

Report of: Chief Executive

To: Executive Board

Date: 6th November 2006

Item No:

Title of Report : Changing the Council; using systems thinking to improve our services



Summary and Recommendations



Purpose of report: To request major project approval and delegated powers to award a contract to introduce the Council to new ways of organising our teams and their work to deliver excellent customer service using systems thinking

Key decision: YES

Portfolio Holder: Councillor John Goddard

Scrutiny Responsibility: Finance Scrutiny Committee

Ward(s) affected: All

Report Approved by:



Councillor John Goddard, Portfolio Holder



Coline Bull, Chief Executive

Mark Luntley, Strategic Director of Finance and Corporate Services



Michael Lawrence, Strategic Director of Housing, Health and Community

Jeremy Thomas, Legal and Democratic Services



Paul Fogden, Financial and Asset Management



Policy Framework: Oxford City Council Corporate Plan

- Ensuring better and more efficient services

Recommendation(s):

That the Executive Board agrees to:

- 1. Grant major project approval to this project**
- 2. To give delegated powers to the Chief Executive to award a contract to an agreed supplier selected as a result of restricted tender process in accordance the EU procurement regulations. The contract will be for up to 2 years starting in January 2007 up to a value of £450,000 including expenses. The progress on the contract will be subject to securing sufficient funds as set out in this report**
- 3. Agree to treat this project in 2007/08 and 2008/9 as a corporate bid to be considered by Executive Board and Council as part of this year's budget round**

BACKGROUND

- 1 In June 2004, based on an audit earlier in that year, Oxford City Council was assessed by the Audit Commission through the Comprehensive Performance Assessment process as “weak”, on a scale of “poor” to “excellent”. We aimed to move up that scale in subsequent inspections, through “good” by 2007, to “excellent” by 2009.
- 2 The Audit Commission considered that there were significant weaknesses in the quality of our services and our capacity to achieve our ambitions and priorities. They judged that the council's performance was below average when compared to other councils based on national performance indicators and that our user satisfaction figures placed us in the worst 25 per cent of councils nationally.
- 3 The Executive Board received a report in 13 June 2005 explaining that the Council faced the challenge of making fundamental changes to the way that it provided services and Executive Board agreed that we needed to design services around our customers and maximise the potential for central services and new technology to support new and more efficient ways of working. This would help the Council to:
 - Meet the public's changing expectations of their Council
 - Demonstrate to Central Government improvements in cost, quality and access to services.
- 4 The Council bid and won a substantial capacity improvement grant from Government, set up an Improvement Board and engaged an ODPM approved improvement partner – Gatenby Sanderson (GS) – to

diagnose the Council's issues and opportunities as the basis for moving forward to meet these challenges.

- 5 The focus of Gatenby Sanderson's work with the Council was on personal development of staff and members, eg leadership skills, creating teams that work, improved interpersonal skills etc. Much of this has had a restorative effect on the organisation evidenced by the positive report received from the Audit Commission following our June 2005 Direction of Travel assessment. The Commission noted that there was a strong improvement focus at all levels in the Council, that we were self-aware of the challenges ahead but only making gradual progress.
- 6 During the last three years the Council has improved its BVPI ratings and has made notable improvements in some services, for example rent collection, payment of invoices, time to re-let housing, speed of processing planning applications and land charge searches. Other areas made good improvements in the first year but now appear to have hit a performance plateau, eg Council tax collection, benefits payments and business rate collection, or even worse have started to slip back, for example sickness absence rates. Whilst the number and type of BVPI targets has changed over the years, the following table shows that we have not seen the step change in performance that has been looked for and is needed.

	Oxford City's quartile position			
	Top			Bottom
2002/03	20%	11%	38%	31%
2004/05	22%	39%	24%	15%
2005/06	30%	20%	24%	26%

- 7 Our inability to make sustained, across the board improvements to our services damages the Council's standing in the community, limits our ability to appear as credible partners to other organisations and impacts adversely on staff morale.
- 8 Staff teams are committed to improving, want to deliver excellent service and are working very hard but we still seem unable to make the necessary step change. The focus on staff and member development has been very important because it has released an energy and enthusiasm to take the improvement agenda forward, however the Council has tried lots of improvement initiatives, none of which has yet delivered sustained change. We need to provide our teams with a new impetus and a conviction that sustained improvement can be achieved before the organisation reverts and begins to once more doubt its own ability to improve.

SYSTEMS THINKING

- 9 Systems thinking provides the means to improve the way we work. It helps us understand customer demand and the way we work as a

system. It leads to the design and management of work from the customer's perspective by focussing on those steps that add value to the customer. The sound application of these principles always leads to reductions in the number of steps, reductions in end-to-end time, reductions in waste and duplication, improved service and reduced costs. All this cannot come about without leaders and managers adjusting their thinking about the organisation of work and their systems.

- 10 The ideas behind what is now termed Lean or Systems Thinking were originally developed in Toyota's manufacturing operations - known as the Toyota Production System - and spread through its supply base, distribution and sales operations in the 1970s and 1980's. The underpinning values of removing activities that don't add value to the customer lie at the heart of this approach and there has been a significant, and widening, performance gap between the Japanese and western automotive industries since then, which understandably attracted a lot of attention from those keen to improve performance in other sectors. Many manufacturing firms in several industries in North America, Europe and Japan have now followed this path and have doubled their performance while reducing inventories, throughput times and errors reaching the customer by 90%.
- 11 Service is different to manufacturing. In simple terms there is inherently greater variety in customer demand and customers often change their requirements throughout their transaction, so care is needed when applying these principles to design systems that can respond very flexibly to absorb that variety. This means that service organisations should avoid the 'tools' developed for 'lean manufacturing' as they don't apply well in this sector.
- 12 However much effort has been expended over the last 10-15 years to adapt the methodology for the service sector and it has since been applied in many service environments, including Local Government, with staggering improvements in quality and efficiency, for example:
 - St Edmundsbury Borough Council cut their average time to process planning applications in half from 56 days to 31 days
 - Torrington District Council cut average benefits time from 127 days to 40 days
 - Milton Keynes cut average placement of homeless families in appropriate and sustainable housing from 126 days to 36 days
- 13 The Directors have visited one authority meeting many of their teams and the Chief Executive and Directors have talked to several other authorities about their experiences. We have found that wherever these principles have been robustly applied and supported by good leadership, that they always lead to reductions in the number of steps, reductions in end-to-end time, improved service and reduced costs. We also learned that the application of systems thinking has the enormous benefit that, because the people who do the work are

engaged in understanding it from a different point of view and changing it, that morale improves dramatically. Moreover, because these authorities have taught the people who actually do the work the methodology to adapt to changing demand, we learned that this not only delivers a new level of performance but an ethic and the means for continual improvement.

BUILDING CONTROL PILOT

- 14 This steady stream of impressive results and encouragement from the Government Office and the Audit Commission persuaded the Chief Executive and the Directors to run a pilot in Oxford City Council. After scoping several services we selected Building Control as it offered many benefits; the team had put many improvements in place over the past few years and were enthusiastic to try out new methods, the service was transactional or demand led (customers contacted us for the service) and so it would be simpler to analyse, Building Control provided service to a limited number of customers so service disruption posed a lower risk than elsewhere. The other interesting point was that Building Control was considered a well-run service and if the application of this methodology could improve its service, then this would bode very well for potential elsewhere in the Council.
- 15 We started the pilot in Building Control in May. A team of five front line staff were selected and detached from their full time jobs to undertake the check, redesign and roll-in stages of the pilot. The primary strength of this approach is the direct engagement in the change process of people who do the work – the experts.
- 16 “Check” is the first phase of the process and focuses on obtaining knowledge so that when the team embark on redesigning the system, they do this on the basis of data not opinion. The team analysed over 800 customer demands received that month and categorised them into those we wanted to receive, for example “Can I have an inspection?” and those we did not, such as “Where is my completion certificate? (chasing)”. The team found that a fifth of the demands received were generated by a system failure and whilst members might think that this is a high number, the Directors have seen systems in other authorities where this reaches as high as 80%.
- 17 The surprise to the team was the high level at 32% of demand for “Can I have building advice” which we provide free of charge to help customers. The Executive Board will recall that Building Control operates in direct competition with private companies and will appreciate that the public cannot obtain building advice from these companies as they are tightly focussed on plan approval. The Chief Executive and Directors were involved in taking calls during “Check” and it was apparent from customer reactions that this was a valued service and a unique selling point for the Council.

- 18 The team then moved on to mapping the flow of work through the Building Control system and started with the highest demand, which was the combination of “This is what I propose to build/Can I have building advice”. The team mapped this from when the post arrived in the Town Hall to when the customers’ funds appeared in Building Control’s Agresso account. There were 179 steps in this process of which only 3 steps added value to the customer and there were 25 handoffs which increase the likelihood of mistakes, queuing and batching which build in costly delays.
- 19 At the end of “Check” based on the data presented to them, the Chief Executive and Directors agreed that the system should be changed. The team then began a paper- based redesign of the work. The redesign phase utilises the principles of putting experts at the front-end and that same person taking a case from beginning to end, using the most immediate form of communication and only undertaking the value work. The purpose of this phase was to learn how to do one perfectly and to experiment, we specifically encouraged the team to try different ideas and learn what worked and what did not.
- 20 “Redesign” is the next phase and the team recognised if we could remove the demand that is generated by system failure and the non-value steps in our flows they would immediately increase the capacity of the team, improve service time and increase customer satisfaction. The team redesigned the system from 179 steps to 17 and reduced the average time to process a full plans application from 45 to 7 days. This substantial shift in performance, illustrated in Figure 1, is the kind of step change that other Councils have experienced and confirms what that significant improvement in system performance can be achieved in a short space of time.
- 21 Once the redesign was proven the team presented their findings to the Chief Executive and Directors and they agreed to move to the next phase “Roll-in”. There were many areas that were causing the team difficulty and required further action they could roll-in new members to the team, eg as inability to key in data directly into Agresso, inability to take debit card payments, duplication in keying in data to computer packages etc. The Team, Operational Managers and Directors worked together to remove these work obstacles and then the team rolled in two new members from the old system. These two new members are taking well to the new ways of working and both have had customers tell them “This is the best service I have ever had”. As more and more work starts to be pulled into the new system and further members are rolled-in, the old system will be ‘switched off’ leaving only the redesigned workflow in place.

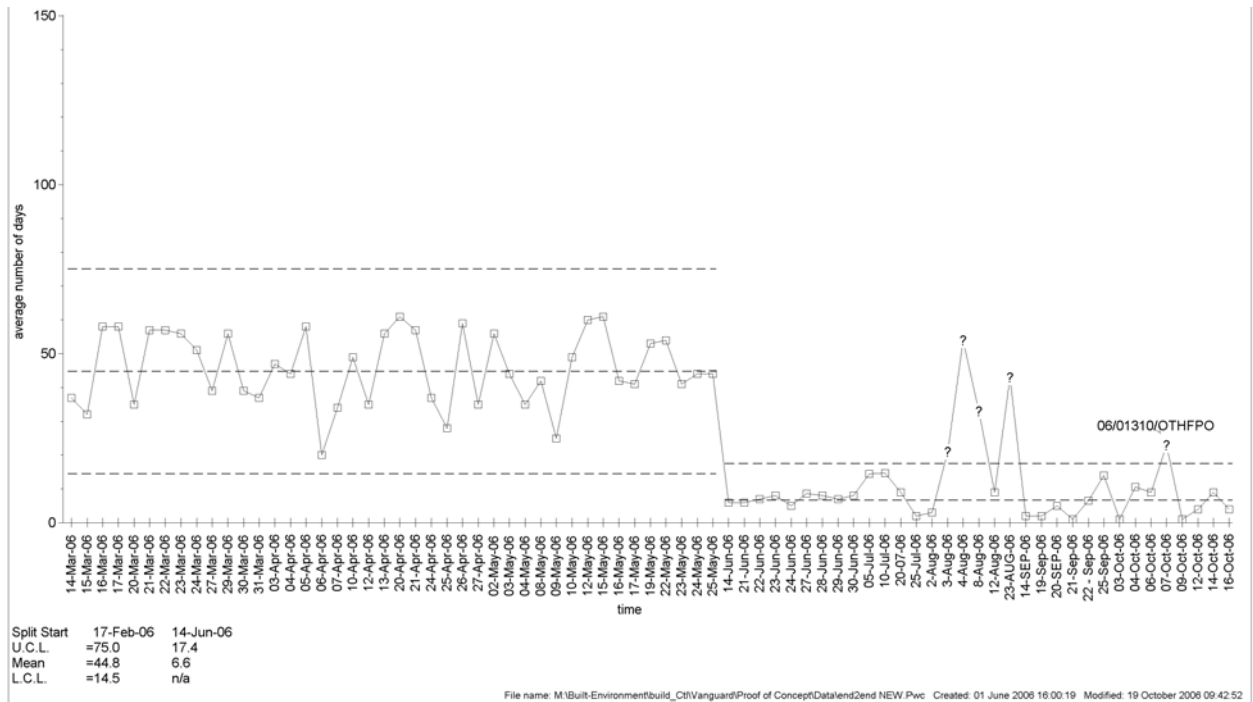


Figure 1 – Plan received to decision made – Old system vs. Redesign

THE WAY FORWARD

- 22 Systems thinking or Lean is an improvement technique that has been demonstrated to deliver a fast and sustainable step-change in performance in other Councils. It fits with this Council's culture of wanting to deliver a tailored service for each customer rather than a one-size-fits-all approach and is a methodology that recognises and uses the talent and skills of our front-line staff. The method trains and releases our staff to improve service delivery to customers, not in a sterile way focused on abstract performance indicators but in a way that deliver what matters to our customers.
- 23 It is critical that we learn from a company experienced in delivering improvements to local authorities, that is both expert in how you make a change and how to analyse and design work. It is also important that this expertise is transferred to Oxford City Council so we can lead future interventions ourselves rather than be dependent on external consultants indefinitely.
- 24 The proposal is to appoint a company with a successful track record in assisting local government in becoming a systems thinking organisation, to undertake this work. We estimate that up to four further interventions would be required to achieve this, led by the Directors and with others' help. The proposition is that the Directors would take a progressively larger role until they are delivering the final intervention with occasional assistance from the consultants.

- 25 There is naturally much interest about which service should be the subject of the next intervention. We need to take action on the service that will have the greatest impact on our customers and because many will have differing views or opinion on this, the decision must be made on the basis of data. The Directors propose undertaking a two week scoping exercise to determine in detail the type and frequency of demand across Business Units, the levels of system failure in each and the consequences of system failure on the customer.

TENDER PROCESS

- 26 The success of the Building Control pilot has inspired other managers to want to become involved with this method of review and improvement. The level of expenditure that may be required to take this forward requires the Council to carry out a tendering exercise using the full OJEU process.
- 27 There are a number of specialist organisations who have assisted both the private and public sector to improve their services using systems thinking. An advertisement has been placed in the Official Journal so that suitably qualified organisations can apply to be considered for this contract.
- 28 The proposed tender timetable is as follows:

Deadline for expressions of interest	- 31 st October
Send out tender documents	- 7 th November
Receipt of tenders and evaluation	- 18 th December
Contract award	- 6 th January

FINANCIAL IMPLICATIONS

- 29 The estimated value of a programme of interventions designed to transfer knowledge and assist the Council become a systems thinking organisation is up to £450,000 over two years, although the work may span three financial years.
- 30 The Chief Executive and Directors have spent some time carefully realigning existing improvement and leadership training budgets from several business units across the Council to fund the implementation of this project. A total of £130k is available to start this work this financial year:
- 31 To continue this work in 2007/08, we are bidding from the next tranche of Government capacity building monies and anticipate that other improvement budgets will come forward within the Council that could be similarly realigned. Even if we were successful in all these areas, this would leave a funding gap of at least £190k. The Chief Executive and Directors will be submitting a bid for this funding for 2007/08 and 2008/09 in the forthcoming budget round.

32 Importantly this is not a cost reduction method, but a new way of organising our teams and the work to deliver excellent customer service. Manufacturing and service companies alike report that, counter intuitively, as quality and customer satisfaction go up, costs do down. Those in private sector service companies, who are furthest in their systems thinking journey, have reported considerable savings as their projects matured, for example:

- RBS saved 10% in their first year
- Friends Provident made £3.2m savings on a £13m budget over 3 years

None of these companies were able to guess or predict savings ahead of project implementation, as the objective of systems thinking is to improve service quality. Costs usually fall but their quantum depends on the particular customer demand, how “broken” the original system is, the extent of redesign and the speed with which an organisation take absorb the required change. This said, the Chief Executive and Directors fully anticipate savings flowing from this work in future years.

LEGAL IMPLICATIONS

33 There are no additional legal implications as this contract has been tendered in accordance with EU regulations.

STAFFING IMPLICATIONS

34 The implications on staffing are two-fold; firstly the impact on existing teams during the intervention and secondly the impact on staff arising from the redesign of work and the implication for role development.

35 Experience in Building Control has shown that adequate provision for staff backfill needs to be made if the service is to be maintained during the intervention. Directors acknowledge that a realistic assessment of the impact at the outset of future interventions and regular reviews are imperative. Creative use of staff and existing budgets across the Council will be required to meet these challenges.

36 The second impact on staff is the implication of redesigned workflows on role development. We learned in Building Control that fewer mistakes and better customer service result from ensuring one member of staff deals with the customer throughout each transaction. The aim of redesign is to ensure that staff either create value for the customer or act on the system to improve the flow of work. We recognise that not all staff will have the capability to carryout entire transactions initially but we are committed to providing training in the work for all staff that wish to increase their capability.

37 Whilst some change processes can be quite unsettling, we understand that staff commonly find the introduction of systems thinking liberating and their new roles more challenging and fulfilling. West Midlands

Police found the introduction of these concepts in their customer contact centre had some amazing and unpredicted consequences over the first year:

- Staff satisfaction increased from 86% to 96%
- Staff sickness reduced from 11% to 4%
- Staff turnover reduced from 15.5% to <2%

RISK ASSESSMENT

- 38 There is a risk that in taking this project forward we do not succeed. What we have learnt from our pilot and the experience of others is that this is most likely to occur where strong leadership is absent, either through insufficient time devoted to the project, insufficient learning on the part of the leader or organisational unwillingness to make the changes to the system that are a prerequisite of success. The Directors have seen how much attention is required by interventions and are committed to leading this project to success.
- 39 The principal risk of not taking this project forward is not improving our services and meeting our objectives of achieving excellent CPA status by 2009. Failure to improve, or worse slip into decline, is not a risk we wish to take.

OTHER MEANS OF ACHIEVING THIS OBJECTIVE

- 40 The Council has tried many ways to introduce a step change in performance, none of which have fully delivered. After considerable research on how to produce sustainable change in service sector industries, the Chief Executive and Directors are persuaded that the introduction of systems thinking principles offers a realistic prospect of improving our services and that no other means more likely to deliver on this objective are evident to us.

CONCLUSION AND RECOMMENDATION

- 41 Systems thinking or Lean is an improvement methodology that has been demonstrated to deliver a fast and sustainable step-change in performance here and in other Councils. It fits with the Council's culture and is a methodology that takes full advantage of the skill and creativity of our front-line staff. Executive Board approval is sought to approve the recommendations as set out at the front of the report.

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Background papers: None