Confidential
Key Decision - Yes

HUNTINGDONSHIRE DISTRICT COUNCIL

Title/Subject Matter:	Shared Services Overview
Meeting/Date:	Overview & Scrutiny (Economic Well-being) Panel, 9 July 2015 Overview & Scrutiny (Environmental Well-being) Panel, 14 July 2015 Cabinet, 16 July 2015
Executive Portfolio:	Cllr Jason Ablewhite, Executive Leader
Report by:	Joanne Lancaster, Managing Director
Ward(s) affected:	All

Executive Summary:

1.1. In July 2014, Huntingdonshire District Council (HDC), South Cambridgeshire District Council (SCDC) and Cambridge City Council (CCC) agreed in principle to work as a partnership to deliver a range of shared services over a number of phases, building on existing collaboration.

1.2. The first phase of this programme involves proposals for shared services for ICT, Legal Services, and Building Control.

1.3. This report outlines the overall approach that has been taken to the development of these shared service proposals and makes recommendations for governance and cost sharing in those shared services.

Recommendation(s):

1) That the approach to shared services outlined in the report be endorsed.

2) That approval be given to the establishment of a Joint Committee without delegated powers to oversee the delivery of shared services.

3) That the Executive Leader be confirmed as the Council’s representative to this committee and a deputy be appointed.

4) That the proposed sovereignty guarantee in section 8 be approved.

5) That the approach to cost sharing principles and partnership agreement as outlined in section 9 be approved.

6) That the approval of the final partnership agreement be delegated to the Managing Director, in consultation with the Executive Leader of the Council.

7) That, subject to the approval of the business cases for ICT, Legal and Building Control shared services, formal consultation commences with Staff Council and affected staff on 24 July 2015, closing on 1 September 2015.

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1. WHAT IS THIS REPORT ABOUT/PURPOSE?

1.1 The purpose of this report is to set out the context for the shared services proposals set out elsewhere on this agenda.

1.2 It deals with the overarching issues common to all three Phase 1 shared services.

2. WHY IS THIS REPORT NECESSARY/BACKGROUND

2.1 The three councils have differing geographies with one being rural, one being urban and one having a mix of urban and rural areas. The services that are provided in each council are delivered in varying ways and with different levels of staffing. Because of this diversity it is important that any shared service proposal must provide the best future option for the parties involved. This may mean that that some services are appropriate to share across all three councils, whereas some may only be shared between two councils. The three councils have been working on the principle that any proposed shared service between two of the three partners will be brought forward in a way that allows the third partner to join at some future date without penalty.

2.2 Given the financial pressures that local authorities have been experiencing over the past few years, the three councils have already taken forward some shared service arrangements, namely:

- Home Improvement Agency – CCC, SCDC and HDC
- Internal Audit – CCC, SCDC and Peterborough City Council
- Payroll – CCC and SCDC
- CCTV – CCC and HDC
- Interim s151 officer (provided to CCC by SCDC)

2.3 This report proposes a more formalised model of working going forward, which will bring consistency, robust governance arrangements and provide mutually beneficial arrangements for all parties.

2.4 The councils each recognise that they are likely to be smaller and more streamlined moving forwards and, in order to both protect frontline services and ensure resilience of service delivery, new models of working are needed.

2.5 The three councils have already agreed that a key objective of sharing services is to provide seamless services to both internal users and the public in order to deliver the following outcomes:

- protection of services which support the delivery of the wider policy objectives of each council,
- creation of services that are genuinely shared between the relevant councils with those councils sharing the risks and benefits whilst having in place a robust model to control the operation and direction of the service,
- savings through reduced management costs and economies of scale,
- increased resilience and retention of staff,
- minimise the bureaucracy involved in operating the shared service,
- opportunities to generate additional income, where appropriate,
- procurement and purchasing efficiencies, and
- sharing of specialist roles which are not individually viable in the long-term.

2.6 Each of the councils is committed to consulting with staff and their representative Trade Unions (SCDC and CCC) and Staff Council (HDC) in relation to the proposals that affect them. Shared services will continue to ensure the following outcomes for staff:

- fair terms and conditions of employment,
- a commitment to staff training, development, retention and talent management, and
- a commitment to tackling inequality and celebrating diversity in service delivery.

3. OPTIONS CONSIDERED/ANALYSIS

3.1 For some time, all three partner organisations have been considering a range of options, including insourcing/outsourcing of their Building Control, ICT and Legal services and the establishment of a shared service. More recently, CCC, HDC and SCDC have reached a broad agreement to establish a range of shared services. The close geographic proximity of these three organisations combined with the high affinity in type of service provided has led to the conclusion that Building Control, ICT and Legal shared services have merit. The financial models bear this out.

4. KEY IMPACTS/RISKS? HOW WILL THEY BE ADDRESSED?

4.1 One of the reasons the councils are planning to share services is there are significant risks in doing nothing. Each council needs to find significant savings and they also need to recruit and retain skilled staff in a competitive market place and improve the resilience of relatively small teams. Shared services offer a way of mitigating these risks.

4.2 There are also a number of risks associated with the proposal to share services across three councils. The main risks are highlighted in the table below with detailed programme and project risk registers having been developed to support effective implementation.

Risk	Initial Risk level (low/ medium/ high)	Actions to mitigate (reducing risk to low)
Staff are on different terms and conditions resulting in cost implications, challenge from those affected and impacting on morale	**Medium**	Initial analysis has shown that there are more similarities than differences between the three councils. Work is underway to assess the impact of any differences and to provide a suitable course of action to harmonise policies.
A lack of robust governance arrangements leads to disputes and inequity	**Medium**	The proposed Lead Authority model and Joint Committee (without delegated powers) will provide a formalised arrangement for operational management and processes by which to manage disputes. Legal specialists will provide a clear view of the steps needed and requirements to protect all parties to the shared

		services arrangements, enabling everything to be agreed and in place prior to implementation.
A lack of agreed cost-sharing principles	**Low**	The proposed cost sharing principles have been agreed in principle by the three councils. The principles are based on a fair and pragmatic approach, given the current position of each council. The proposed governance arrangements will also support the delivery and manage any disputes.
Overall financial savings targets not met or are unrealistic and unachievable, leading to service 'cuts' being required elsewhere to meet the shared service saving shortfalls	**Medium**	Delivery against savings target to be regularly reviewed and evaluated as part of the implementation and delivery of the shared services business cases. Business cases include robust financial analysis and risk / sensitivity analysis for projected savings. Cost sharing proposal that service budgets are at 85% of pre shared service levels initially builds in savings in year 1. Posts being held vacant until structures agreed offers early possible savings.
Shared services do not deliver the expected good quality services to internal and external customers	**Low**	Clear principles to be established to agree how service standards will be developed and approved. These will support standardisation where this is appropriate but allow for local variation where this is required, costing model to reflect cost implications of different service delivery.

5. WHAT ACTIONS WILL BE TAKEN/TIMETABLE FOR IMPLEMENTATION

5.1 To enable effective management of the shared service programme, a phased approach has been taken. This will allow for the refinement of any principles or models of working, as progress is made and will allow for easier implementation.

5.2 This first phase is comprised of the three shared services being put forward as full business cases, for consideration, namely ICT, Legal and Building Control services. The proposed date for the shared arrangements to effectively go live is 1 October 2015.

5.3 A significant amount of effort and resource will be required to ensure the successful implementation of Phase 1 and this will be the focus. However, a number of other services have potential for future collaboration and are being explored. These are:

- Growth and Planning
- Internal Audit

- Finance and Procurement
- Strategic Housing
- Regulatory Services

5.4 It is proposed that a Lead Authority model will be used for the shared service arrangements since this best reflects the current vision for shared services and the starting position of each partner council. It will also enable cultural and working practice changes to be more easily implemented, as one council will be responsible for the operational delivery of the service.

5.5 Each shared service manager will be responsible for the overall operation of that service, the delivery of their business plan and achievement of performance and financial targets.

5.6 Once services move into the operational phase, there will be the need to ensure that robust governance is in place to oversee service delivery. While there is an officers' board in place currently, and Leaders have been meeting to review progress on a regular basis, there is a need to formalise the role of members and to ensure clarity transparency.

5.7 It is proposed a Joint Committee should be established to oversee the operation of shared services, supported by an officer Board, but the committee would not have delegated powers or functions. It would formalise existing arrangements but without any partner council delegating power to another entity. This arrangement has the benefit of being a collaborative arrangement with all parties represented equally, without favouring or representing the interests of any particular party.

5.8 The remit of the Joint Committee would be to provide advice, oversight, challenge and endorsement of the shared services business plans and budget. It is important to note that without any delegation or discharge of functions and powers, they would act as an advisory body to the three councils only.

5.9 This means that each participating council would retain Executive decision-making powers for their shared service functions. The Joint Committee will receive regular updates on the operation of the shared services and will take reports and recommendations for decision to their respective Executives (and full council, if appropriate), at agreed points and with the engagement of each council's Scrutiny committees.

5.10 The Joint Committee meetings would be held as public meetings, forming part of each council's calendar of meetings. Membership would be the Leaders of each council with a nominated deputy/alternate attending in their absence.

5.11 In order to ensure that each participating party protects its interests in the shared service when it is not the Lead Authority, an intelligent client function is proposed. This would involve a designated "contract manager" at each council, responsible as the liaison with the Lead Authority for operational issues encountered or for requested changes to the service being received. This would not be a new post in the establishment, but instead will be a function undertaken by a senior officer within each council (whether Lead Authority or client), who has the relevant service knowledge to effectively enter into discussions in relation to the service and its performance.

5.12 The existing Partnership Board for Shared Services (PBSS), which is comprised of the three Heads of Paid Service together with a Corporate

Director from each organisation, will oversee the ongoing operation of new shared service arrangements. In addition, it will oversee the development of new proposals in future phases for Joint Committee consideration prior to the required Executive decisions at each council.

5.13 Appendix 1 demonstrates the proposed governance model that is a member-led model, supported by officers of each council.

5.14 A Sovereignty Guarantee has been used elsewhere in similar shared service arrangements to give confidence to individual councils' executives that they will retain sovereignty of their organisations, as well as Executive decision-making powers.

5.15 It is proposed that each council endorses the Sovereignty Guarantee contained at Table 1 below.

Table 1

A sovereignty guarantee

All three councils are committed to continuing to represent the needs, priorities and ambitions of local people in their neighbourhoods.

They are exploring reducing costs by working together. They are also keen to take new devolved responsibilities from Government and manage these together, where this makes sense.

Commissioning or delivering services together is specifically designed not to change how residents experience services. It is about how to get things done more efficiently.

To safeguard local autonomy the councils confirm:

1. Local residents will continue to elect councillors to each council.
2. Each council will retain its own constitution, setting out how it makes decisions, organises scrutiny and delegates authority.
3. Each council will continue to set its own council tax and publish its own budget and accounts.
4. Each council will continue to be able to set its own spending priorities.

5.16 To support this governance structure and Lead Authority model of operation, it is also usual for partners to enter into a Partnership Agreement. The partnership agreement describes the governance arrangements, the terms of engagement between partners and the roles they play in relation to each service – either as recipients of the shared service from another council or the Lead Authority that provides the shared service to others.

5.17 The agreement can also provide assurance that this is a true partnership collaboration and not a commercially beneficial arrangement for one party alone, therefore demonstrating compliance with EU Procurement legislation.

5.18 Proposals for an identity for the shared services are currently being developed.

5.19 Identifying an internal identity for the shared service is important to help reinforce for staff that the shared services are something new and different and they are providing services to all three councils even though employed by one. For example, staff could have a shared service email address rather than simply the email address of the host council.

5.20 Having a clear identity will be important in recruiting new members of staff to the shared service as it will clearly signal that the three councils are taking a different approach to service delivery. In some cases we may wish to consider establishing a separate brand for a shared service where there are clear commercial advantages in doing so, for example it has been argued that a Building Control Service may be better placed to compete in the market where it is not overtly provided by a local authority body.

5.21 Any branding will also need to work from a customer perspective.

6. LINK TO THE CORPORATE PLAN

6.1 The shared services are fully aligned with the strategic goal of ensuring services are provided in the most pragmatic, cost-effective manner. The economies of scale presented by shared services will provide lower unit costs of service provision through economies of scale and increased buying power.

7. CONSULTATION

7.1 Formal Transfer of Undertakings (Protection of Employment), commonly known as TUPE, consultations with staff and Staff Council are scheduled to commence shortly, in the event of the business cases being approved. It would be premature, and indeed inappropriate, to commence consultation until such a decision is reached. The consultation will relate to TUPE arrangements and restructures as outlined in the business cases.

8. LEGAL IMPLICATIONS

8.1 Local authorities have a number of legal powers in relation to discharging their functions and indeed, in trading or supplying goods and services.

8.2 Section 101 of the Local Government Act 1972 enables a local authority to delegate or discharge its functions to another local authority or a Joint Committee, together with the relevant executive functions. It is important to note that the authority to which the statutory responsibility is originally allocated by central Government remains responsible for the function, even if they have delegated the delivery to another body.

8.3 In addition, the Local Authority (Goods and Services) Act 1970 enables a local authority to supply goods and materials or services, which include administrative or technical services, to other public sector bodies and enables them to charge at a rate where the revenue may exceed the cost of provision (thereby producing a profit). However, the arrangement must be overtly collaborative in nature rather than a purely commercial contractual arrangement; otherwise it will fall under EU Procurement rules. Sharing of savings amongst the three parties via an agreed mechanism would help to demonstrate that one party alone was not commercially benefitting from the arrangement.

8.4 When it comes to trading services with other non-public sector bodies, although Section 93 of the Local Government Act 2003 now enables local authorities to undertake chargeable activities that are in line with the exercising of their ordinary functions, revenue cannot exceed cost.

8.5 However, Section 95 of the same Act enables the provision of services to be undertaken on a more commercial, profit-making basis if the services are delivered through a corporate vehicle, i.e. it is not the council itself that is directly trading, although it could own the separate company through which it trades. This may provide opportunities for future service developments for the partnership.

8.6 The impact of the different legislative provisions is that the councils can discharge their functions (with the correct delegations and legal approvals), to be undertaken by another council and essentially make a profit, but they cannot commercially trade with other non-public bodies on the same basis, without the use of a corporate entity (i.e. a formal trading arm).

8.7 Should there be a requirement or opportunity to trade on a more commercial basis in the future, then a corporate entity would need to be considered such as a wholly-owned but arms-length Local Authority Trading Company (LATC). This is not proposed at this stage but could be an option for the future.

8.8 There are a number of terms that should be considered for inclusion in a Partnership Agreement, and this will be subject to legal advice, but should include the following as a starting point:

- **Governance arrangements**

See Appendix 1

- **Length of the agreement and review points**

- The term for the shared service arrangement will be 5 years, with a review point at years 2 and 4.

- The purpose of the 2-year review point will be to test delivery of ambitions and then, if the partners are ready, enable a move to a true recharging model, based on service usage and future demand, rather than a continual investment of existing budget by the council.

- The 2-year review will rely on service-usage data, which will inform an intelligent, evidence-based approach, with performance reporting being the subject of more detailed discussions.

- **Dispute Resolution**

- In the first instance, officers undertaking the role of contract manager for each party will attempt to resolve any dispute. If disputes cannot be resolved at this point, they will be referred to the Corporate Director at each partner council who is responsible for that particular shared service.

- Any disputes still unresolved at this point would then be referred to the Partnership Board for Shared Services (PBSS) and if necessary to the Joint Committee.

- **Cost Sharing Principles**

- The three councils have already endorsed the principle of sharing costs on a proportionate basis. This means that each council would invest their current service budget, less their agreed target savings for that service for the financial year 2015/16.

- Any surplus savings from shared services would be shared amongst the participating councils using the same proportionate formula (based on their initial budgetary investment as a proportion of the overall budget for the shared service). Any additional set-up costs should be met using the same proportionate formula.

- Any staff-related implementation costs occurring as a result of the new structure such as redundancy and pay protection will be shared as follows:

- costs associated with staff ring-fenced for the proposed management structure will be borne by the pre-TUPE employer;
- costs in respect of other employees should be borne by the three partner authorities in proportion to their contribution to the service budget.

- There will be a review period set at 2 years from the go-live date for each shared service, at which time the Lead Authority will consider moving to a full recharging model and to absorb any further costs associated with the delivery of the service, including redundancy costs.

9. RESOURCE IMPLICATIONS

9.1 Each of the councils involved in shared services are committed to engaging and consulting with staff on the proposals. Staff that will be impacted by the implementation of shared services proposals have been communicated with and involved in developing the visions for the services that are included in the business cases. The Trade Unions and Staff Council (at HDC) have also been engaged on a regular basis.

9.2 Staff have been briefed on the planned implementation timetable, which includes a proposal to use TUPE to transfer all staff to the nominated Lead Authority for their service, with a go-live date of 1 October 2015.

9.3 Subject to approval of the three business cases, the Trade Unions, Staff Council and impacted staff will be consulted with during the formal consultation period of 24 July to 1 September 2015, at which point consideration will be given to the feedback received during the consultation process.

9.4 Subject to the outcome of the consultation, preparations to TUPE staff would then take place during September and would come into effect as of 1 October 2015. At this point, staff will become an employee of the Lead Authority for their service.

10. Financial Implications

10.1 The detail of the savings that each shared service should realise is contained in each business case.

10.2 The three councils were successful in a bid for Transformation Challenge Award (TCA) funding. The TCA is a grant given to local authorities (following successful application), that aims to enable major structural change through collaborative working (shared services).

10.3 The main focus of the original TCA bid was to support the establishment of a project team and a commitment was given to provide additional partner resources. This is being met at present through "in kind" arrangements, i.e. capturing the time spent by officers working on the shared service programme as the contribution to match funding and totals £381,307 to date.

Total funding received was £529,090; of this:
- £133,603 has actually been spent by the three partners,
- £320,807 has been allocated but not yet dispersed as awaiting final invoices, and
- £74,680 is currently unallocated.

10.4 To date, the majority of the expenditure has been to support the project specialists that have been used to progress the programme workstreams to the current point. This is monitored and the overall TCA fund managed by the Head of Resources at HDC, reporting to the Partnership Board at least quarterly.

11. OTHER IMPLICATIONS

11.1 Environmental Implications

Low positive impact - a reduction in accommodation and energy use associated will have a positive impact. Potential negative impact from increased travel will be mitigated by increased mobile and remote working.

12. REASONS FOR THE RECOMMENDED DECISIONS

12.1 Sharing services presents a great opportunity for all three councils to save money and build resilience across their current services, which often contain highly specialised roles. It also provides the opportunity to improve services to customers, by ensuring a focus on seamless service delivery.

12.2 However, the success of shared services must be underpinned by robust governance arrangements that will ensure transparency of both operational and strategic decision-making.

12.3 In addition, there is the need to build intelligence in relation to the shared services as they begin to be delivered on behalf of partners. This will not only to ensure effective monitoring of Lead Authority performance via an "intelligent client" function, but will inform the future shaping of the service and enable partners to access what they need.

13. LIST OF APPENDICES INCLUDED

Appendix 1 – Proposed Governance Model

BACKGROUND PAPERS

November 2014 Cabinet meeting.

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