

Creating sustainable change and delivering organisational viability - lessons from the UK

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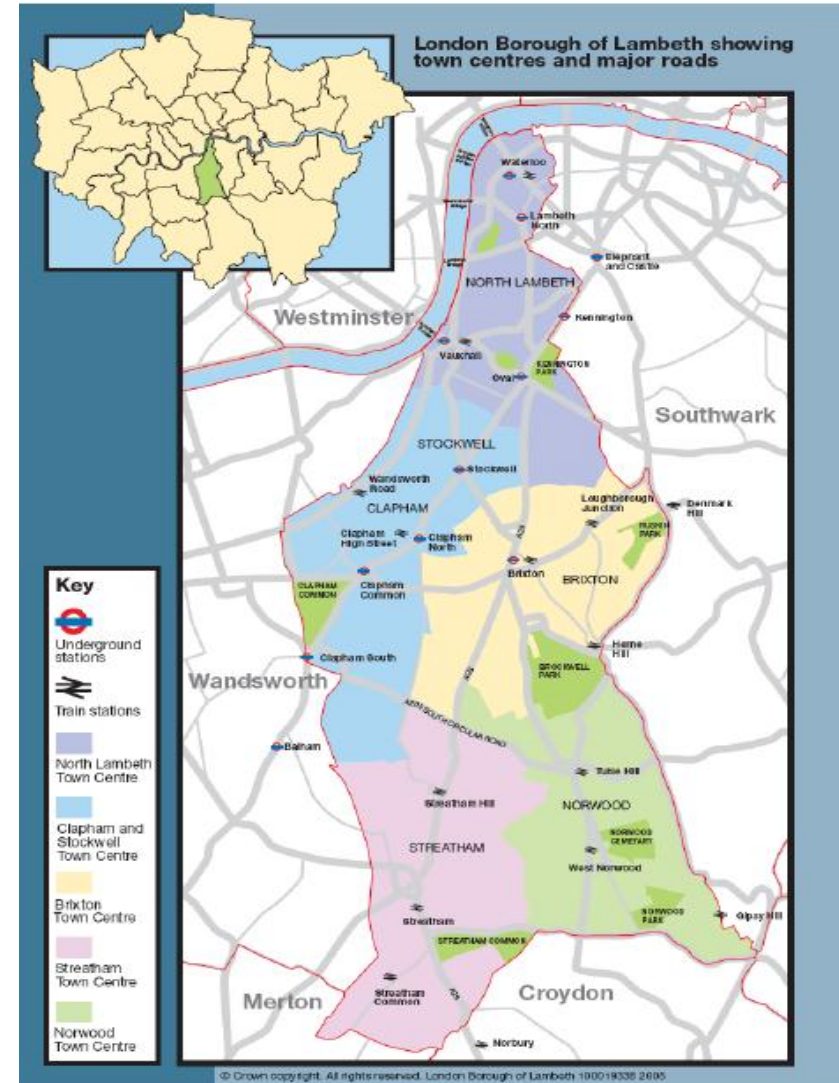
Presentation structure

- Lambeth – key facts
 - Internal: Creating sustainable change and delivering long-term solutions for services
 - External: Responsible economic development & regeneration
 - A framework for long-term sustainability
 - *Case Study – Drakenstein Municipality*
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Lambeth - key facts

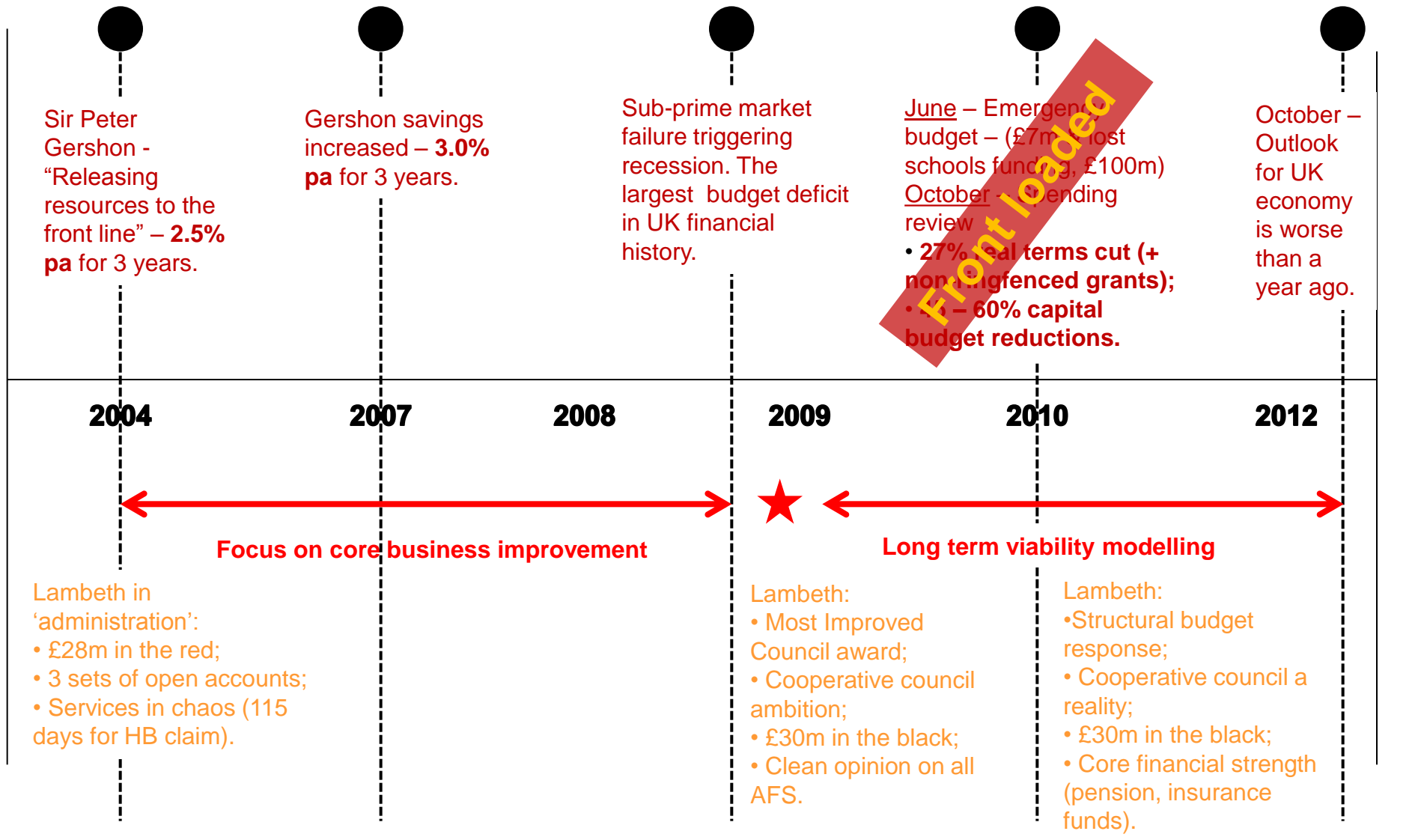
Lambeth – key facts

- **3rd largest** (of 33) **London Authority** - annual budget of £1.7bn & balance sheet of c £3bn.
- Population of **c300,000**;
- **Compact area**: 10.5 square miles
- 5th most **deprived** borough in London and 19th most deprived in England
- **38%** of Lambeth's population are from **ethnic minority backgrounds** - youth population is significantly diverse
- **5th highest rates of population change** nationally - 12% arrive and 13% leave each year
- **c 500 services provided** – in/direct, advice, etc.
- **130 (+) languages** spoken in schools
- **11,000 businesses**, 80% of which are small (less than 10 employees)



Internal: Creating sustainable change and delivering long-term solutions for services

UK: timeline of key events



Leading with a clear mandate

- Leadership:
 - Local Labour council vs. national Conservative (coalition) government;
 - “Co-operative council” vs. “Big Society”
- Management :
 - Delivering a new, viable organisation as a response to a long age of austerity (requiring unprecedented skill and ingenuity):
 - to manage the cuts strategically, whilst being aware of social justice values; and to
 - design and create affordable and innovative ways of meeting social needs.
 - Solutions:
 - Tough decision making
 - Rapid restructuring
 - Rapid divestment
 - Major outsourcing
 - Create opportunities

“Creating a co-operative Lambeth means engaging with citizens, together making the right service and financial decisions to ensure community prosperity and pride in the place, today and for successive generations.”

“Delivering a successful Lambeth to the people we serve will and must mean a change to every part of the business, our partnerships and the affordability of services we continue to deliver directly.”

“We need to be creative in our approach, we need to deliver what we say sustainable finances are fundamental to the mission...”.

The role of the CFO –

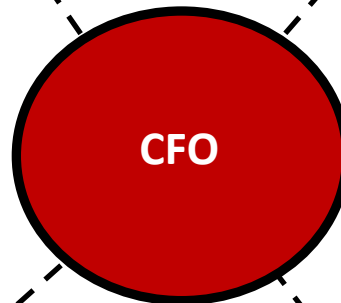
Catalyst: *stimulating* the wider organisation to execute the changes necessary to support the effective performance of the steward, operator and strategist role

Steward: *providing* control over the organisation's assets, ensuring it meets its compliance obligations and directing the management of risk

The CFO has the difficult task of bringing all of the different disciplines, people and processes together in a seamless finance function that cannot afford to leave any capability gaps.

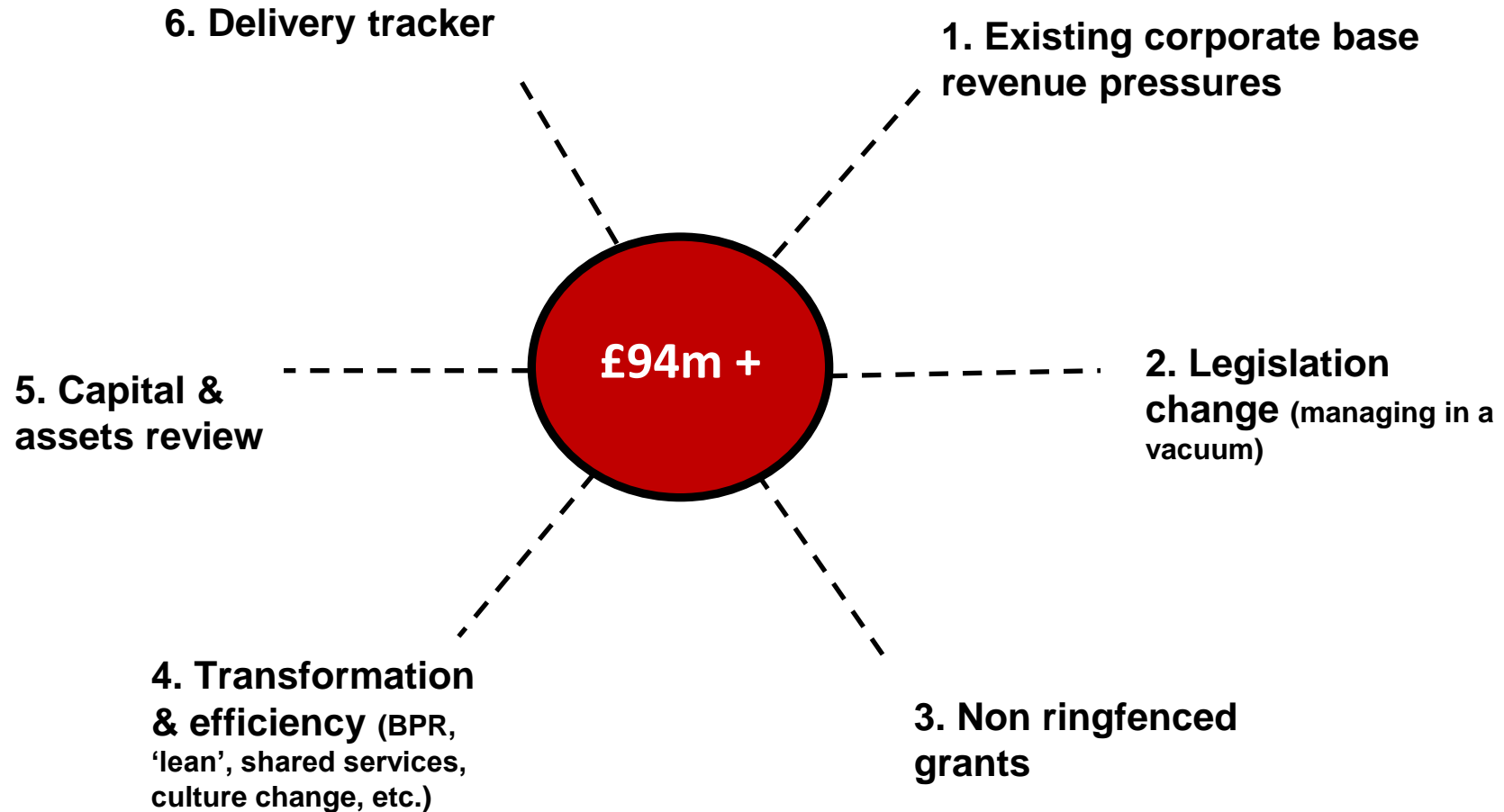
Strategist: *analysing* organisational performance and interpreting financial information to support the planning and execution of strategic initiatives across the organisation

Operator: *delivering* efficient finance processes to support the production of financial information and driving the cost effectiveness agenda across the organisation.



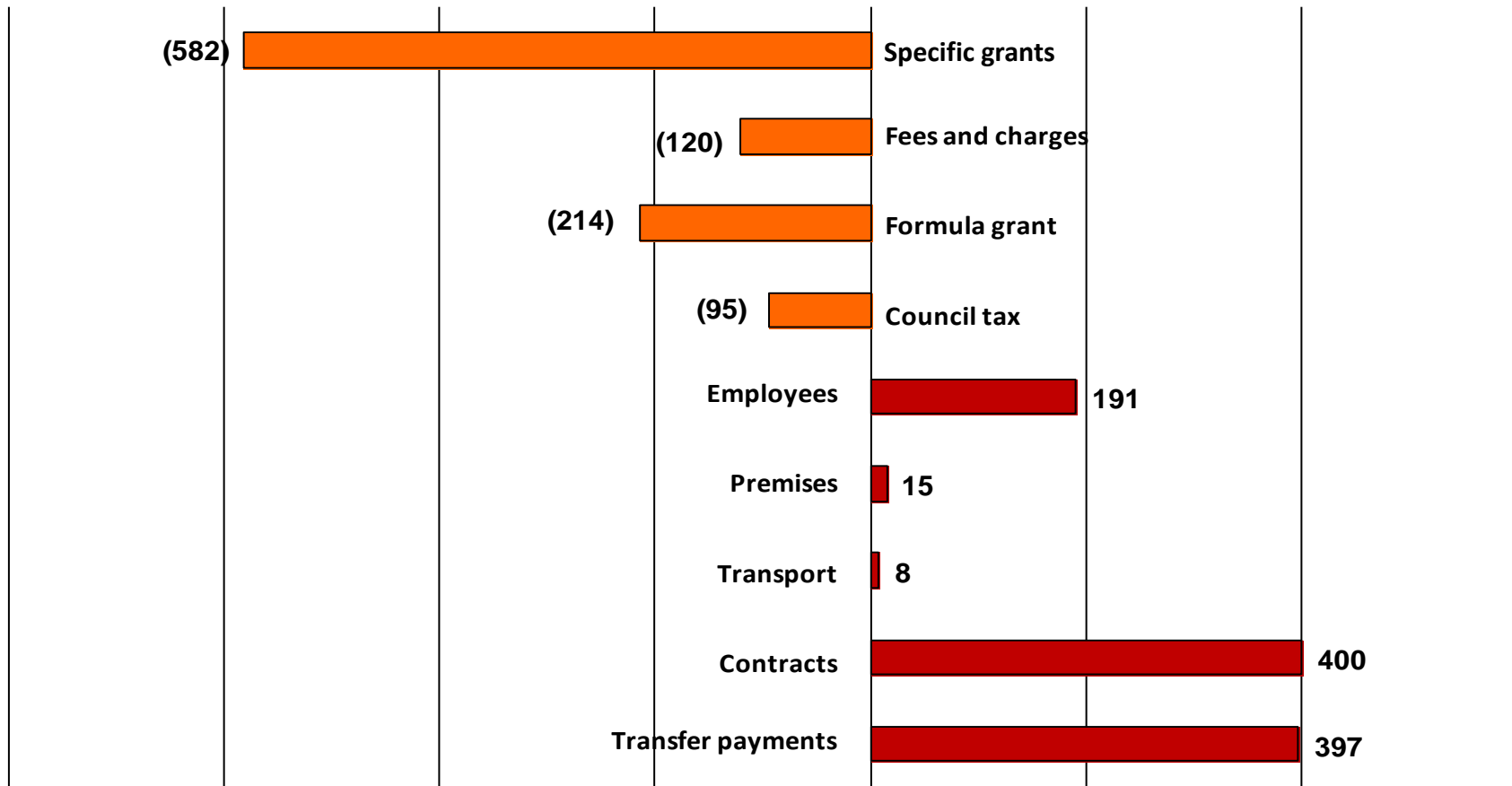
Lambeth's approach to the problem –

1. Managing the financial burden (revenue)



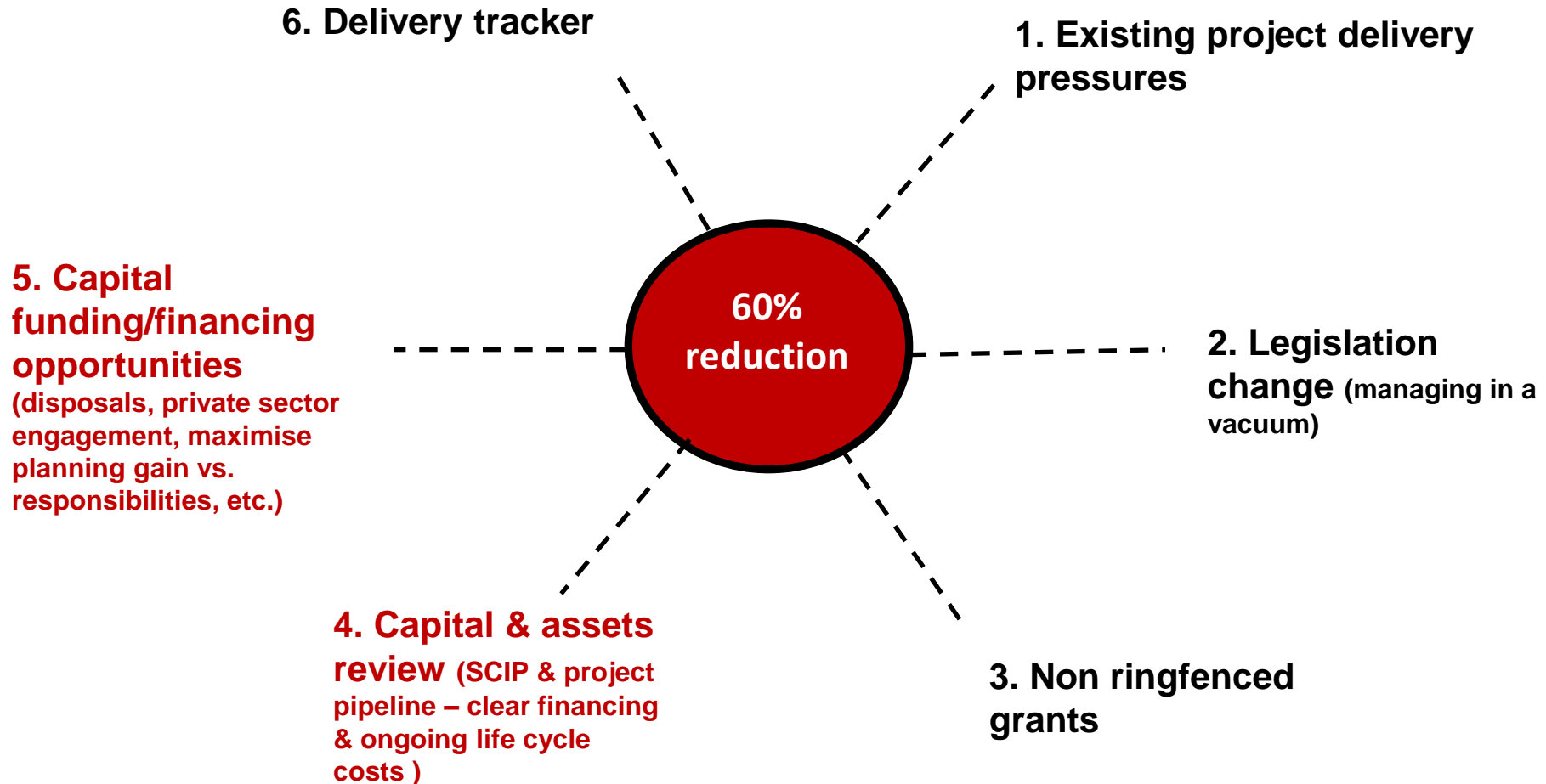
Lambeth's approach to the problem –

2. Understanding the money – income & expenditure



Lambeth's approach to the problem –

3. Managing the financial burden (capital)



Lambeth's approach to the problem –

4 a. Understanding the balance sheet

Know your balance sheet

- Materiality of values
- Impact on service delivery
- Past experience
- Degree of external scrutiny
- Degree of subjectivity

Assess your practices

- Are current practices effective?
 - Are potential BSM impacts routinely considered?
 - When was the last time you formally assessed your approach?
 - Is BSM on your Board's radar?
-

Lambeth's approach to the problem –

4 b. Managing the balance sheet

Balance sheet component	Current balance	Materiality		Criticality of area to operational delivery	Past experience	External scrutiny	Judgement area where expertise is required
		B/S values	Impact on operating costs				
Tangible assets	1,447						
Intangible assets	207						
Investments	322						
Stocks	101						
Debtors	310						
Cash & Bank	155						
Creditors	137						
Provisions	85						
Reserves	65						

High materiality / significant area of focus

Medium materiality / significance

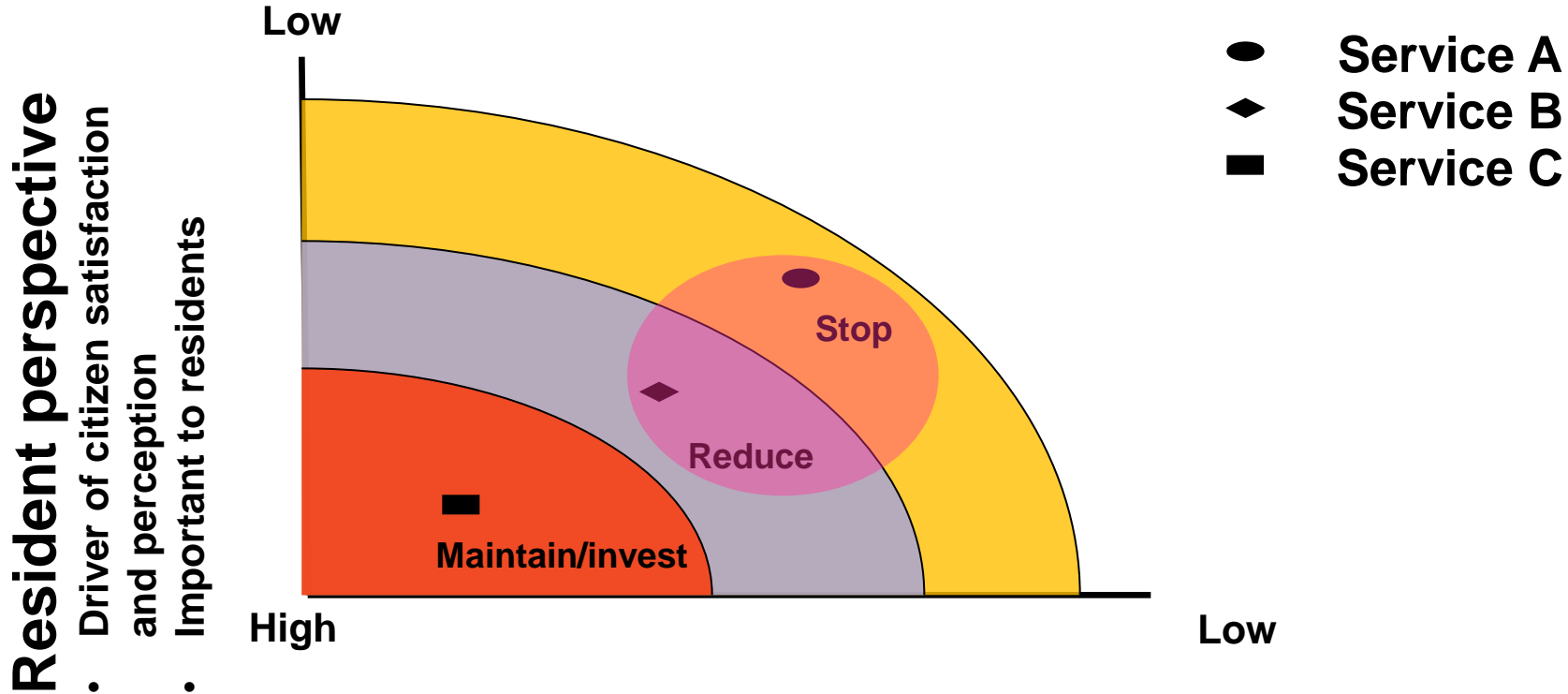
Low materiality / significance

Lambeth's approach to the problem –

4. Other areas of finance

- All areas other of financial resources were reviewed:
 - Usable reserves, provisions & balances
 - Actuarial valuations:
 - Pension fund contributions
 - Insurance cover and reserve
 - Fees & charges benchmarking, saturation analysis
 - Opportunities to restructure long and short term assets (debtors, investments, etc.) and liabilities (borrowing, creditors, etc.)
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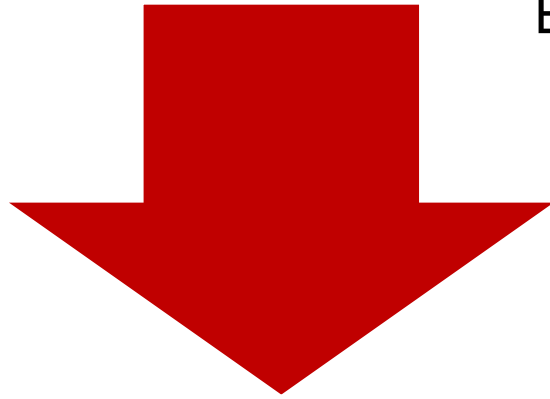
Making the 'best' function decisions



Service perspective

- Targeted & preventative
- Professional risk
- Statutory
- Financial implications

Managing the regulatory environment to deliver the new organisation



External environment:

- Political leadership clash;
- National finances fall into crisis;
- Increased demand for services and financial assistance;
- The expense and time to deliver technology solutions;
- Pace and complexity of regulatory change;
- Delivering with an environmental conscience.



Internal environment:

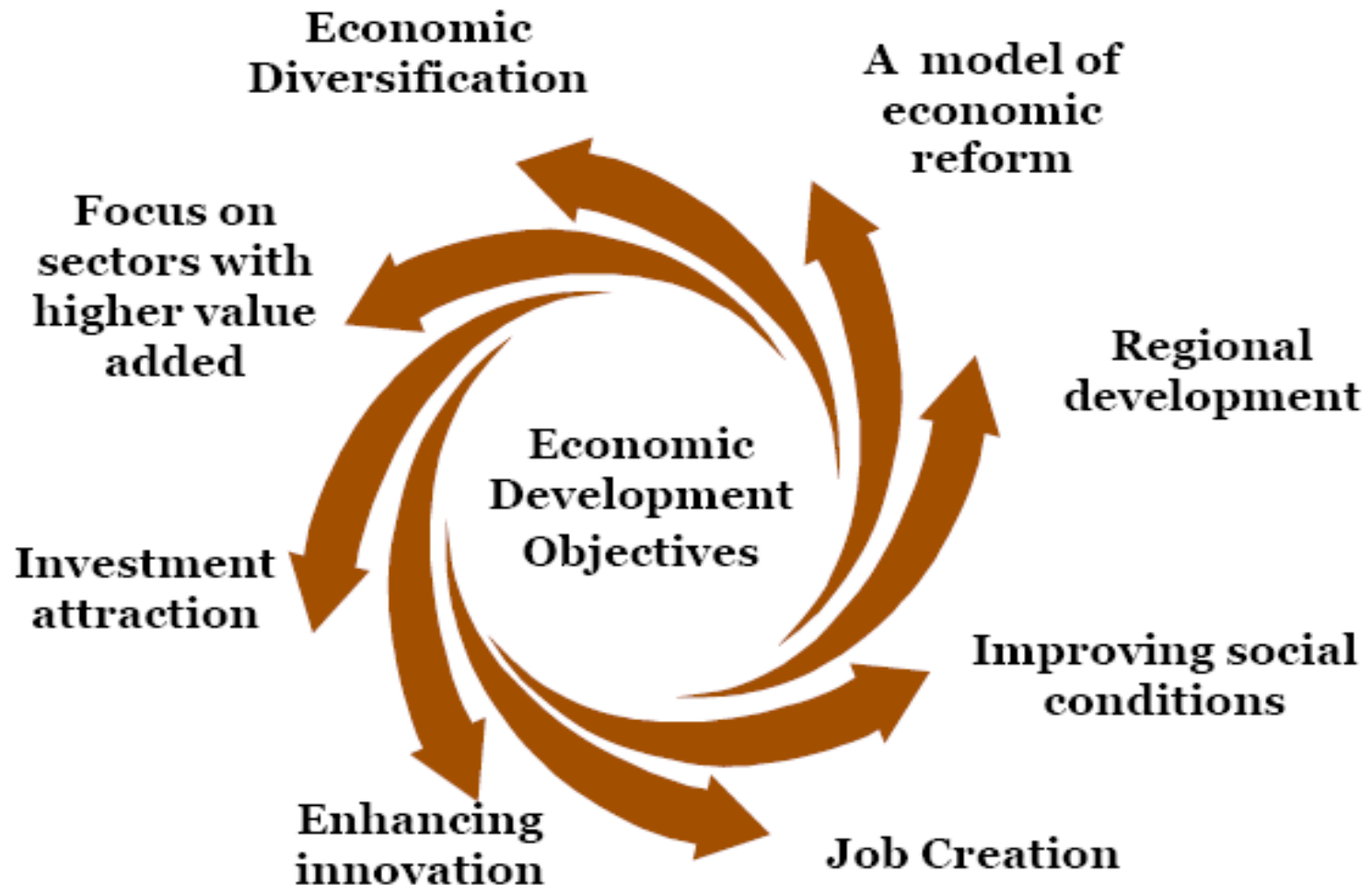
- Alignment of political and financial leadership;
- Understanding the current financial position vs. requirement, risk exposure vs. any possible leveraged investment opportunities;
- Make/Buy decisions based on community need;
- Creating a cultural change imperative, culture change and a consistent communication message;
- Keep the customer at the heart of the change.



Lambeth: UK's worst to best in 7 years

External: Responsible economic
development & regeneration

Sustainable economic development aims at multiple objectives

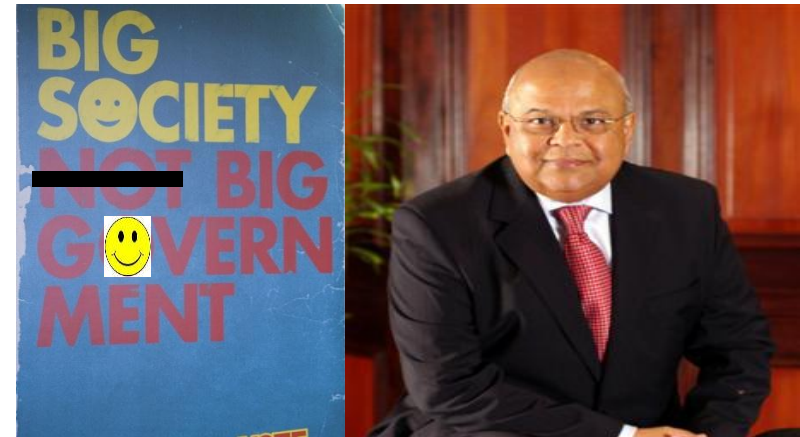


The Politics – UK & SA



The stated priorities are:

- 2010 Spending Review – prioritise public capital investment towards infrastructure that supports growth;
- 2011 Autumn statement - additional investment & “..government will use all tools at its disposal to facilitate the private investment that will finance the majority of the UK’s infrastructure.”;
- ✓ Annual infrastructure investment increased (by £4bn) to £33bn between 2010 and 2012. Primary drivers energy & transport.
- To build investor confidence an infrastructure pipeline (of 500 projects, approx. £330bn to 2015) has been published.



The stated priorities are:

- ‘Unity in action’, ‘active citizenry’ and ‘cooperative...order’
- Fundamental shift (after two decades) away from social services spending, instead, creating an emphasis on infrastructure, employment & economic growth
- ✓ Connecting the layers of government, identifying economic nodes, development corridors and engage with investors;
- ✓ R825 billion approved over the next 3 years – 17 SIP’s
- ✓ The current deficit – new borrowing to finance investment not consumption.

Economic regeneration in Lambeth

Future Clapham

The development provides a new library, leisure centre and affordable homes. The scheme, is **an innovative, award winning public, private partnership.**

Streatham

The development will provide world class leisure facilities, affordable homes and retail space. A negotiated **land swap, private sector investment and public sector funding.**



North Lambeth

Transfer of land ownership into a trust that invests in community facilities. A **Community Service Agreement** tied to a **conditional lease** protects public funds.

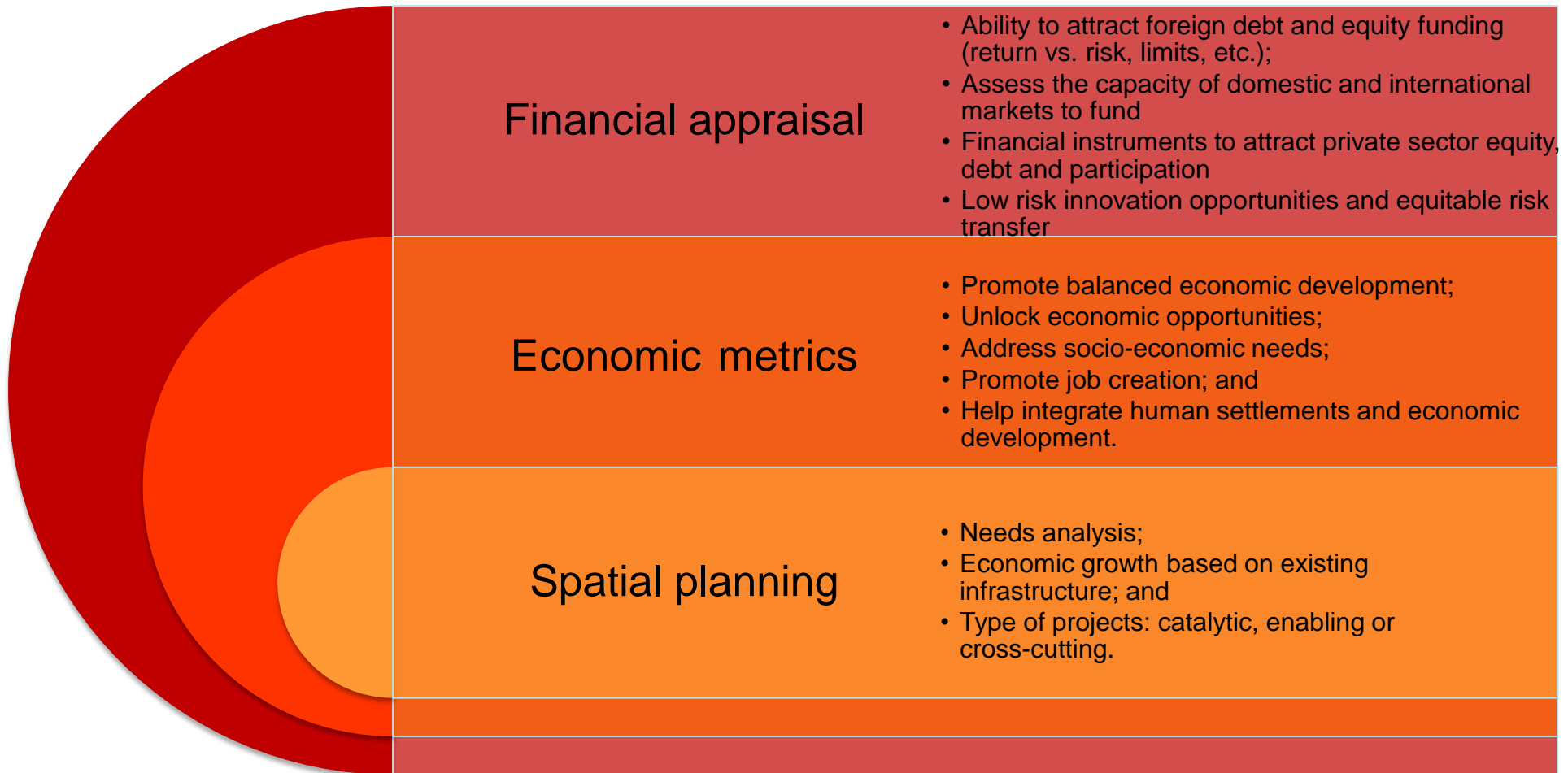
Brixton

A **new transport interchange** enabling safer, clearer routes through the town centre, new public space and **private sector led** council accommodation redesign.

Norwood

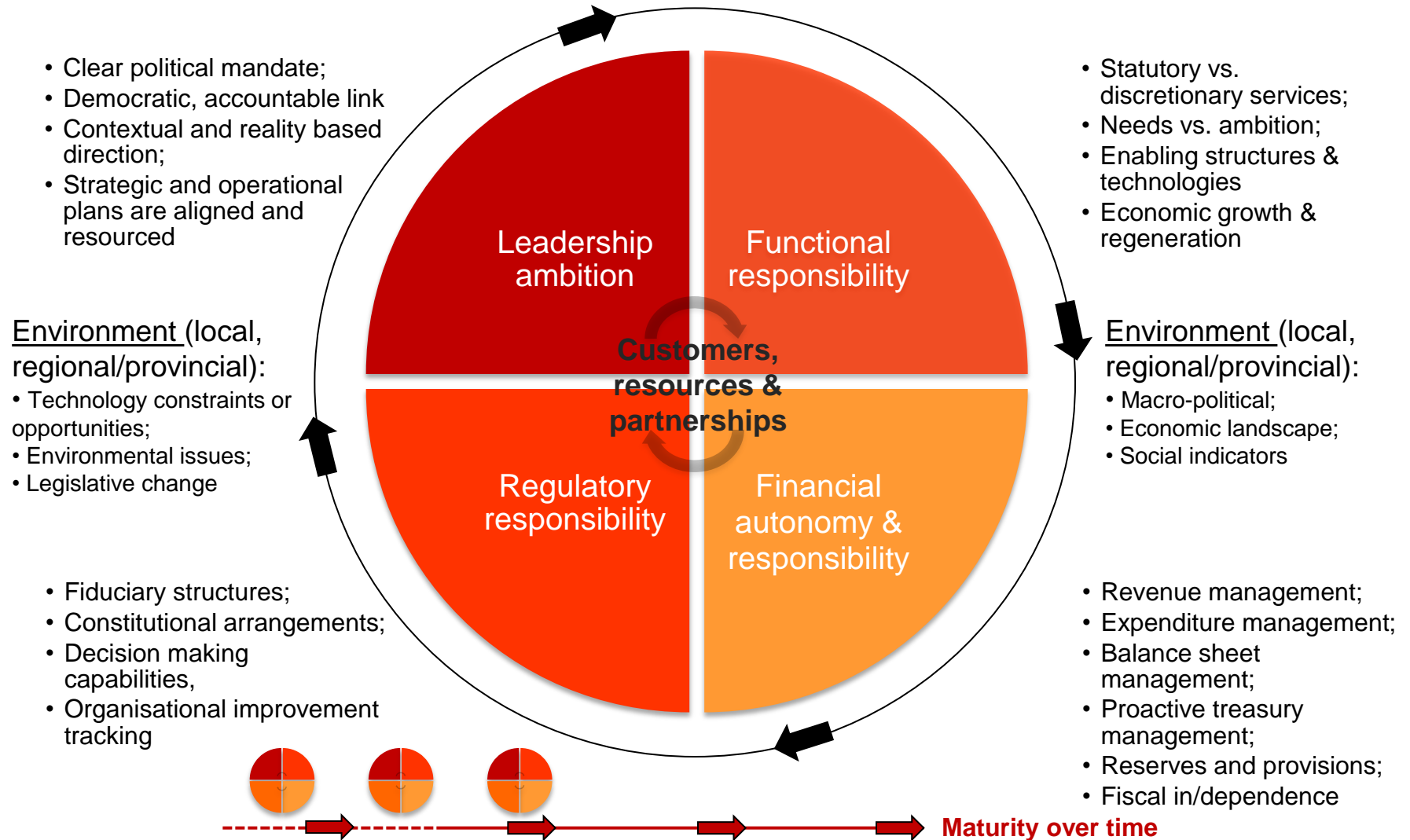
Community health and leisure facilities provided from an **underused site using PFI credits.**

What are the component parts?



A framework for long-term sustainability

A framework for long-term sustainability



Case Study – Drakenstein Municipality

Drakenstein – Environmental analysis

Summary:

- **DLM are internally focused (drivers for growth, stagnant/shrinking sectors)**
- **Macro-environmental impact on DLM?**
- **External opportunities:**
 - ✓ **Positive sector growth,**
 - ✓ **Emerging small business strength,**
 - ✓ **Infrastructure networks (road, rail),**
 - ✓ **Proximity to Cape Town (link planning priorities, etc.),**
 - ✓ **Private sector involvement (residential and), and**
 - ✓ **Homogenous demographic.**

- Opportunities for homogenous service design (incl. VfM focus) across consistent demographics,
- Strategic service and organisational planning opportunities as a result of high level of certainty around population makeup, and
- New/alternate service delivery opportunities given clear consistent population growth and segmentation (gender, households, etc.) specifically age (77% below age of 44, 7.5% at retirement age +).

Current position:

- Impact of the macro-environment (political, economic, etc.): Clear analysis with risks (unemployment, inflation, reduced household disposal income) and opportunities (proximity to City of Cape Town, road and rail networks, etc.).
- Understanding the growth sectors: limited (sustained positive growth in tourism, agriculture & business services).
- Growth of new or stagnant sectors: limited (small business opportunity and other socio-economic development).
- Consistent population trends: limited (housing density programmes).
- Population segmentation: limited (youth and youth development).

Future focus areas:

- Understanding the growth sectors:
 - New institutional structure to focus and drive research,
 - Developer, business and other forums to improve democratic engagement, encourage investor confidence (private sector funding contributions) and accelerate pace of change, and
 - Strengthen IDP focus for sector growth, particular alignment to New Growth Path (rural development, green economies, etc.).
- Growth of new or stagnant sectors:
 - Opportunities to continue to link planning priorities to City of Cape Town,
 - Recognise small business sector growth - encourage local small business opportunities through SCM by 'unbundling' contracts, and
 - Strengthen IDP focus – support growth initiative or accept sector withdrawal in DLM.

Drakenstein – Leadership Ambition

Summary:

• Current:

- ✓ Strong EMT/political alignment
- ✓ Ambitious IDP (risks: projects focus, skills, organisation structure, etc.)
- ✓ Alignment of resources?

• Opportunities:

- ✓ Align financial and strategic planning,
- ✓ Cooperative governance alignment (total public funds spent, democratic link, etc.)
- ✓ Explicit 'fit' with NGP objectives,
- ✓ Project prioritisation (consistent approach, risk management, financial ratio's, etc.), and
- ✓ Governance (EMT oversight, etc.)

○ Strategic and operational plans are aligned and resourced:

- Opportunity to explicitly align SDBIP and DLM's budget (opex and capex),
- Opportunity/imperative to keep plans under constant review (decisions, pace, consistency, financial implications, project/scope changes, etc.)
- Consider project governance opportunities (EMT for large and or cross cutting projects, Directorates for specific projects) driving consistency of approach, and
- EMT to keep under constant review – progress against the overall plan, mindful of capacity and skills requirements.

Current position:

- Clear political mandate. “A place of excellence”. Strong EMT/political alignment and leadership. Clarity on democratic accountability.
- Contextual and reality based direction: clear but complex and ambitious IDP with risks (strong internal business growth and control focus but limited on external role, e.g. industry sectors, socio-economic regeneration, budgetary assumptions in later years, etc.).
- Strategic and operational plans are aligned and resourced: clear alignment (IDP, SDBIP, etc.) of plans with significant capital project focus. Limited in terms of the alignment of resources within the SDBIP.

Future focus areas:

- Clear political mandate:
 - Opportunity to specifically align KPA's within the IDP to the New Growth Path (foster rural development, leverage social capital, green economies, etc.) and lobby government tiers, and
 - Ongoing efforts to align cooperative governance through the IGR framework. Specific focus and opportunity for financial alignment (combined *total* public funds spent in DLM, etc.).
- Contextual and reality based direction:
 - New institutional structures specifically underpin IDP ambition. Opportunities to prioritise projects (risk appetite, cashflow and other financial viability ratios, 'pump-priming' projects, etc.), and
 - New institutional focus and project management capacity to drive consistency of project approach (definitions, templates, etc.) and , implementation pace whilst ensuring outcomes are as expected through the IDP direction.

Drakenstein – Functional Responsibility

Summary:

• Current:

- ✓ New organisational structure (risks: project focus, etc.)
- ✓ capacity/skills, middle management vacancies (esp. Finance)
- ✓ Core value chain management risks (PDO, laws & regs. etc.)
- ✓ internal focus (pace of economic development, etc.)

• Opportunities:

- ✓ New organisation structure to respond to vacancies, un-balanced occupational structure, etc.,
- ✓ Drive socio-economic research, update developments environment, democratic engagement and financing opportunities,
- ✓ Improved conformance and value chain management, and
- ✓ Full service review (revenue protection -> growth, new models – consistent population demographic, VfM and expenditure management, affordable investment funding (revenue surpluses, etc.).

Division	Project	Programme	Activity
Office of the Municipal Manager	6	3	2
Strategic Services	12	18	4
Social Services	203	9	6
Infrastructure & Planning	193	10	5
Financial Services	11	11	12
Corporate Governance	34	4	8
Total	459	55	37

• Current position:

- Organisational structure and design: New structure, operating procedures and workflows. Improved occupational structures (balanced). Strong EMT but vacancies at middle management. Skills audit across all organisational levels to be completed.
- Core values chain management: mixed with key risks.
- Organisational project focus: limited (new structure, capacity and some existing skills – e.g. MayCo responsibility and alignment).
- Economic growth and regeneration: limited (identified projects – CBD development, Mbekweni interchange, etc..).

• Future focus areas:

- Organisational structure and design:
 - New organisational structure & capacity (improved occupational balance) to drive IDP implementation. Opportunity to improve talent acquisition, management, development & planning. Recruit to key vacancies (specifically finance).
- Core value chain management:
 - Project delivery and organisational excellence *rely* on an improved core business focus and value chain management.
- Organisational project focus
 - DLM must create consistent project methodology (definitions, frameworks, templates, reporting mechanisms, etc.), and
 - Project prioritisation and modelling (which projects, when, the level and timing of funding required, benefits realisation, etc.)
- Economic growth and regeneration:
 - Update original business cases for current position & review legitimacy of existing agreements, engage democratic processes, encourage external (private) funding and update reporting mechanism (risks, affordability, etc.).

Drakenstein – Financial responsibility

Summary:

• Current:

- ✓ Stable revenue management with limited expenditure management,
- ✓ Capital programme is ambitious,
- ✓ Limited balance sheet & treasury management, and
- ✓ no position on financial in/dependence

• Opportunities:

- ✓ Revenue protection (5 services, appetite and tariff affordability) & growth (collections focus, impact of projects, FBS, etc.),
- ✓ Expenditure management ('fat', silo's, ZBB, new service models, etc.)
- ✓ Capital programme (SCIP, prioritisation model),
- ✓ B/S management (assets held impact assessment),
- ✓ Treasury management (investment vehicles, debt restructuring, etc.), and
- ✓ Financial in/dependence (grant maximisation, model unfunded mandates).

➤ Opportunities to restructure long and short term assets (debtors, investments, etc.) and liabilities (borrowing, creditors, etc.).

➤ Opportunities to engage the private sector.

○ Financial in/dependence:

➤ Opportunities to maximise government grant programmes (opex and capex).

➤ Modelling and assessment of unfunded mandates specifically.

○ Other:

➤ Time taken to change budgets/funding at provincial/national level.

➤ Educate EMT on strong financial governance.

Current position:

- Revenue management: stable revenue platform with risks (budgetary, equitable share/tax base, etc.). Limited expenditure management.
- Capital programme: is ambitious with risks (maintenance vs. new investment, prioritisation modelling, etc.).
- Balance sheet review: limited (borrowing capacity and affordability)
- Treasury management: limited (cashflow - consumer deposits).
- Reserves & provisions: limited
- Financial in/dependence: clear understanding with opportunities (lobbying for unfunded mandates, libraries, etc.).

Future Focus areas:

○ Revenue management:

➤ Revenue protection & generation programme (every property has 5 major services linked, appetite and tariff affordability assessment).

➤ Improved collections focus (current tariff/collections modelling, FBS impact modelling including future impact of projects on the tax base and service demands – specifically unfunded mandates).

➤ Expenditure modelling – review/identify areas of 'fat', reduce 'silos' – divisions affected by e.g. new meter connection, opportunities to create revenue surpluses to fund (sustainable) capital investment, ongoing move to ZBB programme and productivity analysis), new service delivery models..

○ Capital programme:

➤ Strategic capital investment programme – prioritisation model (need vs. ambition, affordability, profiled cashflow requirements and impact on other treasury indicators).

○ Balance sheet management:

➤ Assets held impact assessment – (required for service provision? revenue consuming vs. generating assets)

Drakenstein – Regulatory Responsibility

Summary:

• Current:

- ✓ Policies, strategies & plans are current and approved,
- ✓ By-laws are included in the municipal code,
- ✓ Limited effectiveness of IGR framework,
- ✓ Improving PM systems, and
- ✓ Limited coverage, integrity relevance of risk management techniques.

• Opportunities:

- ✓ Keep policies, strategies & plans under review (changing operations, changing interface – org and it's environment, dynamic external environment, etc). Demonstrate alignment (project -> programme -> plans -> policies -> strategies),
- ✓ Ensure by-laws are kept under review (maximise organisation opportunities under law),
- ✓ Risk management (culture, appetite, systems & reporting),
- ✓ PM (review target volumes, accuracy, resources, consistency of reporting & customer view).

place.

- DLM should review all targets and the required resources to ensure accuracy, deliverability (e.g. Km's of road developed rather than budget spent) and confidence in the plan (AG places reliance, on the annual performance report, etc.).
- DLM should encourage consistency (style – e.g. project focus, quality, etc.) of reporting across the organisation, and
- Opportunity to ensure 'home grown' development and relevance of reporting (e.g. create a community/ward based view) to demonstrate organisational growth and improvement (both internally and externally).

Current position:

- All policies, strategies & plans are current and approved by council.
- All by-laws included in the municipal code.
- Effective IGR framework and forum: limited (arrangements are in place).
- An effective performance management system is in place with risks (quality and consistency of reporting).
- Coverage, integrity, relevance and usefulness of risk management techniques: limited (arrangements are in place)

Future Focus areas:

- All policies, strategies & plans are current and approved by council:
 - Opportunity to keep under review (in recognition of a changing organisation operating in a dynamic environment) to ensure they reflect the organisational position, and
 - DLM must ensure alignment between these and the planned IDP projects (i.e. which projects are enable by which strategies) and where necessary update them for project realities (e.g. An amendment to a strategy is required given a particular project issue, etc.).
- All by-laws are included in the municipal code::
 - Opportunity to keep under review whilst ensuring that they maximise their organisational behaviour within the by-laws framework.
- Coverage, integrity, relevance and usefulness of risk management techniques:
 - New organisational structure creates specific governance and risk focus. This should drive consistent coverage (all Directorates), integrity (quality) and relevance (keeping track of the right issues),
 - EMT must *live & use* risk management reports to track and manage organisational issues, and
 - DLM leadership (EMT and councillors) should agree their risk appetite (i.e. their risk tolerance).

Questions