

LOCAL GOVERNMENT SHARED SERVICES
DETAILED BUSINESS CASE AND JOINT COMMITTEE STRUCTURE

To: Cabinet

Date: 15th June 2010

From: Corporate Director: Finance, Property and Performance

Electoral division(s): ALL

Forward Plan ref: Not applicable *Key decision:* No

Purpose: In February 2010, Cabinet considered and approved the Outline Business Case for Local Government Shared Services (LGSS). Cabinet requested that a Detailed Business Case was produced with supporting information that would allow a decision to be recommended to Council in July.

This report provides Cabinet with an early opportunity to consider the (near final draft) Detailed Business Case for Local Government Shared Services, together with the (near final draft) governance arrangements by means of a Joint Committee structure that will support the shared service partnership, prior to formal recommendation to Council in July.

Recommendation:

A. Cabinet is asked to reconfirm its support for the Local Government Shared Services Programme.

B. Cabinet is also asked to confirm that the following issues have been dealt with adequately in producing the Detailed Business Case and the Joint Committee Agreement:

1. That the **vision** of the Local Government Shared Services programme is clear and is fully described and that the vision identifies the ambition of both authorities to work in partnership to offer a full range of cost effective and quality corporate services, that will be made available to local public service bodies and other authorities over time.
2. That the **objectives** of the Local Government Shared Services programme are clear and are fully described and that the objectives indicate an optimum balance between; performance, cost, quality and control.
3. That the **design principles** of the Local Government

Shared Services programme are clear and are fully described and that the design principles will deliver cost effective and quality corporate services to both authorities and subsequent partners and customers.

4. That the **initial scope** of Local Government Shared Services is clear and is fully described and that the opportunities to extend the scope to other corporate services as and when beneficial to both authorities are understood.
5. That the **governance model** for Local Government Shared Services programme is clear and is fully described and provides the correct balance between; the singular and joint interests of both authorities, control and performance management, risk management and cost effectiveness.
6. That the **target operating model** assumed in the Detailed Business Case (but subject to subsequent formal consultation) for Local Government Shared Services programme is clear and is fully described and provides the correct balance between; control, professional leadership and cost.
7. That the certain and potential further **financial benefits** being delivered by Local Government Shared Services are clear and are fully described and provides the correct balance between; reducing cost, maintaining professional support during a period of major service change, and provides sufficient return on investment, within the context of continued economic uncertainty and funding reductions.
8. That the **risks and risk management actions** associated with the Local Government Shared Services programme are clear and are fully described and that proposed mitigating actions ensure that the programme is within the risk appetite of the Authority.

C. That Cabinet notes that any decision made in July will relate to the approval of the Local Government Shared Services arrangements with Northamptonshire County Council, operating within a Joint Committee structure. Any changes to the form of the partnership, e.g. an alternative registered company structure and/or any significant expansion of the partnership beyond the geographical boundaries of the two counties, will require a further business case and separate Cabinet and/or Council consideration as appropriate.

D. That Cabinet is content, based on the advice of the Monitoring Officer that the Local Government Shared Services proposals and supporting Joint Committee arrangements are lawful, and the advice of the Section 151

Officer that Local Government Shared Services and supporting Joint Committee arrangements offer value for money, and comply with all relevant tests of probity, integrity and good governance.

E. That Cabinet notes that on full and formal consideration of the Detailed Business Case and Joint Committee arrangements in July, recommendations as italicised below would need to be made to Council:

That Cabinet recommends to Council the formation of a joint committee between the Council and Northamptonshire County Council, that the Council makes the delegations described in the Delegation and Joint Committee Agreement, and that it delegates power to the Chief Executive, in consultation with the Cabinet Member with responsibility for Resources and Performance, to enter into the Delegation and Joint Committee Agreement.

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1. RELEVANT STRATEGIC OBJECTIVES AND SERVICE PRINCIPLES

- 1.1 The Local Government Shared Services Programme is driven by the requirement to provide cost effective and quality corporate services for a given and reducing level of resource.
- 1.2 Inspection, audit and benchmarking data for both Cambridgeshire and Northamptonshire County Councils (NCC) provide a positive and improving view of corporate services in terms of outcome, performance and cost.
- 1.3 Although the corporate services within the scope of Local Government Shared Services are often referred to in the press as “back office services”, in practice they are a vital component of “front line” service delivery and service improvement as well as having a significant role in protecting the interests of the council tax-payer in terms of; the protection of assets, value for money and due and proper process.
- 1.4 The Local Government Shared Services Programme therefore clearly has in mind that in the changes envisaged, through reductions in costs, through improvements in effectiveness and through prioritisation of effort that it will support the delivery of the Strategic Objectives of the Authority, these being:
 - Enabling people to thrive achieve their potential and improve their quality of life.
 - Supporting and protecting vulnerable people.
 - Managing and delivering the growth and development of sustainable communities.
 - Promoting improved skill levels and economic prosperity across the county, helping people into jobs and encouraging enterprise.
 - Meeting the challenges of climate change and enhancing the natural environment.
- 1.5 Purposefully the Local Government Shared Services Programme is aligned with the following Service Principles:
 - Focus on delivering high-quality effective and efficient services.
 - Listening and being responsive to the needs of Cambridgeshire communities.
 - Working in partnership to achieve a shared vision for Cambridgeshire.

- 1.6 It is recognised that Local Government Shared Services is a significant change programme that needs to be tuned to the needs of both Northamptonshire and Cambridgeshire County Councils and in particular the “front-line” service transformation timetables for the Authorities.
- 1.7 It is also recognised that, whilst Local Government Shared Services brings with it many opportunities and the ability to mitigate (in part) the implications of significant funding reductions, for employees proposed to be within Local Government Shared Services and employees who receive support and services from Local Government Shared Services the change programme initially brings with it uncertainty.
- 1.8 It is important to place on record that the preference of both Northamptonshire’s and Cambridgeshire’s Cabinets to work in partnership to provide Local Government Shared Services (LGSS) displays the highest possible degree of belief and support for the employees of the two authorities and a confidence that the partnership will deliver the best possible balance between performance, cost and quality (as opposed to the alternatives of out-sourcing or cruder reduction of costs in each Authority).

2. BACKGROUND

- 2.1 The Partner Authorities see the proposed LGSS partnership as a transformational way of delivering support services, demonstrating our commitment to improving the economic and social well-being of our community, through delivering the best possible value and outcomes for our customers.
- 2.2 The Partner Authorities have received national recognition for their innovative approach and are amongst the leaders in local government on pursuing the benefits from the shared service agenda. The creation of the LGSS is the next logical step to deliver further benefits, by adopting common ways of working based on best practice and by pooling our resources and expertise to improve performance and quality of service, whilst reducing cost.
- 2.3 The ethos of LGSS means that it will always have public service at the centre of its thinking and decisions will be made in the interests of the Partner Authorities and the communities they serve. Financial benefits achieved will be delivered back to Partner Authorities to use for the benefit of their communities.
- 2.4 The approximate net total annual revenue value of in-scope corporate services that would be initially transferred into the LGSS is £34.6m, of which £24.2m is from NCC. This is made up of £24.6m of like for like in-scope services of which £15.2m is from NCC, and £10m of partly in-scope budgets of which £9m is from NCC. There is little opportunity on an individual basis to reduce costs further, without significantly

impacting the effectiveness of the service delivered. By pooling our investment and exploiting our Oracle ERP system, such as by embracing a self service approach, the Partner Authorities will be able to deliver cost effective and quality corporate services.

2.5 In January 2007, Cabinet approved the formation of a partnership with Northamptonshire County Council to support the delivery of support services, including the purchase of a shared Oracle ERP system.

2.6 At their meeting in February 2008, Cabinet were presented a number of shared service delivery models that have been subsequently evaluated. The options considered are summarised in the table below and discussed in detail in section 8 of this report:

| | |
|----------|---|
| Option 1 | Maintain current level of collaboration on shared ERP platform (do nothing). |
| Option 2 | Collaborative working (creation of a formal partnership to collaborate and share learning, e.g. a Joint Committee). |
| Option 3 | The creation of a private sector controlled joint venture company. |
| Option 4 | The creation of a public sector controlled joint venture company. |
| Option 5 | The creation of a joint venture organisation. |

2.7 It should be noted that both Northamptonshire and Cambridgeshire are continuing discussions with local and other partners who may at a future date wish either to be a partner or a customer of Local Government Shared Services. Local sharing is therefore not an alternative option but an intrinsic part of the thinking behind and purpose of Local Government Shared Services.

2.8 In the February 2008 report on Shared Services, an option of outsourcing corporate services to a third party was identified, although this was subsequently discounted by the authorities, as it would not meet our vision and offers least opportunity to deliver social and economic well-being benefits.

2.9 In April 2009, Cabinet agreed to create a LGSS joint venture company with Northamptonshire County Council (NCC), Slough Borough Council (SBC) and a private sector partner to deliver local government shared services to the Partner Authorities and other interested public sector bodies. Since then, the LGSS concept and wider operating environment has evolved significantly, therefore requiring a new business case to be developed. Some of the key changes included:

- Recent legal precedents and advice from the Partner Authorities' external legal counsel mean that the original proposal of a

majority public owned public-private joint venture company needed to be reconsidered. Hence, the proposal is now a 100% public sector-owned organisation. The private sector involvement is proposed purely as a contracted service provider to the LGSS organisation and consequently has no shareholding.

- The creation of LGSS will be in perpetuity, i.e. with no end date. However the Partner Authorities will enter into an agreement which will set out rights and responsibilities including appropriate exit clauses in the event of one of the Partner Authorities wishing to withdraw from the organisation.
- A recommendation to extend the scope, to include Legal Services, Internal Audit and potentially Strategic Asset Management, Research or other functions over time was made.
- More challenging financial conditions for local government and the wider public sector, putting greater pressure on the need for LGSS to demonstrate an even more effective return on investment against other potential projects, in order to justify the management effort and wider resources the programme is using.

- 2.10 Since April 2009, the Partner Authorities have been developing the LGSS vision and delivering the benefits previously identified. The County Council and NCC have been sharing the costs of System Administration for our shared Oracle ERP solution and realising the benefits of our shared investment in this new technology through improved control, processes and management information across our finance, human resources and procurement functions.
- 2.11 Slough Borough Council did not feel that they were in a position to pursue the LGSS agenda at this current time, given other pressures faced by their organisation. However, they are still considering the options which LGSS would offer them in the longer term.
- 2.12 The Partner Authorities remain open to the potential benefits of other organisations joining the LGSS partnership. Any such consideration would be subject to business case and further Cabinet approval.
- 2.13 In February 2010 the Outline Business Case for Local Government Shared Services was presented to both Cabinets and approved. The Detailed Business Case builds upon the Outline Business Case, though every single element and value has been re-examined in the light of the availability of later and better information and in considering the views and opinions of Officers and Members. Of significant importance is the fact that a Joint Committee structure is now envisaged to be the preferred, and most cost-effective means of forming a Shared Service enterprise.

- 2.14 The vision of the Partner Authorities remains clear – delivering services designed by Local Government, for Local Government, and which will enable the Partner Authorities to exploit their investment in the Oracle ERP solution through developing common systems and processes. In developing this, a series of LGSS design principles have also been agreed, on which the new LGSS partnership will be built and operate. These design principles will be at the core of everything that is designed and implemented by LGSS, to ensure it delivers the vision of the Partner Authorities. This set of seventeen design principles can be found in Appendix 1. The design principles for LGSS also confer implications on the Partner Authorities as to how they operate, such as employees and managers having to use Human Resources (HR) & Finance self service, as was the original intent when Oracle ERP was purchased.
- 2.15 Over recent months, relevant heads of service, managers and subject matter experts from across the Partner Authorities have been working together on business process design, defining the services which LGSS will deliver and how they can achieve single, best practice processes designed specifically for local government. In addition Officers have considered resource, performance and savings issues for both the transactional and professional services that are in scope. Significant further dialogue with members and Officers and possibly external customers has taken place and more is planned, so as to build confidence and understanding and to exchange ideas and opinions. **A draft Service Catalogue summarising service descriptions, processes and proposed customer service standards is set out in Appendix 4. (Due to its size this has been provided separately as part of an information pack for Cabinet Members for information purposes)**
- 2.16 The following functions (transactional and professional) are proposed to be in scope for LGSS for both Authorities. The inclusion of additional and professional services is driven by a desire to keep as much support available to “front-line” services during critical periods of transformation, maximise savings, build critical mass, retain and further develop skills and expertise and reduce the “hand off” points between transactional and professional support:
- Finance;
 - Human Resources and Payroll;
 - Organisational Development & Learning (including social care workforce development);
 - Procurement;
 - Internal Audit; and
 - Legal Services.
- 2.17 It should be noted that Pensions Administration is proposed to be in scope and that this proposal has been endorsed by the Cambridgeshire Pensions Committee, which includes Peterborough, County and District representation.

- 2.18 In addition to the services identified above, and to reflect the current but different approach to service integration in both Authorities, it is proposed that from inception Cambridgeshire County Council will also include; Research, Performance Management, Estates Strategy and Property Commissioning Services whilst Northamptonshire County Council will be adding Information and Technology (IT) Services. This differential approach to inclusion reflects particular issues in both Authorities at this point in time. It is expected that progress will be made for the like for like inclusion of these services within LGSS over the five-year planning period (at which time opportunities for further partnership savings will be identified and delivered).
- 2.19 The main justification for including the widest possible range of services is around the wider vision for LGSS, enabling the authorities to:
- Share best practice and service design models available from the partner authorities;
 - Pool scarce or high cost expertise;
 - Improve quality of services;
 - Reduce transactional cost (such as the helpdesk);
 - Include services that are complementary; and
 - In the future offer a full support service offering to other partners and customers.

3. THE ECONOMIC RATIONALE FOR SHARING SERVICES

- 3.1 Although it is no longer intended to exercise the Authority's Well Being powers to form a Local Government Shared Services company, the County Council is keen to ensure that it can deliver savings in order to offset probable reductions in funding and to achieve its service delivery priorities to the community.
- 3.2 The current economic circumstances, particularly in relation to public finances, mean a more efficient use of our existing resources is required, ensuring we can target financial support to our service users where it is most needed. The inability to gain further funding and reductions in government grant means that the ability to gain economies of scale, both from human and financial resource, is now imperative to delivering our Sustainable Community Strategy.
- 3.3 Our local economy has considerable pressures, particularly with the present economic climate and the need to foster new jobs. The Council's proposed creation of centres of excellence for professional support areas will help protect employment and enhance the skills of our workforce in specific areas.
- 3.4 LGSS will be able to trade services to other public sector organisations, assisting with their cost reduction programmes whilst providing the

opportunity to secure increased job opportunities and enhance the economic well-being of the County.

- 3.5 LGSS is a way of achieving financial savings in order for each of the Partner Authorities to achieve their priorities for their communities.
- 3.6 Proposed improvements associated with LGSS will give a clearer and more detailed view of how money is being spent and resources deployed. This information will not only help with decision making on the allocation of scarce resources but will be helpful in understanding our trading and partnering arrangements and in the identification of opportunities for further savings from procurement and other activities.
- 3.7 In developing the Council's Integrated Plan, the delivery of LGSS is seen as a key enabler. While it provides advantages to the Partner Authorities in providing a more efficient vehicle for service delivery, its main purpose is to support our corporate outcomes.
- 3.8 The Council has carried out a consultation exercise in relation to its draft budget and a survey which confirms the expectation that corporate service costs should be reduced to meet priorities, e.g. enabling older people to remain as long as practical in their own homes.
- 3.9 It is the Government's intention to promote closer joint working between local authorities and other partners to improve the quality of life of their communities. The purpose of the proposals set out in its report fall within this objective, delivering specific benefits to fund community priorities as identified in this report.

4. BENEFITS AND BUSINESS CASE

- 4.1 The Detailed Business Case for LGSS has been produced by the Partner Authorities with the support and quality assurance of Deloitte, the partnership's external advisors. The Management Summary is provided as Appendix 2, with the complete document being provided as Appendix 4 (a), which due to the nature of the information, is an exempt appendix and has been provided separately for Cabinet Members for information purposes.
- 4.2 The Detailed Business Case incorporates the outputs from a number of key activities:
- Definition of scope and gap analysis – based on both the process analysis undertaken by the LGSS Programme Team;
 - Baseline analysis – undertaken by each authority, using a common template;
 - Organisation design – led by Northamptonshire County Council on behalf of the Partner Authorities, to create an outline management structure for LGSS based on the above scope and propose the potential impacts on the client-related management; and
 - Oracle E-business Suite – convergence and development plan, costings and assumptions provided by CCC on behalf of the Partner Authorities.
- 4.3 Overall, the Detailed Business Case estimates that LGSS could enable the Partner Authorities to reduce the cost of in-scope services by an estimated £2.5m per annum (11% of relevant baseline), with a 2.5 year payback period, starting to realise net cash inflows from 2012-13. This compares to an Outline Business Case position of a reduction in the cost of in-scope services by £2m per annum (9%), with a 4.5 year payback period, starting to realise net cash inflows from 2012-13.
- 4.4 In understanding the figures and the positive movement from the Outline Business Case the following issues should be noted:
- The preference for a Joint Committee structure reduces the managerial and change (redundancy and fees) costs of LGSS significantly.
 - Agreement to the early implementation of the R12 version of the Oracle ERP software eliminates some IT project costs and allows for the costs of the upgrade to be spread over seven year IT support contract as revenue (rather than capital).
 - Savings and income earning opportunities have been identified for the professional services in scope (purposefully, reflecting existing priorities, no significant savings have been assumed in relation to teams supporting front line service transition).
 - Care has been taken to ensure that the savings identified in the Detailed Business Case are savings over and above those

identified and detailed in the Integrated Plan. Therefore it is appropriate to classify these savings as LGSS (though some may be achievable by alternate means and options).

- A contingency of up to £1.8m (over the first ten years) has been built into the Detailed Business Case to cover the key risks of; higher than expected restructuring costs, additional project costs, uncertain IT sub contracting costs and any LGSS residual liability regarding Equal Pay claims. It is hoped that elements of the contingency provision can be released from 2012/13 onwards.
- The net £2.5m annual savings figure is made up as follows;

| Item | Value £m | % of 2.5m | Note |
|-----------------------------|----------|-----------|---|
| Managerial | 0.2 | 9% | LGSS Director level |
| Professional | 1.0 | 39% | OD&HR, Finance, Audit, Procurement, Legal |
| Transactional | 0.7 | 29% | HR including Payroll, Finance, Pensions |
| IT | 0.7 | 29% | Deliverable under current partnership arrangement as well as with full LGSS agreement |
| Contingency and other costs | -0.2 | -6% | |
| Total | 2.5 | 100% | |

4.5 The summary year on year view of the financial implications of the LGSS proposal is tabled below:

| | 0 | 1 | 2 | 3 | 4 | 5 | TOTAL |
|--|---------|---------|---------|---------|---------|---------|---------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2010-21 |
| | £000s |

| Baseline | | | | | | | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|--|
| Like for Like in scope - Net Baseline | 25,274 | 25,274 | 25,274 | 25,274 | 25,274 | 25,274 | |
| Partly in scope - Net Baseline | 10,032 | 10,032 | 10,032 | 10,032 | 10,032 | 10,032 | |
| NET 'AS IS' BASLINE | 35,305 | 35,305 | 35,305 | 35,305 | 35,305 | 35,305 | |

| Project Costs | | | | | | | |
|----------------------------|------------|--------------|--------------|------------|------------|------------|--------------|
| Capital Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Costs | 958 | 1,179 | 779 | 295 | 295 | 295 | 4,657 |
| Contingency | 0 | 284 | 284 | 183 | 150 | 150 | 1,802 |
| Total Project Spend | 958 | 1,463 | 1,063 | 478 | 445 | 445 | 6,459 |

| Recurrent Revenue Impact | | | | | | | |
|--------------------------|-------------|---------------|---------------|---------------|---------------|---------------|----------------|
| Net Impact | -130 | -1,743 | -2,340 | -2,525 | -2,575 | -2,662 | -25,289 |

| Net Cashflow | | | | | | | |
|-----------------------|------------|------------|-------------|---------------|---------------|---------------|----------------|
| Annual | 828 | -280 | -1,277 | -2,048 | -2,131 | -2,218 | -18,830 |
| Discounted | 828 | -271 | -1,192 | -1,847 | -1,857 | -1,867 | -13,349 |
| CUMULATIVE NPV | 828 | 558 | -634 | -2,481 | -4,338 | -6,206 | -15,089 |

| | | | | | | | |
|---|-------|-------|-------|-------|-------|-------|--|
| % Saving against total baseline | -0.00 | -0.05 | -0.07 | -0.07 | -0.07 | -0.08 | |
| % Saving against Like for Like baseline | -0.01 | -0.07 | -0.09 | -0.10 | -0.10 | -0.11 | |

4.6 A prudent approach has been taken to the preparation of the business case and 11% of the relevant baseline (over and above non-LGSS planned savings) is the expected minimum return. Areas of further benefit have been identified that indicate that further direct and indirect savings of up to £2.3 million a year are probable of which £1.4 million will be within three years of LGSS commencement, and the further £0.9 million once services have stabilised from year four ie 2014/15. In addition there are budget changes representing commitments already entered into by the councils result in net savings of £1.5 million per year, which LGSS will be responsible for delivering. These savings will be confirmed as part of the 2011/12 and 2012/13 Integrated Planning cycles.

4.7 This investment appraisal has been undertaken jointly for the Partner Authorities. The allocation of costs and savings to each authority would be undertaken as part of the development of a payment mechanism for the LGSS which will form part of the LGSS Partnership Agreement. This will be on a principle agreed by the Partner

Authorities' Senior Responsible Officers (SROs), namely that investment and savings should be apportioned in a fair and equitable manner that incentivises both authorities. This apportionment between the councils should be based on: (a) proportion of initial baseline operating costs & investments (b) equal split once savings target has been met, less a share for LGSS itself (to use as it sees fit, for example investment in LGSS). Subject to this final agreement, the following example has been illustrated to show an investment appraisal, based on an equal share of costs and benefits between the Partner Authorities:

| | 0 | 1 | 2 | 3 | 4 | 5 | TOTAL |
|---------------------------------|------------|-------------|---------------|---------------|---------------|---------------|----------------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2010-21 |
| | £000s | £000s | £000s | £000s | £000s | £000s | £000s |
| Project Costs | | | | | | | |
| Capital Costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Revenue Costs | 479 | 590 | 390 | 147 | 147 | 147 | 2,329 |
| Contingency | 0 | 142 | 142 | 92 | 75 | 75 | 901 |
| Total Project Spend | 479 | 732 | 532 | 239 | 222 | 222 | 3,230 |
| Recurrent Revenue Impact | | | | | | | |
| Net Impact | -65 | -872 | -1,170 | -1,263 | -1,288 | -1,331 | -12,644 |
| Net Cashflow | | | | | | | |
| Annual | 414 | -140 | -638 | -1,024 | -1,065 | -1,109 | -9,415 |
| Discounted | 414 | -135 | -596 | -923 | -928 | -934 | -6,674 |
| CUMULATIVE NPV | 414 | 279 | -317 | -1,241 | -2,169 | -3,103 | -7,544 |

- 4.7 The benefits of collaboration in the context of the wider professional services scope, such as Internal Audit, Legal Services and Procurement include:
- Expanding current best practice service delivery models that exist within perhaps one of the partner authorities.
 - Pooling specialist resources and create additional capacity where resources within each individual organisation are scarce.
 - Offering a comprehensive ‘end to end’ support service to the authorities, reducing potential conflicts between corporate services performed in LGSS and those retained by the Partner Authorities.
 - Sourcing more cost effective services from 3rd party suppliers (where it is not appropriate for LGSS to recruit employees) through looking at a wider package of support needs for both authorities, rather than just one.
 - Savings from adopting common procurement strategies and sharing expertise – there may be opportunities to achieve further savings and could be particularly attractive in high cost and complex areas (for example, adult social care). There may be some benefits from procuring contracts together, although this can be limited by the diverse geography of the authorities and the fact that the Partner Authorities already benefit from local consortia contracts.
 - Developing the commercial disciplines within LGSS and making explicit the costs of corporate services to the end users to help reduce non-essential spend within the Partner Authorities.
- 4.8 Beyond the financial benefits quantified in the Business Case, wider opportunities exist to support the LGSS, namely:
- Reducing the net cost of change for each authority – as transformation activity can be undertaken once and the outputs shared for each organisation, reducing the relative implementation costs;
 - Supporting a change in the Partner Authorities’ culture – promoting manager and employee self-service and reducing the reliance on corporate services. In-scope services will be managed and deployed on a common, more formalised basis, providing the tools and information necessary to enable manager and employee self-service. While internal support functions are often treated as ‘sunk’ costs, LGSS will improve the transparency of corporate service costs and performance, and influence the behaviours of the commissioning organisations;
 - Providing a vehicle to deliver services to other organisations – LGSS could use its capacity to deliver services to other organisations, such as our geographic District & Borough Councils, cost effectively supporting the wider local public service economy and supporting the emerging government priorities relating to localism, building on the principles of ‘Total Place’;
 - Subject to meeting the necessary procurement legislation, providing the potential commercial offering of “by Local Government, for Local Government” corporate services as an

effective alternative to outsourcing – LGSS will be focused on the optimisation and efficiency of the services it provides, in a similar way to private sector outsourcing companies. While the LGSS model arguably may not deliver the same extent of capacity that could be achieved through working with an outsource provider, as a Joint Committee, LGSS will not leak savings through profit margin which would be distributed to private sector shareholders; and

- Freeing-up management capacity within the Partner Authorities – to focus on their core business and transformation priorities, by enabling the LGSS management team to focus on the optimisation and reconfiguration of in-scope services.

4.9 Delivering the LGSS through a joint committee structure helps to future-proof the organisation and its service delivery, as the future of the organisation will be completely aligned with the local government environment in which its founding authorities operate. This is a very considerable benefit compared to any form of outsourcing model given the current Public Sector finance picture.

5. ORGANISATIONAL IMPLICATIONS

- 5.1 The LGSS design principles detailed in Appendix 1 of the Detailed Business Case must be adhered to as the founding Partner Authorities transfer services into the LGSS partnership, to ensure the successful operation of LGSS.
- 5.2 As part of the move to LGSS, the Council will need to restructure its senior management team to reflect the changes in responsibility and new ways of working. Because the LGSS will operate as a Joint Committee, no 'client' structure is required– i.e. the County Council will manage the services delivered by LGSS, on the basis that it co-manages the organisation, through a traditional member/officer route, that is delivering those services. **The draft Delegation and Joint Committee Agreement is detailed in Appendix 3 (circulated as part of a separate Information pack to Cabinet Members due to its size).**
- 5.3 Significant cultural change within the retained parts of the Partner Authorities will be required, in order to deliver the compliance required to deliver benefits in respect of:
- Common business processes across the LGSS support services delivered to both Partner Authorities.
 - Centralisation of support service functions (as existing model).
 - Manager and employee self-service.
 - Not allowing pseudo-support service functions to be recreated within the retained organisation.
- 5.4 LGSS will need to be guided by and in alignment with other Council strategies and policies as part of the "Total Place" agenda.

- 5.5 The LGSS Organisation will benefit by having a discernable identity. This blended with the continuity of employee contracts remaining with each Authority and the overall control of the Joint Committee will allow a low risk but discernable change for employees involved in the enterprise.
- 5.6 An Equality Impact Assessment Initial Screening Form has been completed for LGSS. It did not highlight any equality impacts and it is not considered that a full impact assessment is required.
- 5.7 The joint procurement of a replacement for our expiring ERP hosting contract has already commenced. This procurement is being designed as flexibly as possible to support the future requirements of LGSS and the councils.
- 5.8 Depending on the decision to proceed, the implementation timescales (subject to consultation with employees and recognised trade unions and review as part of more detailed planning) can be summarised as follows:
- Creation of Joint Committee – July 2010.
 - Appointment of Management Board – October 2010.
 - Transfer of services to LGSS – from October 2010.
 - Private sector provider or alternative hosting services commence – April 2011.

6. LEGAL IMPLICATIONS

- 6.1 The proposed creation of a shared services arrangement between Northamptonshire and Cambridgeshire county councils under the auspices of a joint committee, engages a number of different legal issues ranging from the establishment of the joint committee itself to the position of employees working within the shared services.
- 6.2 Shared arrangements between local authorities are not new and much of the legal framework in place to enable such arrangements has been in existence for some time and is well tested in the legal sense. However, as with any innovative project there are potential areas of legal risk and uncertainty. This is particularly the case in respect of employment law and procurement law considerations. These are acknowledged to be dynamic areas of the law and in both these areas there have been recent relevant case law developments.
- 6.3 However, the existence of a legal risk does not necessarily prevent the council progressing a project provided that there is recognition of the risk, a judgement as to whether it lies within the risk appetite of the council and that it is reasonable in all the circumstances. As part of the project work undertaken there has been a process of reviewing the legal risks arising in the context of the LGSS and in this regard external expert advice has been sought in relation to the developing areas of case law mentioned above. The full results of this process and the legal

advice are contained in Appendix 4(b) this report which, due to the nature of the information, is an exempt appendix and has been provided separately for Cabinet Members only.

- 6.4 In summary, having carefully considered the legal advice and in the light of the information currently available, it is considered that the proposed structure is permissible and within the powers available to a council. In addition, the level of legal risk arising due to the uncertainty associated with the law covering some aspects of the arrangements, are not considered to be so great as to render the action unreasonable in the legal sense.

7. CONSULTATION AND SCRUTINY

- 7.1 Joint governance arrangements (formally set out in our current Partnership Agreement) are in place between the Partner Authorities including the responsible Cabinet Members, Chief Executives and Senior Responsible Officers (CCC's Corporate Director for Finance, Property & Performance and NCC's Chief Executive) who have met on a regular basis throughout the programme.
- 7.2 A joint LGSS Consultation Forum, which includes representatives from recognised Trade Unions have also received regular updates. Briefings have and are also due to be given to employees and employee representatives. We are proposing to replace the joint Consultation Forum with a joint formal sub-committee to the Corporate Joint Panel.
- 7.3 Corporate Services Scrutiny Committee has considered the LGSS proposals on 18 January 2007, 12 July 2007, 17 January 2008, 10 July 2008, 25 September 2008, 21 November 2008, 2 April 2009, 21 September 2009, 29th April 2010 and on a joint basis with Northamptonshire County Council in May 2010. Further joint scrutiny is planned.

8. ALTERNATIVE OPTIONS CONSIDERED

- 8.1 Over the last 18 months, careful consideration has been given to a number of options regarding the best 'vehicle' to deliver the LGSS vision and design principles. The analysis of these options has been based on legal, financial and operational considerations and subject to a number of presentations and subsequent discussions at the programme's Joint Management Board, Strategic Stakeholder Board including discussions with civil servants from the Department for Communities and Local Government. The options considered are in line with the Cabinet decisions of October 2008 and April 2009, and have been developed with advice sought from legal advisors Sharpe

Pritchard and Counsel Mark Lowe QC and our business case advisors, Deloitte. The broad categorisation of the options is described in the table below, and the main reasoning behind the choice or dismissal of the options are discussed in summary.

| Option | Description |
|----------|---|
| Option 1 | Maintain current level of collaboration on shared ERP platform (do nothing). |
| Option 2 | Creation of a formal partnership to extend collaboration, e.g. a Joint Committee). |
| Option 3 | The creation of a private sector controlled joint venture company. |
| Option 4 | The creation of a public sector controlled joint venture company. |
| Option 5 | The creation of a joint venture organisation with public sector only partners, e.g. a 'Teckal' company. |

- 8.2 Option 1 maintains the current position, with Cambridgeshire and Northamptonshire County Councils continuing to share a third party hosted Oracle ERP system. External benchmarks demonstrate our already low cost of providing corporate services following the savings realised from our investment in the shared ERP application. This means that realising any further savings would require radical cost reduction programmes, resulting in a reduction in the quality of our services. Future investment in our ERP system would be shared, but realising the most significant benefits from this investment would require the full convergence of both systems and processes only realistically achievable through a shared service. This option is least likely to deliver benefits and enable the refocus of our resources to promote the economic and social well-being of our community. For these reasons, this option has been discounted.
- 8.3 Option 2 allows the in-scope corporate services to be shared between the Partner Authorities above and beyond existing levels, supported by a more formal partnership arrangement, through the creation of a Joint Committee. This is a well known and tested model used by various local authority partnerships and would support the LGSS vision of being designed by Local Government, for Local Government. Experience of Joint Committees has not always been positive though, with the governance arrangements seen as weak in some cases, relying on decision making by agreement within the committee. However, appropriately constructed contractual arrangements and extensive delegations from the Joint Committee will largely address these concerns. The fact that employees would remain employed by one or more of the Partner Authorities may make the cultural change required to deliver the benefits of LGSS harder to achieve. Our experience of working collaboratively on the shared Oracle ERP

system has also shown that benefits maximisation can be restricted without a single line management structure and the ability to influence culture and behaviours. However, this risk could be mitigated by a strong partnership agreement providing clear leadership and an established culture of collaboration to achieve the benefits of the LGSS vision. A joint committee arrangement would appear to offer a lower scope for financial benefit for the Partner Authorities in terms of achieving target cost savings compared to option 5 in the longer term. Although this needs to be considered in the light of significantly lower start up costs particularly those relating to pensions. Future scalability and revenue generation would be possible with a moderate increase in Joint Committee membership and/or through the provision of services to other public sector customers such as local Borough and District Councils without the need for them to become members of the joint committee. On balance this is not considered to be the preferred option in the long term. However, the Partner Authorities do recognise that the current legal position means that this option is the only current realistic option that would enable benefits to be delivered in the short term.

- 8.4 Option 3 involves the creation of a new Joint Venture Company with the private sector. This model has been used in the past for similarly scoped ventures and would offer the benefit of the LGSS being managed by a single board focused on the interests of the company. This would make the change journey easier and enable the development of a new culture focusing on performance management. Private sector interest in this option was proved during the soft market testing carried out for LGSS and reported on in the cabinet paper of October 2008. However, the private sector controlling interest in the Joint Venture Company required for them to reflect the business risk, would mean a loss of control to the partner authorities effectively leading to the services being outsourced to the private sector partner. The required level of private sector return, estimated by advisors at being between 10 and 15%, would also mean less benefit accruing to the Partner Authorities, reducing their ability to promote economic and social well-being, and potentially make the business case unattractive to all parties. This is not in line with the partnership's overarching vision of a "By Local Government, for Local Government" business proposition and for these reasons, this option was discounted.
- 8.5 Option 4 builds on option 3, instead proposing a majority public sector owned Joint Venture Company, with a minority private sector partner. This is more in line with the LGSS vision, whilst maintaining the benefits of creating a new and focused company to deliver the shared service. However, this model is as yet untested in the UK and supplier feedback raised some concerns about the increased risk this would present to the private sector partner without a controlling stake in the joint venture. In addition to this, the model would face obstacles in current EU procurement directives, as highlighted in the recent Brent LAML case. Being majority public sector owned would subject any

services provided the LGSS joint venture company to EU procurement regulation, including the offering of services even back to the partner authorities, introducing a risk that the LGSS would not successfully win the contract for support services from both councils. For these reasons, this option has been rejected.

- 8.6 Option 5 proposes the creation of a joint venture organisation wholly owned by the Partner Authorities – truly by Local Government, for Local Government. This still provides the benefits of a separate organisation to focus on delivering the LGSS vision, but removes the risks to the partner authorities in having a private sector shareholder in the organisation. A private sector provider would be contracted to provide services to the LGSS as appropriate. However, this is an area of emerging legal precedent and there are legislative constraints on the ‘Teckal Company’ model which would restrict the ability of the LGSS to trade and raise revenue from selling services to other organisations. Due to legal risks this option is no longer considered viable.
- 8.7 Option 2 is the recommended option and forms the basis of the supporting business case, which can be found at Appendices 2 and 4, and which is summarised in this paper.

9. RESOURCES AND PERFORMANCE IMPLICATIONS

- 9.1 Matters relating to finance, human resources, performance management are mainly already reflected within the body of this report and supporting appendices. The financial implications are summarised below:

| | Current year | Forecast | | | | |
|--|--|-------------|-------------|---------------|---------------|------------------|
| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 & Beyond |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Capital Investment | | | | | | |
| Costs | 0 | 0 | 0 | 0 | 0 | 0 |
| Funded by | | | | | | |
| Revenue costs | | | | | | |
| Costs –Project Costs (inc. contingency) | 479 | 732 | 532 | 239 | 223 | 223 |
| Recurrent revenue impact | -65 | -872 | -1,170 | -1,263 | -1,288 | -1,331 |
| Funded by | Invest to Save / existing Excellence for our Customers Programme funding earmarked for ERP/Shared Services | | | | | |
| Total Net Costs (capital & revenue) | 414 | -140 | -638 | -1,024 | -1,065 | -1,108 |

| | |
|--|--|
| What benefits will the proposal deliver? | Please see section 4 of this report, supported by the Detailed Business Case Management Summary at Appendix 2. |
|--|--|

10. RISK AND BUSINESS CONTINUITY MANAGEMENT

10.1 Appendix D of the Detailed Business Case (not included in the public report) provides a detailed analysis of key risks facing the programme. Below is a summary of the key issues and themes that must be understood:

- A new service delivery model: to achieve the additional benefits anticipated within this business case, we have assumed that OD&HR and Finance services will be based on a 'self-help' model that promotes the accountability of council managers for performance, employee and financial management. The role of LGSS will be to provide advice and support the customer authorities to mitigate their business risks, by focusing on exceptions (i.e., problems that managers alone cannot deal with) and enabling change (supporting the customer authorities through transformation initiatives). LGSS, like most providers of support services within local government, will be expected to reduce its cost base. One of the most effective ways to achieve this is to empower the workforce via self service, which places the responsibility and ownership of simple changes out to employees and managers; thus reducing the transaction volumes and effort in the shared service centres.
- Standardisation of and compliance with new processes: The foundation of nearly all benefits derived from any Shared Service is based on the integration and consolidation of functions and processes. The key pre-requisite of this integration, is the commitment of the participating parties to a single vision and approach that is based on the standardisation and alignment of business processes. If the councils cannot agree and stay fully committed to this standardisation and improve process compliance, then the future viability of the model and associated benefits will be put into serious jeopardy.

Change Management: Major programmes such as LGSS, often focus on detailed design, planning, and implementation. However, unless the deployment of new ways of working is genuinely embedded both with LGSS itself and also within the customer authorities, the programme will fail to deliver the expected benefits. LGSS will introduce significant changes to some of the core functional areas of the councils. If the appropriate levels of change management and stakeholder engagement are not deployed, there will be significant risks to fundamental 'business as usual' operations during the transition to LGSS.

10.2 In addition Internal Audit, as part of the due diligence work carried out on the Detailed Business Case, have highlighted three key risks / themes, associated with the proposal, which are provided overleaf:

a) Risk(s) associated with the proposal

| Risk | Mitigation | Residual Risk |
|---|---|---------------|
| The business case for shared services is not robust | Proposed Joint Committee Governance and Agreement, allowing the councils to intervene and change direction. Note: The 'worst case' scenario is that the councils may decide in future to revert to the current position. | A |
| The Shared Services model is not efficient, effective or economic | Stakeholder support, Leadership, Proposed Governance & Organisation. Note: The required investment costs are relatively modest and mainly relate to Oracle R12, which is required in any event. | A |
| The option chosen fails to deliver best value for the Council tax payer | Joint Committee model: Other options can be pursued as and when right for councils. Note: The investment and potential costs of exit for the Joint Committee option are less than the other 'do nothing' models | G |

b) Risk(s) associated with not undertaking the proposal

| Risk | Risk Rating |
|--|-------------|
| Target cost savings across support services in the Partner Authorities will not be met. | R |
| Target service improvements across support services in the Partner Authorities will not be met. | R |
| Reputational damage to the Partner Authorities as a result of the national interest in the LGSS programme which has been generated so far. | R |

11. RESOURCES AND PERFORMANCE

11.1 Are the core components of this report and are included in the preceding sections and are covered in full in the attached Detailed Business Case.

12. STATUTORY DUTIES & PARTNERSHIP WORKING

12.1 Are core components of this report.

13. CLIMATE CHANGE

13.1 There are no direct climate change implications arising from this report.

14. ACCESS & INCLUSION

14.1 There are no significant issues arising from this report in relation to access & inclusion.

15. ENGAGEMENT & CONSULTATION

15.1 No public engagement or consultation is required for the purpose of this report (however in the Integrated Plan consultation a reduction in back office costs is an expectation of the public).

Appendices:

Appendix 1: Design Principles

Appendix 2: Management Summary from the Detailed Business Case for Local Government Shared Services – version 1.0, June 2010.

Appendix 3: Delegation and Joint Committee Agreement – version 0.4, June 2010. (provided separately for Cabinet Members for information purposes due to its size)

Appendix 4: LGSS Service Catalogue – version 1.2, June 2010 - (provided separately for Cabinet Members for information purposes due to its size)

Appendix 5: Not for publication by virtue of paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.

- a) Detailed Business Case for Local Government Shared Services (LGSS) Version 1.0, June 2010.**
- b) Legal Implications Arising from the Proposed LGSS Arrangements.**

Appendix 1

Defining LGSS – Design Principles

| Workstreams | Level 1 Design Principles |
|---|--|
| Processes | <ol style="list-style-type: none"> 1. Services will be designed with the customer in mind, but based on self help 2. Provide a high-performing service measured against industry best practice 3. Common policies and processes will be adopted providing value for money 4. Hand-offs/interfaces to retained client organisations will be optimised |
| Organisation (LGSS & customer authorities) | <ol style="list-style-type: none"> 5. Designed by local government for local government 6. Customer focused organisation and culture 7. Organisational capability will be established to target and take on new customers 8. High performing teams – employer of choice |
| Information | <ol style="list-style-type: none"> 9. Performance driven enabling continuous service improvement 10. Comprehensive and standard reporting framework will be available 11. Quality assured data management policy and process |
| Technology & Infrastructure | <ol style="list-style-type: none"> 12. High quality accessible platform based on proven software and technology 13. Progressive multi-site infrastructure to support customers 14. Value added services will be developed and offered to customers |
| Location | <ol style="list-style-type: none"> 15. LGSS will be responsible for location strategy 16. Some services require face-to-face contact and will be located on client sites 17. Some expert services will need to be peripatetic |

Source Documents

Appendix 2

Management Summary from the Detailed Business Case for Local Government Shared Services – version 1.0, June 2010.

Appendix 3

Delegation and Joint Committee Agreement – version 0.4, June 2010. (provided separately for Cabinet Members for information purposes due to its size)

Appendix 4

LGSS Draft Service Catalogue – version 1.2, June 2010 (provided separately for Cabinet Members for information purposes due to its size)

Appendix 5

Not for publication by virtue of paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.

c) Detailed Business Case for Local Government Shared Services – version 1.0, June 2010.

d) Legal Implications Arising from the Proposed LGSS Arrangements - 28th May 2010.