

**LGSS OPERATING MODEL**

**To:** General Purposes Committee

**Meeting Date:** 26 November 2019

**From:** Deputy Chief Executive

**Electoral division(s):** All

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

**Purpose:** Following on from a report considered at the last meeting of this Committee, this report sets out the proposed next stages and direction of travel for the future operating model to support the delivery of the Council's support service functions. The report to the LGSS Joint Committee of 31st October and the associated minutes are attached as appendices.

**Recommendation:** It is recommended that the Committee:

- a) Notes the content of the report;
- b) Accepts the proposed future direction of travel for the Council's support services;
- c) Recognises the financial and operational benefits that the LGSS shared services model has delivered for the residents of Cambridgeshire but;
- d) Acknowledges that the future operating and financial models will result in a significant increase in costs to this Council and notes that an estimate of these additional costs have been provided for within the latest Business Plan.

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## 1. BACKGROUND

- 1.1 Most of the background to this issue was covered by the report seeking the Committee's agreement to the repatriation of Professional Finance and Democratic Services that was considered at the last meeting. In summary a review of the operating and financial model of LGSS was undertaken by The Chartered Institute of Public Finance and Accountancy (CIPFA), largely driven by Northamptonshire County Council's desire to re-baseline the funding of these services due to a perceived 'subsidy' that has benefitted Cambridgeshire since the inception of LGSS.
- 1.2 A report was considered by the LGSS Joint Committee on 31st October which recommended that the Joint Committee agree to work commencing on detailed design for the new model, based on option 3 of the CIPFA report. This report is **Appendix 1** and the minutes for the item is **Appendix 2**. Both are confidential.

## 2. THE COST DISTRIBUTION MODEL

- 2.1 A link to the CIPFA report, which was considered by the Joint Committee on 31st October, is included at the end of this report. The Committee is reminded that this report was a confidential item. In order for this paper to be considered in public session the CIPFA report has not been included as an Appendix and therefore the Committee is asked to be mindful of this during the debate.
- 2.2 Although it is possible to challenge some of the assumptions upon which the CIPFA model is predicated it is undoubtedly true that the funding arrangements result in a lower cost to serve for Cambridgeshire compared to that of Northamptonshire.
- 2.3 This differential in cost to serve is nothing new and has in fact been the case since both Councils first considered the sharing of their support services over ten years ago. It has always been very transparent to both Councils that this was the case, and was clearly set out in financial terms in the original Partnership Agreement. The position derives from the starting position of the two county councils.
- 2.4 At the point that both organisations considered the business case for joining up their support service functions, the cost of delivering services in Cambridgeshire was significantly lower than the same range of services in Northamptonshire. This could have been as a result of differences in quantum of activity, input costs (i.e. salaries have always been higher in NCC), or the quality of the services provided. In reality it was probably a mixture of all of these factors. As a consequence of this Cambridgeshire has gained more than Northamptonshire from these arrangements over the last 8 years.

## 3. DELIVERING VALUE THROUGH SHARING OF SERVICES

- 3.1 When Max Caller undertook a review of the financial causes that led to NCC having to issue a Section 114 notice, he took the opportunity to challenge the value added by LGSS. In his view it was not possible to provide demonstrable evidence that the savings delivered through LGSS could not have been delivered by NCC alone. Although there is significant evidence of the overall reduction in costs of delivering the support services within LGSS it is not possible to demonstrably evidence a counter factual position and therefore this remains an opinion that is neither proven or not proven.

- 3.2 Max Caller did however suggest that the scope of services within LGSS included service areas where there was no demonstrable evidence that these services benefitted from any sharing. It is the view of all the partners that this is correct. It would appear that service areas were included within the scope of LGSS simply to increase the financial turnover of the organisation. Many service areas such as Democratic Services, Finance and HR business partners, and operational IT simply support the organisations that they work in. There is no sharing of skills or resources and therefore the only benefit that is derived is through areas of significant procurement – the same outcome of which can be delivered without a shared service offer.
- 3.3 As a result the Council has already repatriated Property Services, Professional Finance, and Democratic Services. Other service areas will follow as part of the next phase of developing a new operational model.
- 3.4 The financing of LGSS is a mixture of external income and partner organisation base funding. Following the issues in NCC, the opportunity to ‘sell’ services to more public sector organisations has become almost impossible and at least one major client, Norwich City Council, has given notice and will terminate their contract on 31st March 2020. Once Northamptonshire is restructured, the not insignificant margin generated from the provision of services to Northampton Borough Council will naturally be lost. These two clients alone contribute around £1m to the management overheads of the LGSS operations.
- 3.5 The implications of losing the income from Norwich have been built in to the CIPFA modelling but not the implication of Local Government Review in Northamptonshire. Although both Cambridgeshire and Northamptonshire knowingly entered in to a shared service model that sustained the relative differential of in cost of service delivery (through the equal sharing of cost savings and income generation) this has now become an unacceptable position for NCC. NCC are therefore seeking to address what they see as a funding model that is not an equitable cost model, and to do so as soon as possible.
- 3.6 Under the terms of the Partnership Agreement, the terms of the partnership can be varied at any point with the agreement of all partners. However if there is no agreement to the proposed change, one partner can invoke the change by giving 18 months’ notice and by accepting the cost of change associated with the proposal.
- 3.7 Over the last 12 months, or so, the partners have been discussing how the partnership could move to a new operating model yet still retain some of the benefits that have demonstrably accrued to all partner organisations. The principles set out in the attached paper are a compromise as all three organisations are not getting exactly what they had hoped for at the start of the discussions over the future model of LGSS. There is still a large amount of work to be done, as for many service areas the issue is not simply a matter of adjusting reporting lines.
- 3.8 Officers will continue to work with partner organisations to bring this matter to a conclusion as soon as possible. It is important that all partners are cognisant of the impact that these prolonged discussions have over staff. Coupled with the uncertainty about the future arrangements in Northamptonshire post Local Government Review (LGR), it has been an unsettling time for LGSS staff. It is to their credit that services have largely been unaffected. It is however true that some service areas have been more affected through

staff turnover than others and the partner organisations have prioritised these service areas as part of the overall transition programme.

- 3.9 Although CIPFA have produced a financial model, this does make various assumptions on the cost of service delivery post repatriation. These assumptions were predicated on the views put forward by the various service leads on what they thought each council would need to put in place to take the services back in to their own organisations. We now move to developing a model that is based on more detailed proposals as opposed to assumptions. It is therefore inevitable that the actual cost model will differ from that within the CIPFA report. It is hoped that this work can be concluded within three months but this is a very challenging ask and it is possible that it will not be delivered within this timescale. As soon as the revised model is available it will be considered by the Joint Committee in the first instance and then by the respective governance arrangements within each Council.

#### **4. ALIGNMENT WITH CORPORATE PRIORITIES**

##### **4.1 A good quality of life for everyone**

There are no direct implications for this priority.

##### **4.2 Thriving places for people to live**

There are no direct implications for this priority.

##### **4.3 The best start for Cambridgeshire's children**

There are no direct implications for this priority.

#### **5. SIGNIFICANT IMPLICATIONS**

##### **5.1 Resource Implications**

There are no direct implications arising from this specific report. However this report will lead to a set of proposals that will have a significant impact on the cost of delivering the Councils support services and on the human resources that currently deliver these services.

##### **5.2 Procurement/Contractual/Council Contract Procedure Rules Implications**

There are no significant implications within this category.

##### **5.3 Statutory, Legal and Risk Implications**

There are no significant implications within this category.

##### **5.4 Equality and Diversity Implications**

There are no significant implications within this category.

## 5.5 Engagement and Communications Implications

Once detailed information is available on how each service area will be specifically managed under the new operating model, a significant amount of engagement will be undertaken with staff. All LGSS staff have been engaged on the current direction of travel by the Managing Director of LGSS and the Council has also sent a communication to all CCC staff.

## 5.6 Localism and Local Member Involvement

There are no significant implications within this category.

## 5.7 Public Health Implications

There are no significant implications within this category.

Implications	Officer Clearance
Have the resource implications been cleared by Finance?	Yes Name of Financial Officer: Chris Malyon
Have the procurement/contractual/ Council Contract Procedure Rules implications been cleared by the LGSS Head of Procurement?	No implications
Has the impact on statutory, legal and risk implications been cleared by the Council's Monitoring Officer or LGSS Law?	No implications
Have the equality and diversity implications been cleared by your Service Contact?	No implications
Have any engagement and communication implications been cleared by Communications?	Yes Name of Officer: Chris Malyon
Have any localism and Local Member involvement issues been cleared by your Service Contact?	No implications
Have any Public Health implications been cleared by Public Health	No implications

Source Documents	Location
CIPFA Report: LGSS independent review of shared services (Please note this is confidential and therefore accessible by GPC Members only)	<a href="https://my.huddle.net/workspace/38684377/files/#/74710330">https://my.huddle.net/workspace/38684377/files/#/74710330</a>