

TITLE: DEEP DIVE - OPERATIONAL MANAGEMENT COSTS

Date: 11 March 2020

Purpose:	Endorsement. To seek Board support for the recommendations presented and endorsement of the resourcing of Operational Management Budgets to enable essential elements in support of our delivery.
Summary:	Operational Management budgets have been declining over recent years and impacts on day to day work are being felt. Whilst it is right that we should continue to press for better value for money and efficiencies where possible, the combination of declining budgets and inflationary pressures, coupled with an increased incidence of dispersed working across the organisation means that these budgets are struggling to support an appropriate level of staff interaction with both colleagues and external partners.
Last discussed:	This paper follows a discussion at Board in May 2019 to carry out a strategic review of six big areas of project expenditure (protected areas, fixed costs, grants, goose schemes, NNRs and operational costs).
Agreed outcomes:	Deep Dive papers to be prepared for Board discussion.
Relevant to Corporate Priorities:	This review is a key part of our work to ensure that allocation of resources is in line with corporate priorities.
Fits with Government Priorities:	This work will ensure SNH has the capacity to contribute and respond effectively to Government priorities.
Risks/Opportunities:	The greatest opportunity is in the effectiveness of our staff to maintain their ability to engage with partners, industry and to provide timely and effective advice. The main risk is around affordability in the context of tight financial resources. However, there is also a significant risk that failing to mobilise and equip our staff with the knowledge, skills and experience to discharge their duties properly will result in less favourable outcomes for nature.

<p>Resource/Staffing:</p>	<p>Maintaining appropriate levels of spend on travel, equipment and training elements maybe offset to some extent by savings on other elements, but over time we would need to see these budgets keep pace with inflationary pressures, particularly on travel costs.</p>
<p>Implications:</p>	<p>Supporting those elements regarded as essential would allow for better integration of teams, more effective discharge of our duties and maintain our ability to influence and develop beneficial partnerships.</p>
<p>Equality Impact:</p>	<p>The comments received suggest that our current approach has significant equality impacts, particularly for staff based in remote locations. The recommendations in this paper seek to substantially mitigate that.</p>
<p>Recommendations:</p>	<p>Board is asked to support our recommendations to:</p> <ul style="list-style-type: none"> a) Continue to promote the travel hierarchy and strengthen messaging and compliance with “no mainland flights”; reinforcing consideration of carbon implications, as well as cash costs, in decision making. Board and SLT have a significant leadership role to play in this. b) Seek further efficiencies in costs related to corporate subscriptions, internal hospitality, events and corporate clothing. c) Seek further reductions in telephony and office equipment costs reflecting the use of new, collaborative technologies and anticipated reduction in printing/copying as a result of the move to smarter working. d) Maintain investment in real terms in staff travel and subsistence, external hospitality, field equipment and PPE and in specialist training.
<p>Report Author(s):</p>	<p>Catriona Burns (with comments from all Area and Activity Teams)</p>
<p>Sponsor:</p>	<p>Jane Macdonald</p>
<p>Appendices:</p>	<p>Annex A – Breakdown by spend type Annex B – Distribution of spend across the organisation.</p>

Purpose

1. Operational costs are one of our largest single areas of expenditure accounting for around £1m or roughly 2% of our annual budget. These costs are subject to a deep dive, as part of the strategic review of our 6 largest areas of project expenditure.

Background

2. The Operational costs covered by this paper are predominantly staff related and are therefore separate to the fixed running costs associated with the profile of our estate considered by Board in September 2019. In simple terms these budgets provide teams with flexibility and autonomy in how they operate.
3. The costs covered by this paper, whilst largely (around 90%) allocated to specific Team Operational Management budgets, are also spread amongst a variety of other projects meaning that full analysis cannot be undertaken until spend by account code is examined after the end of the financial year in question. Detailed analysis in this paper therefore covers the period from 1 April 2012, after our last severance scheme, until 31 March 2019. However, funds allocated to specific OM budgets in 2019/20 are slightly lower than in 2018/19, meaning Board can be assured that the 2018/19 position is likely to be a reasonable reflection of our current spend in these areas.
4. The broad variety of costs and account codes also means that it is difficult to provide a like for like comparison with other organisations. However, in comparisons of overall organisation running costs (which also includes estates costs) through benchmarking exercises we consistently sit within the median quartile, which given our highly dispersed profile is a good result.
5. The main areas of spend covered are shown in Table 1 below, and in descending order of value are:
 - Travel and Subsistence
 - Supplies and Services
 - Hospitality
 - Professional Subscriptions
 - Telephony and Postage
 - Specialist Team training and Conferences (not including corporate Learning and Development budget)
 - Promotions and events
 - Office, Vehicle and Agency Staff Costs
6. These costs are particularly susceptible to inflationary pressures - with rail travel in particular consistently rising above inflation at a rate of around 3% per annum. In the case of some elements, notably ICT equipment, susceptibility to fluctuations in international currency rates which have been exceptionally volatile since 2016 have also had an effect. Whilst our costs have to be accommodated within a budget allocated in cash terms it is also therefore helpful to note the impacts of inflation on the various elements of spend to see where changes are driven by this or by specific behaviours or events.

Table 1:

	T&S £	Supplies and Services £	Hospitality £	Subscriptions £	Telephony and Postage £	Team Training and Conferences £	Promotions and events £	Office, Vehicle and Agency Staff Costs £
2012/13	664,374.00	142,797.00	67,515.00	59,023.00	51,417.00	36,044.00	14,544.00	26,199.00
2013/14	630,103.00	74,735.00	61,994.79	57,656.00	68,354.00	38,245.72	6,075.00	13,861.78
2014/15	623,764.00	105,659.00	55,588.23	54,296.70	28,091.00	41,166.58	10,262.00	2,539.70
2015/16	607,775.00	70,386.00	52,614.21	53,822.62	41,473.00	46,161.84	6,906.00	14,141.64
2016/17	562,561.00	87,595.00	46,294.14	41,788.56	43,337.00	40,464.11	6,391.00	7,649.74
2017/18	578,345.00	98,531.00	47,666.43	50,921.89	48,945.00	70,785.38	11,719.00	13,217.97
2018/19	602,096.00	76,401.00	46,783.78	47,131.04	52,173.00	75,229.36	19,570.00	16,979.91

Total Costs:

7. Operational Management costs have declined significantly over the period examined. The two charts below show spend by year, categorised by type in both cash terms and real terms. In real terms we have seen a reduction from £1760 / FTE to £1510 / FTE. In cash terms cost per FTE has remained static despite inflationary pressures.

Chart 1:

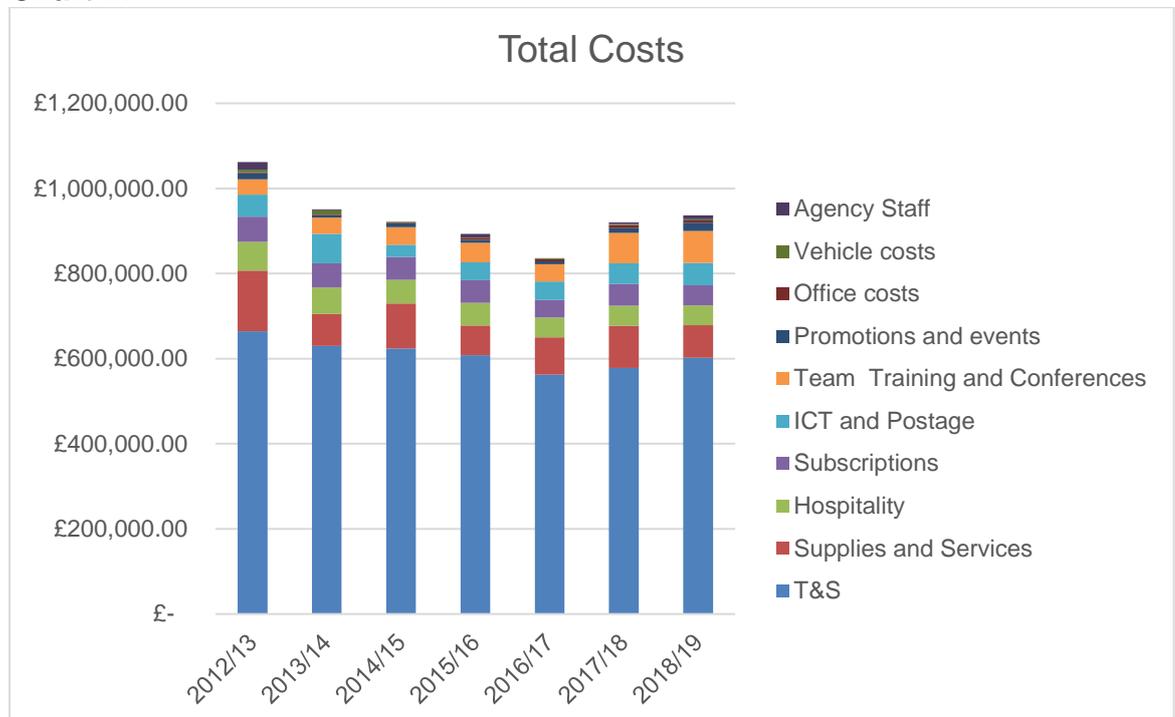
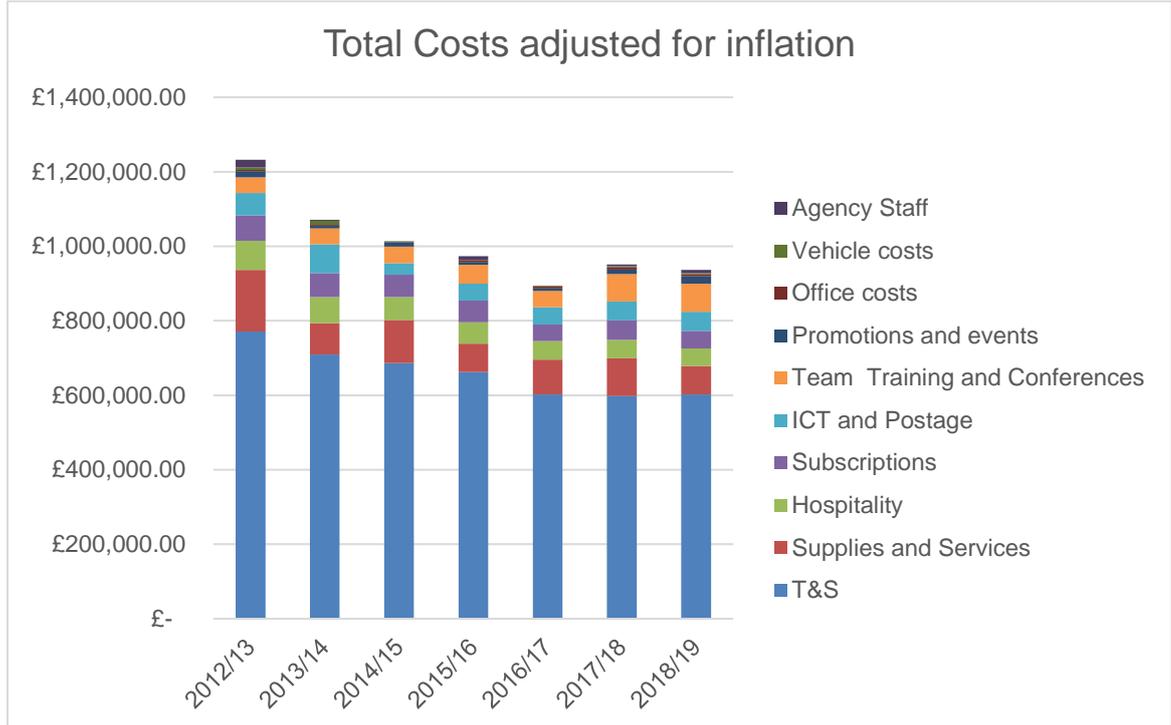


Chart 2:



8. In compiling this paper views were taken from across the organisation as to the value provided by these costs. Individual categories of spend are considered in more detail in the breakdown provided in Annex 1.
9. We have deliberately squeezed these budgets over recent years and impacts on day to day work are being felt. This is particularly the case over the past couple of years, where mitigating effects such as declines in staff numbers have slowed. It is becoming increasingly apparent that impacts arising from any further declines will increase in severity.
10. All teams have demonstrated diligence in their management of these budgets and as the cash available has declined they increasingly seek robust justification for any spend incurred by their staff. Changes already made to meet reducing budgets include:
 - Greater use of video and telephone conferencing to reduce travel (also a carbon commitment)
 - Greater co-ordination of attendance at external events and conferences with internal sharing taking place after the event
 - Stopped annual team events
 - Continued good practice in combining work to minimise travel costs, maximising efficiency
 - Sourced local training providers or arranged for trainers to come to locations where the costs are lower than for staff to travel to Inverness or Battleby hubs – especially during the summer season with high accommodation costs.
 - Reduced office stationery and postal costs

11. When Activity and Area Managers were asked what would be the main impacts of further reductions in these budgets the response from across the organisation was consistent:
- Reduced representation by SNH at external meetings
 - Increased isolation of staff at different location from line manager
 - Insufficient training/professional development opportunities
 - Relationships with partners and landowners/farmers would suffer
12. The professional development point was considered to impact most severely on staff based in more rural and remote offices. This may be worthy of further investigation from an equality impact perspective.
13. Travel and subsistence is by far the largest category and we already have several mitigating measures in place to control these costs such as our hierarchy of travel:
- *Avoid or Reduce travel wherever possible*
 - *Public Transport should be used whenever possible, bearing in mind operational time factors and, most importantly, personal safety considerations*
 - *Where available, pool cars should be used when it is not cost-effective or practical to make journeys by public transport and provided that the journey can be done safely (i.e. within a reasonable time frame).*
 - *Where a pool car is unavailable or would not be practical:*
 - *for return trips that will not exceed 80 miles, the use of a private motor vehicle*
 - *for return trips that will exceed 80 miles, or when a private vehicle is not available, the official hire of a car.*
14. There is also a very strong corporate steer against mainland UK flights, and whilst strong in terms of our carbon commitments this does lead to increased travel times and costs as often rail transport is a more expensive option. However, given our leadership role in terms of the climate emergency this is a position we feel should be strengthened.
15. There is an option to extend this to a general “No Flights” position. This would however have quite serious implications for island-based staff, and would lead to significantly increased costs through ferry and rail costs and a greater risk of lack of connection to the wider organisation. For that reason this is not recommended at this time.
16. Foreign travel is also an area which is subject to scrutiny and is reported on our website through our Public Service Reform obligations. The actual spend on this is relatively low, between £10,000 and £20,000 each year over the period. This is an area where we should continue to seek robust justification but an outright veto would have prevented our attendance at the Madrid COP and may have implications for our role in continuing to promote Scotland’s relationship with the rest of Europe, and more widely.

17. There is a need to be careful in communicating these messages as we have already seen the travel hierarchy being interpreted as “do not travel”. Whilst it does ask staff to carefully consider the need for travel it should not supersede the need to engage with partners and other stakeholders, undertake professional development or the requirement to properly engage with other team members and in particular the importance of face to face meetings in line management relationships.
18. Given numerous changes in our organisational structure over the period covered it is not helpful to compare spend on a team by team basis. There are however some fundamental differences in the pressures and expectations on these budgets between Area teams and Activity teams. Where this provides helpful intelligence these have been considered.

Summary:

19. These budgets provide essential support to the day to day work of our staff. We have made excellent progress in reducing costs relating to Professional Subscriptions, Telephony and Postage and Hospitality spend, though further reductions to external hospitality spend will likely reduce our influence and ability to build partnerships. Real pressure is being felt on Travel and Subsistence, Equipment and Staff Training elements and further cuts to these areas are likely to seriously impair our effectiveness.
20. Table 2 below shows the potential to reduce costs and the likely impact.

Table 2:

Category	Potential	Impact	Scale
Travel and Subsistence	L	H	£££
Supplies and Services	Equipment L Other M	Equipment H Other M	££ £
Hospitality	Internal M External M	Internal M External H	£ £
Professional Subscriptions	M	M	££
Telephony and Postage	H	M	£
Specialist training and Conferences	L	H	££
Promotions and events	M	M	£
Office, Vehicle and Agency	M	M	£

21. Where we have the opportunity to reduce these costs through better use of resources or behavioural change these should be pursued. This includes further examination of corporate subscriptions (are whole team registrations necessary?), internal hospitality spend and greater shared use of corporate clothing where this is not supplied for Health and Safety purposes. This should also be supported by continuing to seek best value in telephony and other office costs such as multi-functional device (MFD) contracts. The possibilities offered by more collaborative software, currently under consideration may be a game-changer in relation to telephony costs.

22. In terms of promotions and events it makes sense for teams to retain responsibility for the production of free publications, for example reprinting NNR leaflets. However, local attendance at external events such as Game Fairs could be better co-ordinated through a centrally controlled budget held by Communications Team where the strategic value of our attendance can be assessed. A shared pool of non-PPE related Corporate Clothing could also be considered, though the logistical costs of transporting this around the country, particularly during the summer months, may negate any savings.
23. T&S, equipment and training elements should be set at the level necessary to fully support the operational requirements of the relevant teams, including re-introducing biennial team events for highly dispersed teams.

Recommendation:

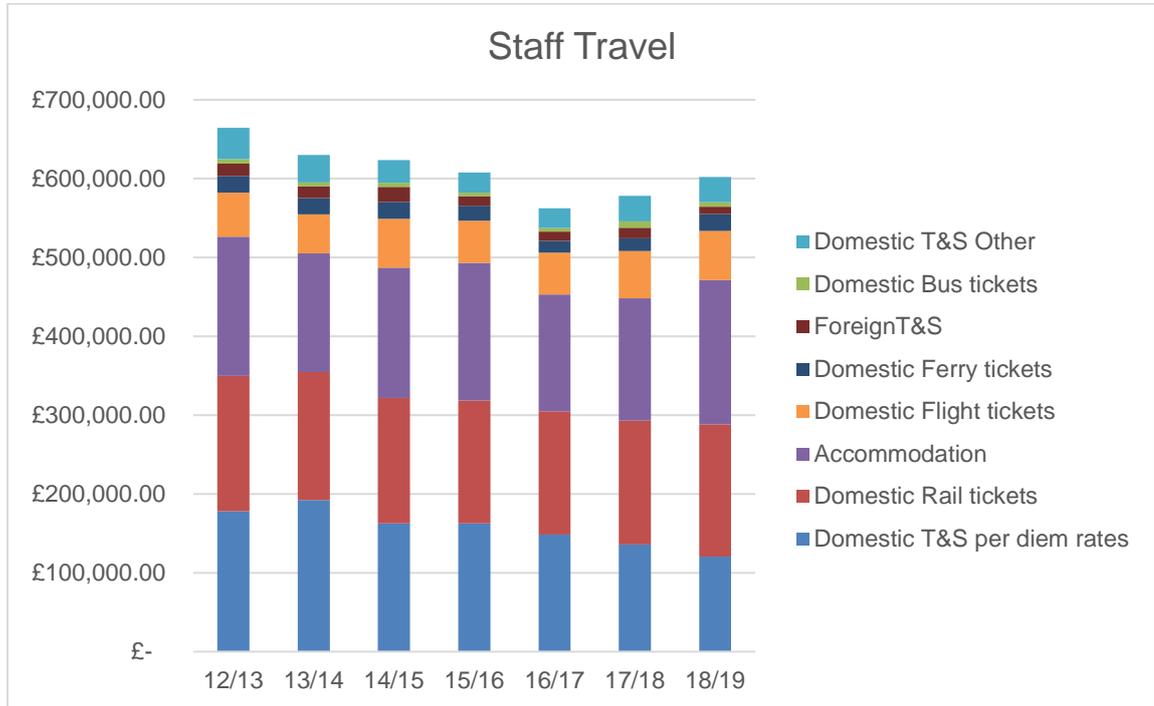
24. Board are asked to support the following recommendations:

- Continue to promote the travel hierarchy and strengthen messaging and compliance with “no mainland flights”, reinforcing consideration of carbon implications as well as cash costs in decision making. Board and SLT have a significant leadership role to play in this.
- Seek further efficiencies in costs related to corporate subscriptions, internal hospitality, events and corporate clothing.
- Seek further reductions in telephony and office equipment costs reflecting the use of new collaborative technologies and anticipated reduction in printing/copying as a result of the move to smarter working.
- Maintain investment in real terms in staff travel and subsistence, external hospitality, field equipment and PPE and in specialist training.

Annex 1: Breakdown by Spend Type

Travel and Subsistence:

Chart 3:



25. These budgets primarily facilitate staff travel between offices and to meetings with external partners and stakeholders. Upward pressures on the T&S element include inflation; our dispersed office network, which includes islands and large remote areas with few/limited public transport links; increase in remote line management; better carbon choices (trains/ferries vs planes) incurring higher cash costs; and more recently updated limits on accommodation rates reflecting the reality of securing overnight accommodation particularly during the summer months. Downward pressures include reducing staff numbers and more reliable video conferencing (VC) facilities.
26. Our Area Teams, particularly those in more rural parts of Scotland, have always covered large geographic areas, often with multiple office locations and with many having island bases. The period has also seen a dramatic increase in dispersed Activity Teams, with many teams now having individuals based in offices throughout our network.
27. Recent actions to simplify and streamline our internal structure, in particular our line management review, have increased the number of remote line-management relationships, and it is not uncommon for managers to have staff in more than six separate locations. Whilst teleconferences and video conferences have cut down travel to a degree there is still a duty of care for these posts in particular. It is recognised that all staff with remote line management responsibilities should have face to face meetings with their staff on a regular basis.

28. Many Areas have reported that it is increasingly difficult to have whole area meetings within budget, and for many they are now simply considered unaffordable. The benefits of such meetings are difficult to quantify, but are hugely important for the motivation of dispersed teams, from a knowledge sharing and wellbeing perspective. They are also seen as a valuable engagement opportunity by other parts of the organisation and there are still regular requests from Activity Teams to attend Area meetings.

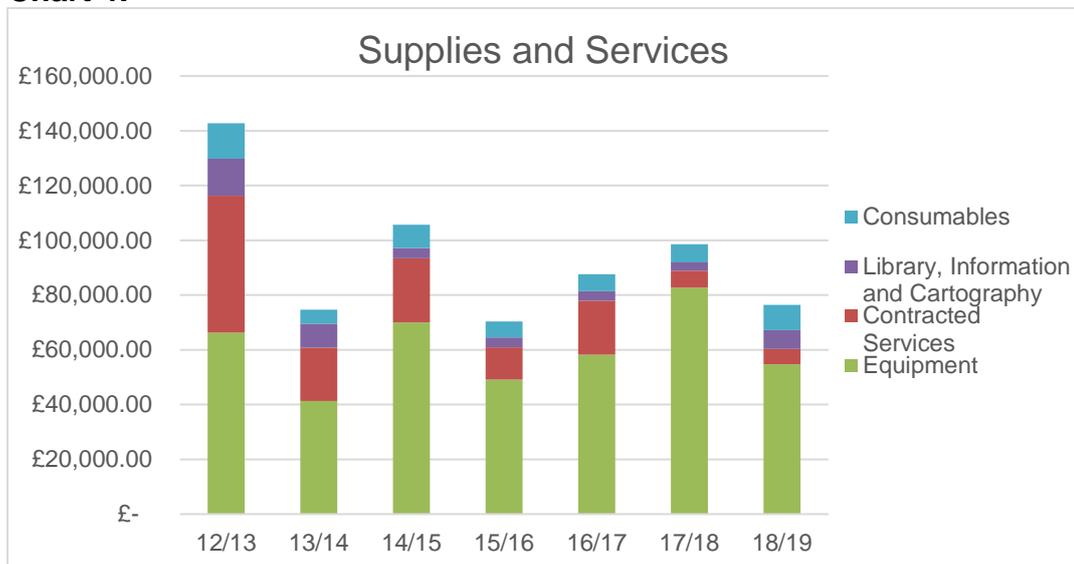
29. For Activity Teams, staff are predominately specialists in their area of expertise which means that they can be called on to travel anywhere in Scotland for site visits and face-to-face meetings with developers and contractors as well as meetings to advise and support Area colleagues with novel and contentious casework, or to assist with fieldwork.

30. T&S remains essential for:

- Attendance at external meetings - partnership projects; partner engagement events, project delivery, strategic engagement with senior stakeholder (especially with SG and other national stakeholders – 90% of which are in central Scotland).
- Face to face meetings with staff to facilitate leading, managing and building effective teams and also for line management.

Supplies and Services:

Chart 4:

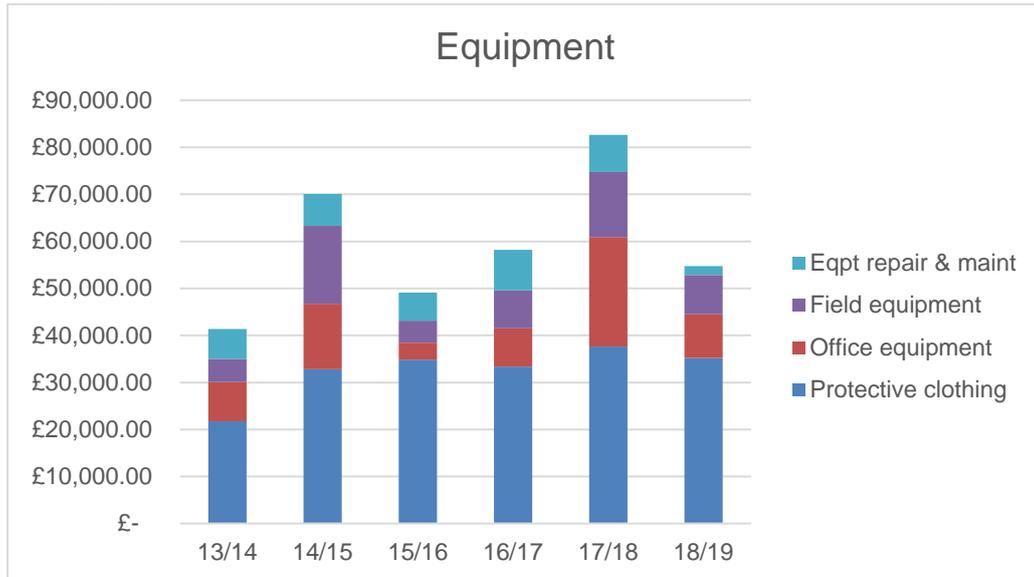


31. The equipment element of this cost category is broken down further in Chart 5 and its accompanying commentary below.

32. Of the remainder, the contracted services element is particularly volatile but the bulk of costs captured here relate to remuneration for members of SAC, and for 2012/13 Deer Panel where these are paid via a third party; in these cases through the James Hutton Institute.

33. The remaining two categories primarily cover copyright charges e.g. for use of aerial photography images, newspapers and stationery costs.

Chart 5:



34. The equipment element of our Supplies and Services costs includes protective clothing (PPE), field equipment and specialist office equipment required following Occupational Health (OH) and Display Screen Equipment (DSE) assessments. It also covers the repair and maintenance of equipment.

35. These costs are intrinsically linked to our Health and Safety responsibilities to our staff, particularly those involved in fieldwork, including in key projects such as Peatland Action where on-costs are not covered by the ring-fenced budget. Non-field related Corporate Clothing is covered under the Promotions and Events cost category. Office equipment costs, including more ergonomically appropriate furniture and desk equipment, were particularly high in 2017/18 due to the roll-out of the Transforming our Workplaces programme.

36. These costs are essential in order for our staff to undertake their duties in a safe manner, and in the case of PPE often need to be renewed on an annual basis.

Hospitality:

Chart 6:

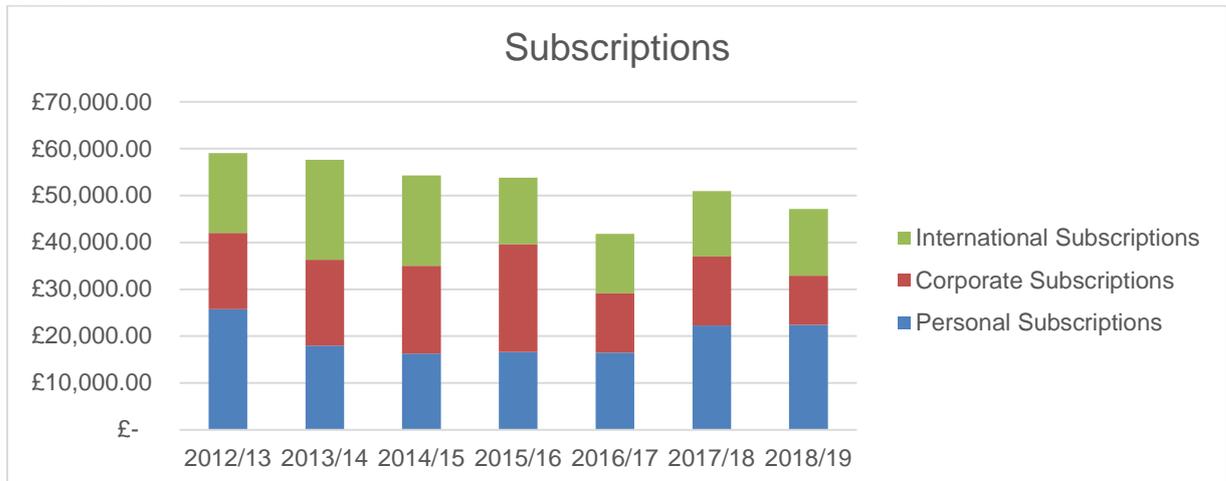


37. Hospitality costs have been declining, primarily as a result of fewer face to face meetings. However, where these meetings do occur the number of staff travelling from other locations has increased. External hospitality costs are necessary for hosting external meetings where we are increasingly involved in partnership working and providing the meeting space and hospitality helps us achieve those partnerships.

38. External hospitality costs are effectively a facilitation cost and are essential to the effective delivery of our remit through third parties.

Professional Subscriptions

Chart 7:



39. Professional subscriptions were subject to a review in 2012/13 and personal subscriptions assigned to one of three bands:

1. Essential to the delivery of the role, reimbursed at 100%;
2. Desirable to delivery of the role, reimbursed at 50%;
3. Primarily of personal benefit, no reimbursement

This resulted in a step decline in these costs in 2013/14.

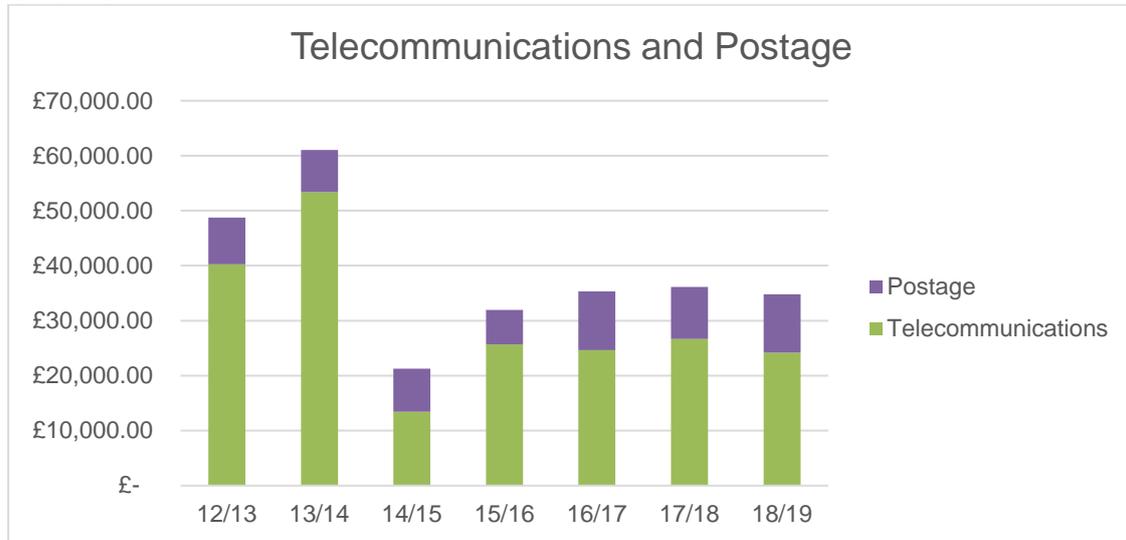
40. More recently corporate decisions have been taken that membership is required for particular functions e.g. Chartered Institute of Public Relations (CIPR) for communications staff; Institute of Directors (IOD) for members of SLT and this has led to the increase shown since 2017/18.

41. Corporate Subscriptions also captures registration with bodies such as Visit Scotland and Green Tourism Business Scheme to promote our NNRs; and Corporate memberships of user groups eg Oracle which is critical to receiving technical support and informing our transition of corporate applications to the Cloud. We keep the costs and benefits of corporate subscriptions under constant review.

42. International subscriptions currently cover Europarc and Scotland Europa. Since 2012/13 we have withdrawn from Eurosite, Euromontana and Planta Europa. Retaining an influential presence in Europe is still seen as a critical SG priority.

Telecommunications and Postage:

Chart 8:



43. This is an area where we have seen significant savings over the period, particularly in relation to telephony costs where use of the Cisco service has effectively removed charges for inter-office calls. The particularly low costs borne by Team budgets in 2014/15 were as a result of the setting up of this contract centrally. Since then costs have been assigned to Team budgets and growth over the period is predominantly due to inflationary pressures.
44. Physical mail has reduced in recent years due to the increased communication by email. However there is still a requirement to have what outgoing mail there is, collected from some offices. This is in part due to location and lack of staff resources to take the mail to the post office. In recent years we have been dispensing with franking machines in our offices. With the move to stamps, purchased online, this has reduced the postage and courier costs dramatically, though increases in postage costs have largely negated the savings made.
45. Given the remote location of our offices there is still a necessity to use courier services on occasion for the transport of files and other sensitive materials. This is particularly true for those offices involved in the co-ordination of the Scottish Rural Development Programme (SRDP) where the transfer of files is still mainly a manual process.

Specialist Training and Conferences:

Chart 9:



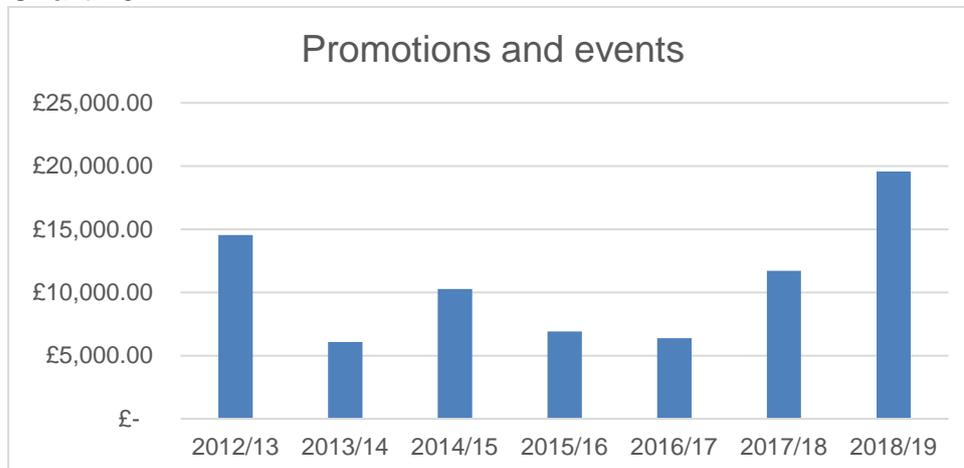
46. Whilst corporate training is provided by a central budget the costs of more specialist training is borne by the Team budgets.

47. This training and attendance at conferences enables our specialist staff to continue their essential professional development; keeping their knowledge up to date; keeping in touch with wider initiatives and developments in their field of expertise; and maintaining and making contacts to share our knowledge and work more collaboratively, particularly with industry. These events also provide an excellent platform for promoting the work of SNH.

48. Peaks in 2017/18 and 2018/19 reflect the increased training requirement in new approaches to our use of technologies, for example supporting our move to Windows 16 and use of GIS to support our Earth Observation work; and in supporting our scientific staff with statistical analyses.

Promotions and Events:

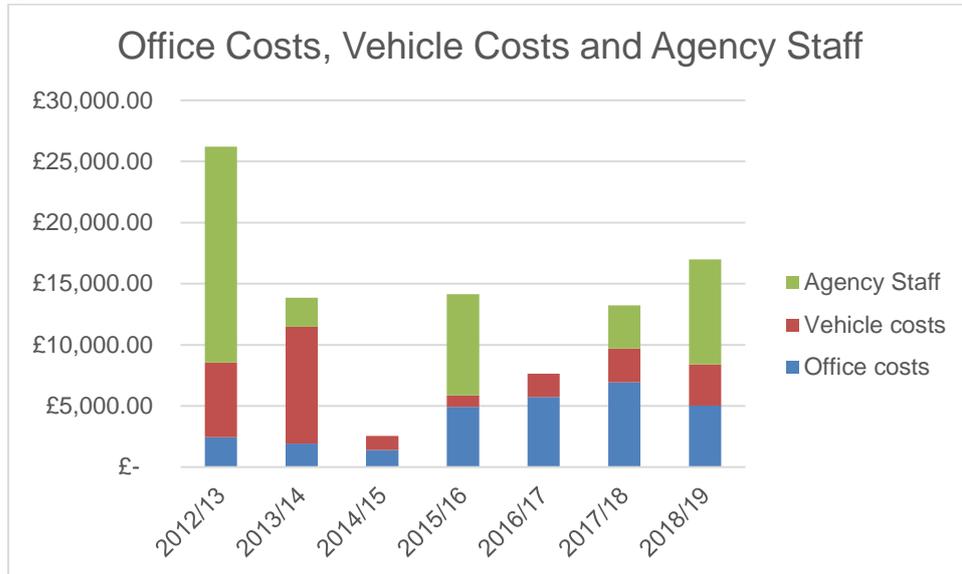
Chart 10:



49. Promotions and event costs met from Team budgets cover corporate clothing which peaked following Nature.scot change, production of promotional materials such as free leaflets, audio visual materials such as Deer Management video and attendance at local events.

Office Costs, Vehicle Costs and Agency Staff:

Chart 11:



50. Following provision of the Multifunctional Device (MFD) contracts for printer/copier/scanner facilities in our offices these charges were transferred to local offices in 2015/16. The reduction in 2018/19 would appear to be linked with the roll-out of TWP, and in particular the provision of laptops to all staff reducing the need to print out material for use in meetings. Further years' data is required to ascertain whether this is a continuing trend.

51. Vehicle costs are reactive in nature and the fluctuations seen are due to the requirement for vehicle repairs in any given year, this primarily relates to vehicles engaged in NNR and Wildlife Management activity since core fleet is dealt with centrally.

52. Agency costs are again reactive and are based on the requirement to deal with critical staff vacancies where duties cannot be transferred. All agency costs shown above were incurred by five such vacancies over the entire period covering Executive Office, Communications, Finance, Licencing and reception cover at Stirling.