Appendix 2

Local Government Shared Services

Management Summary for Local Government Shared Services (LGSS)

Status: DRAFT

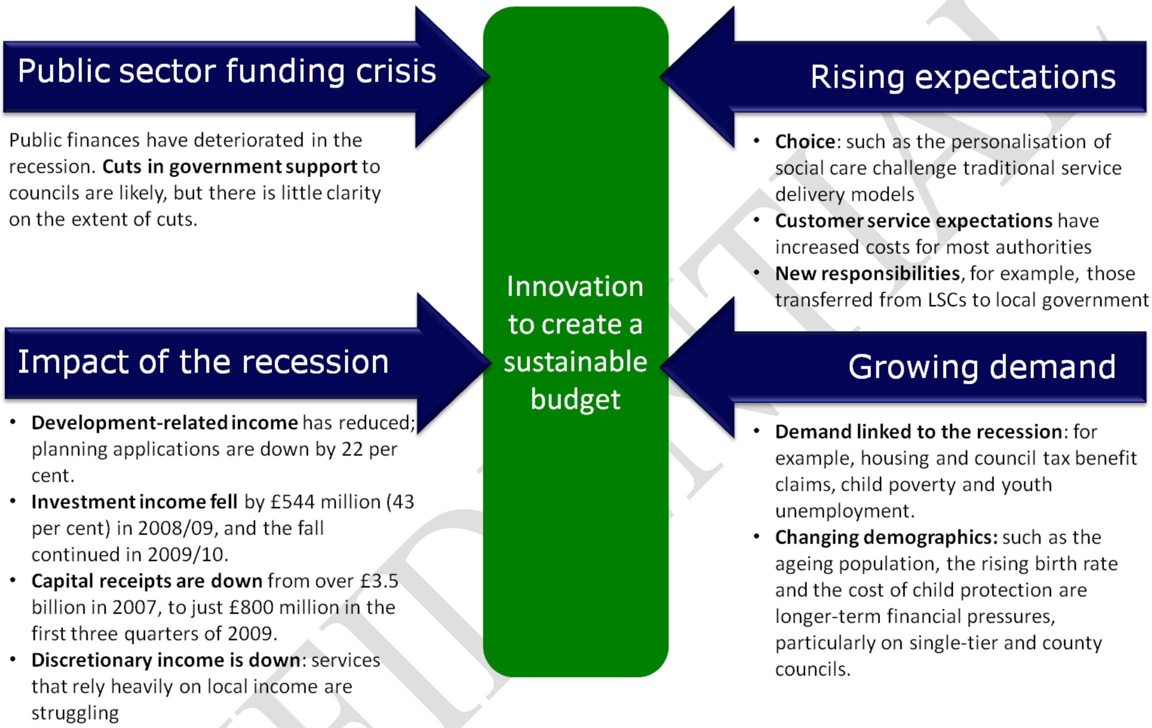
Version 1.0

14th June 2010

1 Management Summary

1.1 Strategic context

Local authorities are facing a challenging financial future, partly due to the current public sector financial deficit, but also due to growing demand for high cost services such as social care. In this context, local authorities have a responsibility to look for more innovative ways to reduce their costs and find a sustainable budgetary position. The diagram below summarises the four key dynamics impacting on local government budgets:



Source: Surviving the Crunch (Audit Commission: 3/2010)

The Coalition Government recently announced short term cuts in local government expenditure, with a freeze on Council Tax. At present, the likely impact of the 2011 budget is unclear, although further reductions in local government expenditure are likely.

In this context, Cambridgeshire County Council (CCC) and Northamptonshire County Council (NCC) have been looking at how, through effective collaboration and shared services, they can reduce the cost of support services over and above the savings they can achieve individually.

1.2 The journey of effective partnership

CCC and NCC have been working effectively together for over 3 years. In the summer of 2008, both councils were using the same Oracle eBusiness Suite (ERP) instance, having been through a significant 18 month implementation cycle together, designing new business processes and building mutual trust. The result of this collaboration has led to accelerated process improvement and significant savings.

This Detailed Business Case (DBC) proposes the next stage in the development of the two councils' partnership, enabling us to achieve further benefits and position the councils as leaders in the sector, being able to provide a sustainable shared service offering to other authorities and with the goal of achieving a lower cost than traditional outsource service providers.

1.3 The proposal

This business case evaluates the benefits, costs and implications of moving the existing partnership between CCC and NCC to the next stage, namely with the creation of a shared delivery model for support services (referred to as the “Local Government Shared Service” or “LGSS”). This proposal would involve the creation of a quasi-independent venture (although not an independent legal entity) providing a range of support services (including, Finance, OD & HR, Internal Audit) to the two authorities, using the common Oracle eBusiness Suite system, having a single management team, and standardising and simplifying common business processes for both authorities.

This proposal would involve LGSS providing services to the two authorities, which currently cost over £35m per annum. Through the consolidation of resources, the further redesign of processes and investment in additional software functionality, this business case anticipates achieving material savings due to the incremental benefits of collaboration, rather than just internal improvement.

Through the options analysis (section 7), it is proposed that the LGSS is governed via a Joint Committee (described as option 2). Although it is the intention that LGSS will have its own management team, brand and customer service culture, it will not be an independent legal entity. 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.

1.4 Financial assessment

The table below summarises the anticipated financial performance of the LGSS over the coming 5 years:

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

In summary, this financial analysis demonstrates the following:

- The gross cost of implementing the LGSS has been estimated as £6.5m (£1.8m of which is the contingency figure). These costs include implementation of the new service and its stabilisation to achieve upper quartile performance, as well as the required investment in the Oracle R12 over the life of the ERP hosting contract;
- The potential net annual saving, after all programme-related costs have been accounted for, is estimated to be £1.7m (7% saving against like for like baseline post IPP / MTP)) in year 2; £2.71m (11%) by year 5; the year 5 level of savings is expected to continue till year 10 (2020-21) thus generating a total of £25.3m in recurrent revenue savings. This represents the reduction in operating cost, against the current approach to delivering support services;
- The payback period for LGSS is 2.5 years with the total annual cashflow being in surplus by £0.3m in 2012-13 (Year 1);
- The cumulative NPV by 2020-21 (Year 10) is in surplus by £15.1m;
- From 2015-16 (Year 5), it is anticipated that LGSS will deliver recurrent savings of £2.7m per annum.

The cumulative Net Present Value (NPV) addresses the time value of money[1] and reflects the fact that the implementation costs will be incurred in the initial stages of the programme, while the phased implementation will delay the delivery of benefits. Expenditure by CCC and NCC pre-dating this analysis has not been incorporated within the financial summary to avoid double-counting of both costs and prior year savings.

Section 4.4 illustrates how the proposed savings will be achieved through the creation of a new 'target operating model' to deliver support services. The savings estimates within the business case have been led by the heads of service for each of the main functions in-scope at each authority, working towards a new organisation design, rather than relying on benchmark comparators. This has built confidence in the ability of LGSS to deliver significant savings, and has clarified the approach to making them happen under the following key themes:

- Single management function;
- Process efficiency;
- Economies of scale;
- Technology efficiency;
- Self service;
- Sharing of specialist professionals;
- Reduction in external spend;
- Systems and technology.

1.5 Qualitative & non-cashable benefits

In addition to the financial benefits of LGSS, it is important to recognise that CCC and NCC could achieve significant non-financial benefits from shared services, namely:

1 For the purpose of the business case the discount factor used is 3.5%, in alignment with Treasury green book guidance

- 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 customer authorities' culture – promoting manager self-help and reducing the reliance on support 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 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 district councils, cost effectively supporting the wider local public service economy and enabling greater sub-regional public sector collaboration (as reflected in previous initiatives such as Total Place);
- Providing an effective alternative to outsourcing – the LGSS organisation will be focused on the optimisation and efficiency of the services it provides, in a similar way to private sector outsourcing companies. However, as a wholly-owned public sector venture, LGSS will not leak savings through profit margin which would be distributed to private share holders;
- 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;
- Improved controls through consolidation and process standardisation – rationalising processes into a transaction processing centre will allow more effective management of processes and as a result improve controls;
- Improved management reporting – allows collection and analysis of standardised data within each organisation, improving the ability to measure performance, monitor and manage the resources maintained within the ERP system;
- Creating an environment to share and implement good practice across the councils - our analysis has identified a number of areas where the councils can learn from each other, in addition to benefiting from shared administrative services;
- Scalable approach to shared services – the flexibility of the design will provide a scalable approach to offering economical and effective transactional financial and OD&HR services, and professional services to district councils, thus providing leadership in local government;
- Reputational Benefit – the two councils will be recognised as national leaders in the shared services arena.

There is another category of benefits which are '*non-cashable savings*' associated with the partnership working of the two councils. Although these savings are offshoots of LGSS and are quantifiable, they are deemed to be 'non-cashable' for the purposes of the business case either because the benefits are indirect or a key element of the benefit depends upon a pending decision or outcome. The financial model is based on genuine cash savings as it is prudent not to include any non-cashable savings. A number of these benefits are described below:

- Reduced cost of delivering financial assessments – certain changes to CCC's financial assessment processes are being considered which, if implemented, are set to generate annual savings of approximately £276k. The changes will result in CCC adopting NCC's banding approach, thereby reducing the number of assessment visits. However, as this will require a full council decision, including the anticipated savings in the financial model at this stage would be premature.
- Economies of scale leading to procurement savings – it is anticipated that as contracts entered into individually by each council begin to expire, the partner authorities will explore opportunities to jointly procure goods and services to increase their bargaining power and reduce costs. Whilst it may be difficult to specify a precise savings amount at this stage, initial savings estimates are in the region of £580k per annum.

- Legal service savings – Potential reduction in the cost of the legal service at NCC of £370k per annum, identified through the Legal zero based budgeting exercise carried out at NCC.
- Audit savings – Potential reduction in external audit fees of £146k per annum, through reducing the amount of duplicative work currently carried out.
- Stretch target savings - across all like for like services within scope of LGSS (excluding ERP) of £977k per annum, representing 5% of the baseline cost once services have stabilised from year 4 i.e. 2014/15.

Finally there is a third category of budget changes that relate to commitments already made by the councils and the removal of the NCC vacancy factor. LGSS will be responsible for their delivery of these budget changes. They include:

- Pension cost savings – savings in the region of £370k per annum are set to be achieved as a result of management layer savings, economies of scale and improved efficiencies. These savings however will accrue to each pension fund rather than the individual revenue budgets of the two councils, hence cannot be included in the financial model.
- CCC Integrated Plan - commitments of £783k per annum.
- NCC vacancy factor – removal of which will increase budget by £330k per annum.

1.6 Conclusion

This Detailed Business Case supersedes the earlier 'Outline Business Case' (December 2009), underpinned by additional detail regarding the target operating model and a clearer implementation plan. In addition, legal advice since December 2009 has highlighted that the most appropriate delivery vehicle for LGSS is via a Joint Committee.

While both authorities are endeavouring to make significant savings in the operation of their support services, LGSS enables both organisations to achieve an additional 5.9% recurrent, net saving from 2015 and has a payback period of 3 years. With this in mind, LGSS provides a viable, local government designed and run solution, as an alternative to traditional outsourcing or a private sector joint venture (such as South West One). Furthermore, although no revenue has been included within the financial model to accommodate other authorities joining LGSS, it is believed that many other authorities will be interested in LGSS and local government-designed service that demonstrably provides value for money.