peer team heard consistently positive feedback from staff within the council and external partner agencies on how leaders in the organisation communicate the change and have worked hard to engage with staff. There was widespread positive feedback from staff across the organisation and at different levels on the style and approach of the leadership in communicating difficult messages about the future of the council and outlining a new direction. During 2014 the leadership of the council has been developing a new strategic direction for the council. This includes setting out a new vision, underpinning values and a financial framework to manage the large-scale budget reductions which will be required.
4. The authority experienced a high profile serious governance issue in 2013 which is currently subject to a police investigation. The council dealt with this matter swiftly. However, the council's work on addressing its future challenges continues to suffer due to on-going strong and persistent criticism of some senior officers by a small number of senior members. The nature of this criticism is concerning and is creating a significant distraction at a time when the council needs to focus its time and attention on other issues, such as its major change programme and the delivery of budget savings. The council should consider carefully what further steps it might take to safeguard the wellbeing of key staff, support them in their roles and enable them to exercise their leadership influence in a confident and compelling way.
5. A key building block in making effective and safe progress will be the existence of sound governance controls. Unfortunately, there are still a number of fundamental concerns about the rigour of internal controls. The controls around financial governance and the management of risk feature prominently in this list. Collectively, this continued lack of rigour in internal controls led the internal audit for 2013/14 to provide limited assurance. The council have recognised these challenges for some time. However, the pace of improvement on improving governance controls has been insufficient to date and this needs to be addressed as an immediate concern.
6. The creation of an effective corporate risk register or alternative structured approach to identifying, monitoring and mitigating corporate risk is highly likely to be beneficial. If used effectively, this will bolster internal controls and better equip the council as it moves through future large scale change. Similarly, addressing all the areas for improvement in the annual governance statement should bring more overall rigour and build confidence.
7. As the council moves through a period of change it will be important for the authority to have sustained effective political decision-making. Within the context of a minority administration this will always be challenging. Maintaining a focus on transparent and timely decision-making will make the organisational changes much more likely to be effective and undertaken at the appropriate pace. Any changes to the current political decision-making model are not likely to generate any significant

benefits for local communities and could become a distraction at a time when the council needs to make timely progress on managing its financial position.

8. The leadership's work with local communities and partner agencies, including the county's district, borough and unitary local authorities has always been important. This will take on increasing importance as the nature of public services change. There is a need to prioritise and strengthen collaborative working with external partners, including the county's other local authorities. Similarly, providing leadership to the whole health system and investing greater time to make it work effectively should be a greater focus in the future.

## **Financial viability**

9. Within the council, there is an understanding of the scale of financial savings required in the future. The council has managed its financial challenges well so far. For a number of years it has taken action on anticipating significant funding reductions, maintained this over a number of years and delivered substantial savings. The council has largely achieved its previous financial savings programme, including a saving of £223m since 2011/12. Current implementation plans should deliver most of the £76m saving requirement for 2014/15. The council have been successful in securing significant inward investment and searching out new ways to tackle the financial challenge. For example, terminating its PFI contract for waste management and using its pension fund to invest in local infrastructure projects.
10. At the time of the peer challenge, the council is developing a range of 'service offers' which provide an overview of proposals to deliver future services in a different way generating a saving. These are designed to deliver additional savings to those already planned. Like most large local authorities, there are risks inherent in the overall savings proposals including some in volatile and high cost service areas (or those which have overspent in recent years), for example, Adult's services.
11. The next set of budget challenges, particularly after the 2015 General Election, are likely to be even more challenging. The council have already shown an ability to reform some services, tackling difficult issues. In the future, the council have recognised the need to deliver services in different ways much more extensively. This will help it manage the reduced financial budgets of future years. The council will need to make more rapid progress on its prevention and early intervention agenda to reduce the demand for services in order to address its long-term financial position. The learning from authorities in Greater Manchester and other areas, in making progress to reduce demand would provide useful learning for the authority.
12. There is a need to model for different budget scenarios after 2018 to provide a base for long-term financial planning options. Whilst there are number of financial uncertainties over the next 5-10 years, modelling different financial scenarios will better prepare the council for what is likely to be a sustained period of public sector funding reductions.

13. Historically the council has been relatively high spending in a number of core areas compared to other County Councils. Lancashire is in the highest 5% of County Councils for total spend per head of population, spend on childrens and environmental services. Given the scale of change ahead the council needs to be confident it has the financial leadership and fundamental tools in place for the organisation to manage its resources effectively. The annual governance statement highlighted issues around the need to improve controls including financial governance. Delivering significant in year savings will necessitate a strong grip on financial monitoring throughout the year and the council needs to assure itself that this will be in place.
14. As a legacy of the One Connect strategic partnership key corporate capacity has been weakened and careful consideration needs to be given to significantly improving this, particularly in areas like procurement and the use of commercial skills. The public building assets in the county provide an excellent opportunity to bring organisations, services and systems closer together and generate capital receipts. Although there is a current rationalisation of building assets in Preston, there is potential to do much more by mapping and planning to rationalise the overall public estate, through a joined up conversation with the other local authorities in the county and other public sector partners.
15. On a final note, the scale of financial savings required in core areas like Adult's services will be a significant challenge. The council currently estimates around £75m of the overall saving will have to be made in this area. The service also needs to accommodate additional financial pressures in terms of the Care Act. Overall, this will be demanding and require close management.

### **Working in partnership with others**

16. There is positive recognition from a number of partner agencies of the efforts the council's leadership is making in strengthening external relationships. There are a number of examples where the council is working with partner agencies to make a real impact for local communities. This includes; delivering specific projects/services with the other local authorities in Lancashire and other public, private and voluntary sector partners. For example, the Working Together with Families project and work on highways infrastructure.
17. The extensive nature of the successful work on economic development is a particular strength. This includes work with Preston City Council, South Ribble Borough Council and private sector partners on the Preston, South Ribble and Lancashire City Deal. This £430m capital programme, aimed at creating 20,000 new jobs and 17,000 new homes creates a major platform for large scale economic development in the centre of the county. Partners from the business community and the University of Central Lancashire speak positively about the role the council plays in fostering economic development and this is a real strength upon which the council can continue to build.
18. Relationships with major partners in the voluntary sector, police and fire service as a whole are positive and the representatives from these agencies which the peer team engaged with gave positive feedback on their work together. The recent joint

work on the Transformation Challenge Award bid expressions of interest is another positive indicator of joined up thinking and collaborative work.

19. Historically the relationship with each of the county's fourteen borough, district and unitary local authorities has been very different. There is evidence of a strong and positive relationship with some, for example, Preston. Whilst with others there has been a relationship best characterised as unwilling and on occasions, mistrustful. The positive work with Preston and South Ribble on the City Deal and the decision by two boroughs – Chorley and Wyre – to explore the feasibility of moving to unitary status are examples of this range of relationships.
20. There are extensive opportunities for much better joined up work to deliver better outcomes between the council and the other fourteen local authorities in the county. However, this can only be founded on a collective will from all parties to collaborate more effectively and extensively than happens at present. In the current environment the council is likely to see most benefit in working with a 'coalition of the willing' with the other local authorities most inclined to see the opportunities and benefits arising from greater collaboration. More focused discussions with these authorities need to take place to explore the most effective model(s) to deliver strong outcomes for local people. This is likely to mean a mixed economy of models to best suit local needs, but which enable financial savings to be generated for both the council and the other local authorities. Joint development of clear and specific proposals can build on existing joint work and relationships. The use of the Collaboration Board in Preston to deliver the City Deal could be a model to replicate in other areas on locally relevant issues.
21. The political and structural landscape in Lancashire (including Blackpool and Blackburn with Darwen) is complex. However, consideration needs to be given to how the authorities can work better together, including other public sector agencies. This would be aimed at bringing together leading members from all the authorities involved to provide stronger collective leadership to tackle shared challenges that lie ahead, without necessarily needing to address unpalatable issues about the sovereignty of local authorities.
22. More concerted effort needs to be dedicated by leaders to nurturing a stronger relationship with the local authorities that have a poorer relationship with the council. This will take time and energy on both sides. Practical approaches to help this may mean senior members and officers from both tiers spending more developmental time together exploring strategic and delivery issues and exploring ways for senior district/borough officers to lead meaningful joint projects, with the council divesting authority to them to lead.
23. There is a need to revisit the purpose and focus of the existing Health & Wellbeing Board. The council is best placed to take a lead on the system reform required to deliver better outcomes in health, social care and wider wellbeing in line with political priorities. The current Health & Wellbeing Board does not work as effectively as it needs to deliver this massive reform. The Board will shortly be having an LGA peer challenge and can use this opportunity to explore solutions to this in more depth.

24. The council has tried over a number of years to work closely with its many parish councils. However, it is now timely for the council to consider the purpose and effectiveness of the existing Three Tier Forums.
25. The council is committed to a culture change within the organisation. The culture change needs to include how the council works collaboratively and inclusively with its partners. This might include updating the 'Lancashire Way' cultural values and other wider work, to reflect this more outward focus.

### **The transformation agenda**

26. There is a good level of awareness and acceptance across the council that the future delivery model will need to be different. The peer team received very positive feedback from staff about the openness and honesty from the Chief Executive about the scale of change needed across the organisation. The council has recently embarked on an organisation-wide programme of change. The challenge of transforming the council to manage a £300m overall budget reduction up to 2018 should not be underestimated. Critical to making the transformation successful will be:
  - clarity on what the longer-term vision means
  - robust supporting governance
  - strong and sustained political leadership
  - a changing organisational culture
  - tight control of the financial resources
  - the right people in the right roles (with the right capacity and capability) to see through the change
  - effective programme and project management of the change
  - the ability to sustain delivery of core services during the change
27. The council currently has some of these building blocks in existence or they are currently under development. Seeing this through will be essential to ensuring the transformation process gets off to a strong start. The council has been transforming on a smaller scale for a number of years. This includes;
  - a shift beginning in some areas of social care towards greater prevention
  - the delivery of significant financial savings over the last three years and
  - a reduction in the service offer in some service areas
28. This has created the current platform on which future transformation can begin to take place as long as the remaining building blocks are put in place at pace. However, the council has not made the progress on reducing demand or implementing early intervention services at the pace of many other large local authorities. Having a larger scale plan for reducing demand could play a significant role in changing the emphasis of the council's role and help delivery large financial savings. The pace of this direction of travel needs to be increased significantly and the council can learn from other local authorities in the region who are making good progress on this change in emphasis for service delivery.



29. The council is proposing a bold new organisational structure as the first flagship transformation project, but the council also needs to define the key programmes that will deliver both the savings and the administration's better outcomes. The value of communicating the narrative of the longer-term vision should not be underestimated. Although it is not always possible to sharply define the end state of the transformation and what the organisation will be doing or look like in detail, it is important to engage effectively early with communities and partner agencies and internally to staff, what kind of council Lancashire will be in five-ten years' time. This can be founded on the principles and values recently agreed, but needs to more clearly communicate what the vision means and 'who we will be'.
30. There is no need to overly process a transformation plan, but having a written plan with clear deliverables, an explanation of how they are delivering better outcomes, how they link to the financial savings and who is accountable is likely to create a discipline which will make it easier to manage the large-scale change. This should also serve to help mitigate some of the issues which have arisen from previous implementation of past projects. The quality of internal governance controls needs to be quickly improved to give the organisation the assurance that it can deliver the transformation work transparently and soundly as explored in detail earlier.
31. The progress of the transformation will require strong and sustained political leadership. Giving members early opportunities to discuss the detail of the larger elements of the transformation work would enable members to provide a political steer and gather political support for a number of difficult decisions which will have to be taken over the next few years.
32. The future council will require its workforce to be more flexible, adaptable, able to work more cross-functionally, manage change effectively and take colleagues with them through the change. There are examples of individual staff and teams having these skills and exhibiting these behaviours. The council's workforce development activity needs to take a wider brief than learning and development and work to develop, and critically support, more officers in enacting these new behaviours consistently. This is likely to take time and energy due to the scale of the change anticipated, but is important.
33. The approach to performance management can better support the direction of travel for the council. As well as monitoring and managing service performance and the delivery of projects, a stronger people focused approach to managing performance should be adopted. This may include making individuals accountable through the appraisal process for the achievement of cross-team goals and having more outcome orientated goals.
34. Understanding the capacity needs of the changing organisation is difficult. The creation of additional programme management capacity through the planned organisational restructure will be beneficial. However, most of the capability to manage the change process will come through the development of middle managers to consistently adopt new skills like programme management, leading colleagues through change, commissioning and different kinds of partnership working.

35. The council is currently strongly focused on a new proposed organisational structure. It is not the role of the peer team to examine and comment on the detail of these proposals. However, it will be important to emphasise that any changes which take place to the organisational structure need to ensure effective lines of accountability, foster cross-functional working and create sufficient corporate capacity for the council to manage the transformation effectively.
36. The council has created a business intelligence function. Greater exploitation of this could mean using data matching to generate savings. For example, working with districts/boroughs to create a single person discount, tackling concessionary fares and blue badge fraud. National funding is available to support the development of anti-fraud initiatives. Giving access to financial and HR data to support the analysis of transformation opportunities is likely to pay dividends. A move to more predictive business intelligence would also build the evidence base to enable early interventions, for example, to prevent children being taken into care.

Finally, we would like to thank colleagues and members at Lancashire, especially Paul Bond and Michael Walder for their support in the lead up to the peer challenge and during the challenge itself. The council embraced the challenge positively and supported the process well.

Further on-going support is available through the Local Government Association's Principal Advisor, Gill Taylor (email: [gill.taylor@local.gov.uk](mailto:gill.taylor@local.gov.uk), tel: 0778 9512173). Gill will liaise with the authority in the coming months to explore specific issues the council may wish to be supported on.

## **Report contact**

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