Agenda Item No: 5

Local Government Shared Services

To:	**Cabinet**		
Date:	**23rd February 2010**		
From:	**Chief Executive and Corporate Director: Finance, Property and Performance (Senior Responsible Officer)**		
Electoral division(s):	**All**		
Forward Plan ref:	**2010/ 016**	*Key decision:*	**Yes**

Purpose: **To report update Cabinet on recent developments and progress with the Local Government Shared Services (LGSS) Programme and to seek approval to take the steps necessary to establish LGSS Partnership, enabling the Council to deliver the corporate outcomes and well-being benefits to its community highlighted in this report.**

Recommendation: **a) That Cabinet endorses the principle of shared services and approves the County Council's, (CCC), participation in and the creation of a Local Government Shared Services (LGSS) partnering arrangement, (the LGSS Partnership), jointly with Northamptonshire County Council (NCC), (the Partner Authorities). It is envisaged that the LGSS Partnership will provide all front line, transactional, professional and strategic support and advice, (the LGSS Services), both to the Partner Authorities and other interested public sector bodies in the following functional areas:**

- **Finance;**
- **Organisational Development and Human Resources;**
- **Human Resources;**
- **Procurement;**
- **Internal Audit;**
- **Legal Services.**

The LGSS Partnership will, initially, be established under the auspices of a Joint Committee, formed by the Partner Authorities.

Cabinet recommends that Full Council approve the establishment of a Joint Committee for the purpose of overseeing the LGSS Partnership.

In order to develop this arrangement and to take preparatory

steps for the creation of a separate corporate entity it is further recommended that Cabinet approve the following:

b) That Cabinet:

1. **endorses the design principles under which the LGSS Partnership will operate as described in Appendix 1 and by which it is intended the LGSS Services will be provided to the Partner Authorities, their impact on the provision of those services within the Partner Authorities, including the principle of manager and employee self service, and any associated restructuring of staff and service provision within CCC.**

2. **authorises the commencement of the procurement and subsequent award of a contract to a private sector supplier, or suitable alternative, to provide the hosting of key LGSS Partnership systems, including the Oracle E-business Suite (EBS), also known as ERP, by the Council and the other Partner Authorities, and the procurement of such supplier by NCC on behalf of the Partner Authorities. The results of the contract award will be reported back to Cabinet.**

3. **endorses the principles regarding the costs and benefits of LGSS described in the Business Case, (management summary attached at Appendix 2), and the investments and transactions required to establish the LGSS Partnership and deliver the LGSS services.**

c) That Cabinet:

1. **resolves that CCC shall enter into an agreement or agreements with the Partner Authorities to establish a Joint Committee Partnership Arrangement or similar arrangement, that will deliver support services back to the Partner Authorities. Such arrangements shall include appropriate legal agreements regarding the following:**

    a. **the distribution of risk amongst the partner authorities through indemnities etc;**
    b. **the Governance framework for the Joint Committee Including delegations to the LGSS Partnership and between the Partner Authorities,**
    c. **iv) sharing of the costs, resources and benefits of LGSS; and**
    d. **v) the manner in which the LGSS Services will be delivered,**

2. delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to take such steps as may be necessary, in connection with item c)1 above, to:

  a. negotiate and agree the terms upon which such arrangements are established and
  b. to instruct the Head of Legal Services to prepare and complete the necessary documentation.

3. authorises such steps as may be necessary in order to facilitate or enable the transactions described in this Report, including for example, the transfer of staff and assets or leases, (subject to any Full Council approval should that be deemed necessary).

4. resolves that CCC shall enter into service level and other required agreements as between the Partner Authorities and between them and the LGSS Partnership, in regard to the LGSS Services. Cabinet further agrees to delegate authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:

  a. take such steps as are necessary and to agree the terms of any agreements as may be required in connection with the above, and
  b. instruct the Head of Legal Services to prepare and complete the necessary documentation.

5. authorises the expenditure of the approved investment in LGSS, as set out in the Business Case, required to establish LGSS arrangements. This shall include authority to enter into any associated contracts and agreements, and delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:

  a. authorise the expenditure described above and
  b. agree the terms of any such associated contracts and agreements and
  c. instruct the Head of Legal Services to prepare and complete the necessary documentation;

  N.B. The above is subject to Council approval where it would alter the budget or policy framework.

6. agrees to extend the scope of LGSS Services to include additional support services, such as Strategic Asset Management or other functions, and delegates authority to the Chief Executive, in consultation with

the Cabinet Member for Resources and Performance, to:

a. **take such steps and agree the terms of any contracts and agreements as may be required in connection with the above and**
b. **instruct the Head of Legal Services to prepare and complete the necessary documentation.**

7. **authorises the amendment, if necessary, of the existing partnership agreement between the Partner Authorities and delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:**

   a. **agree the terms of such amendment and**
   b. **instruct the Head of Legal Services to prepare and complete the necessary documentation.**

d) That Cabinet instructs the Chief Executive and the Section 151 Officer, in consultation with the Cabinet Member for Resources and Performance, to prepare and agree a detailed revision of the business case which confirms the assumptions in terms of the investment requirements and the rate of return for the Council, with a view to demonstrating whether the LGSS Partnership would represent value for money for each of the founding authorities.

e) Cabinet instructs the Chief Executive to return the detailed business case to Cabinet in June 2010, or as soon as it is available, and to draw to their attention any material issues that arise from the production of the detailed business case, e.g. a reduction in the return on investment, a change in the timing of benefits, extension of scope or new partners joining. Any such change may constitute a key decision.

f) That Cabinet confirms that any proposed change in the legal structure of the LGSS Partnership would be subject to cabinet approval.

g) That Cabinet delegates authority to the Chief Executive, in consultation with the Leader of the Council, acting in their capacity as members of the LGSS Strategic Stakeholder Board as described in the partnership agreements with the Partner Authorities:

i) To appoint the Managing Director of the LGSS Partnership, whose role is to oversee the establishment and operation of the LGSS.

ii) To agree the terms of reference for the Joint Committee and the County Council's nominated officer and

councillor membership of the Joint Committee.

h) Cabinet reiterates the aspiration for the LGSS Partnership to become a separate corporate entity providing services for local government and the wider public sector. In furtherance of this vision, Cabinet instructs the Chief Executive to undertake further exploration of this model and preparatory work in readiness for the implementation of such a model if and when that becomes possible.

i) That Cabinet notes that all the above recommendations equally require approval by the Cabinet of our partner, Northamptonshire County Council at its meeting on the 9th March 2010.

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1. RELEVANT STRATEGIC OBJECTIVES AND SERVICE PRINCIPLES

1.1 The programme will impact on the following strategic objectives:

- 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.

1.2 The programme is also in line with the following service delivery principles:

- Focus on delivering high-quality effective and efficient services.
- Listen and be responsive to the needs of Cambridgeshire communities.
- Working in partnership to achieve a shared vision for Cambridgeshire.

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. 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 Partnership 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.

2.2 The approximate total annual revenue value of support services that would be initially undertaken by the LGSS Partnership is £23.6m, of which £13m 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 improve the quality of services which they deliver and achieve a reduction in the cost of providing support services.

2.3 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.

2.4 At its meeting in February 2008, Cabinet was presented with 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 7 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 with public sector only partners, e.g. a 'Teckal' company.

2.5 In the February 2008 report, an option of outsourcing support 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.

2.6 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. A Management Summary of the Business Case which sets out the costs and benefits of LGSS is attached at Appendix 2. Some of the key changes include:

- 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 has needed to be reconsidered. The preferred model 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. However, due to changes in the law arising from an important case decided by the Court of Appeal, the use of the Well Being Power has been restricted and the effect of this restriction is particularly significant in the context of back office services which do not directly impact upon the well being of the community in the same way as frontline services. In accordance with advice received it is proposed to that we do not move to a separate legal entity at the first stage, but further develop our vision for shared services using one of the more established models for collaboration which carry less risk. It is envisaged that legislative developments will enable realisation of the separate entity in due course and in the meantime it is proposed to take preparatory steps towards that.

- 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 arrangement.

- A recommendation to extend the scope, to include Legal Services, Internal Audit and potentially Strategic Asset Management, Research or other functions.

- 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.

2.7 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.

2.8 Slough Borough Council do not feel that they are in a position to pursue the LGSS agenda at this current time, given other pressures faced by the organisation. However, they are still considering the options which LGSS would offer them in the longer term.

2.9 The Partner Authorities remain open to the potential benefits of another organisation joining the LGSS Partnership. Any such consideration would be subject to business case and further Cabinet approval.

2.10 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.

2.11 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 the LGSS

Partnership will deliver and how they can achieve single, best practice processes designed specifically for local government. Further work in this area is required, particularly in respect of professional services as part of the completion of the detailed business case and further extensive dialogue with members and officers and possibly external customers is planned.

2.12 The following functions (transactional and professional) are proposed to be in scope for the LGSS Partnership. The inclusion of additional and professional services is driven by a desire to maximise savings, build critical mass, retain and further develop skills and expertise and reduce the “hand off” points between transactional and professional support:

- Finance;
- Organisational Development & Human Resources;
- Procurement;
- Internal Audit; and
- Legal Services.

2.13 When considering the scope of the LGSS Partnership, discussion regarding the appropriateness of including further services such as Estate Management and Research has taken place. Whilst no firm conclusions have been reached, the main justification for including these 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); and
- Include services that are complementary.

2.14 It is clear that the inclusion of other services such as Research that are currently embedded within the Finance, Property and Performance Directorate will retain the benefits of collaborative and cross functional working that have built up over the past two years and provide possible future business benefit to LGSS partners and customers.

2.15 Before any final decision is made as to the inclusion of further services in LGSS, a detailed business case would be explored. This detailed business case will also update the forecast timescales for implementation of the LGSS Partnership and the associated phasing of costs and benefits.

3. BENEFITS AND BUSINESS CASE

3.1 The Business Case for LGSS has been produced for the Partner Authorities with the support of Deloitte, the partnership's external advisors. This was completed in December 2009.

3.2 Following SBC's decision not to continue with the programme at this time, Deloitte were asked to carry out a review of the business case to assess the impact on each of the components. A summary of their work is provided at Appendix 2. However, the original business case remains valid and the removal of SBC has made very little impact on the ratio of cost to benefits. The summary tables in sections 3.4 and 3.5 reflect this new position.

3.3 The 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 with the Partner Authorities, and a series of stakeholder workshops led by Deloitte to bring together the analysis and highlight the salient points;
- Baseline analysis – undertaken by each authority, using a common template, with support from Deloitte;
- Benchmarking – using industry standard benchmarks or Deloitte comparators, where applicable;
- 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;
- ICT support infrastructure – undertaken by Deloitte in consultation with each Council; and
- Oracle E-business Suite – convergence and development plan, costings provided by Fujitsu Services Ltd, NCC and CCC's current Oracle provider.

3.4 Overall, the Business Case estimates that LGSS could enable the Partner Authorities to reduce the cost of in-scope services by more than £2m per annum (9%), with a 4.5 year payback period, starting to realise net cash inflows from 2012-13:

Project costs, £000s	2010-11	2011-12	2012-13	2013-14	2014-15	Totals (to 2020-21)
Capital	£2,595	£0	£0	£0	£0	£2,595
Revenue	£1,458	£1,694	£282	£0	£0	£3,434
Contingency @ 15%	£608	£254	£42	£0	£0	£904
Total project spend	**£4,660**	**£1,948**	**£325**	**£0**	**£0**	£6,933
Recurrent revenue impact						
Net impact	**£76**	**-£836**	**-£1,859**	**-£2,127**	**-£2,078**	**-£19,281**
Net cashflow						
Annual	*£4,736*	*£1,112*	*-£1,535*	*-£2,127*	*-£2,078*	**-£12,348**
Discounted	*£4,736*	*£1,074*	*-£1,433*	*-£1,918*	*-£1,810*	**-£8,992**
Cumulative NPV	**£4,736**	**£5,810**	**£4,337**	**£2,459**	**£648**	
Net revenue saving %	**-**	**-3.64%**	**-8.10%**	**-9.27%**	**-9.05%**	

A prudent approach has been taken to the preparation of the business case and 9% is the expected minimum return. Areas of further benefit are discussed below and will be considered as part of developing the Detailed Business Case.

3.5 This investment appraisal has been undertaken jointly for the Partner Authorities. It has been agreed that the allocation of costs and savings to each authority would be undertaken as part of the development of a payment mechanism for the LGSS, but 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 and

(b) equal split once savings target has been met, less a share for the development of the LGSS Partnership itself (to use as it sees fit, for example investment in LGSS).

Subject to this final agreement, as outlined in Recommendation c)1., the following example has been illustrated to show an investment appraisal, based on an equal share of benefits between the Partner Authorities:

Project costs, £000s	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Totals (to 2020-21)**
Capital	£1,297	£0	£0	£0	£0	£1,297
Revenue	£729	£847	£141	£0	£0	£1,717
Contingency @ 15%	£304	£127	£21	£0	£0	£452
Total project spend	**£2,330**	**£974**	**£162**	**£0**	**£0**	£3,466

Recurrent revenue impact						
Net impact	**£38**	**-£418**	**-£930**	**-£1,063**	**-£1,039**	**-£9,640**

Net cashflow						
Annual	*£2,368*	*£566*	*-£767*	*-£1,063*	*-£1,039*	**-£6,174**
Discounted	*£2,368*	*£537*	*-£716*	*-£959*	*-£905*	**-£4,496**
Cumulative NPV	**£2,368**	**£2,905**	**£2,189**	**£1,229**	**£324**	

Net revenue saving %	**-**	**-3.64%**	**-8.10%**	**-9.27%**	**-9.05%**

Note that the capital investment requirement is to ensure the formation and delivery of the business case shown. Further investments, where there is a prioritised business case, may be sought from Partner Authorities, subject to the necessary financial approval processes. The Council would be required to make capital investment in its system and processes, even if it were not part of LGSS Partnership.

3.6 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 support 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 support services to the end users to help reduce non-essential spend within the Partner Authorities.

3.7 Further financial scenarios have been modelled building on the wider benefits described in 5.6 above. These would increase the net benefits of LGSS to the Partner Authorities and decrease the length of time taken to achieve a positive net present value (NPV). Further details can be found in sections 2.3.3 and 2.3.5 of the Business Case Management Summary at Appendix 2.

3.8 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-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, the LGSS Partnership will improve the transparency of support service costs and performance, and influence the behaviours of the commissioning organisations;

- Providing a vehicle to deliver services to other organisations – LGSS Partnership 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 'Total Place' agenda;

- Subject to meeting the necessary procurement legislation, providing the potential commercial offering of "by Local Government, for Local Government" support services as an effective alternative to outsourcing – the LGSS Partnership 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 wholly-owned public sector venture, 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 Partnership management team to focus on the optimisation and reconfiguration of in-scope services.

4. ORGANISATIONAL IMPLICATIONS

4.1 The LGSS design principles detailed in Appendix 1 must be adhered to as the founding Partner Authorities transfer services into the LGSS Organisation, to ensure the successful operation of LGSS.

4.2 As part of the move to the LGSS Partnership, the Council will need to restructure its senior management team to reflect the changes in responsibility and new ways of working. Because the LGSS is a wholly public sector arrangement, a 'thin client' model will be used – i.e. the County Council needs to retain only minimal resources in order to manage the services delivered by LGSS, on the basis that it directly co-manages the arrangements for the provision of services.

4.3 Significant cultural change within that part of the Partner Authorities that is retained 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.

4.4 LGSS will need to be in alignment with other Council strategies and policies. The approach is in clear support of the corporate outcome of becoming a smaller, more enabling council focused on our customers and is a key part of our strategy map. There is also the possibility for 'trading', where the LGSS Partnership could undertake services for other organisations, for example our District and Borough Councils.

4.5 The LGSS Partnership will initially be a collaborative contractual arrangement governed by a Joint Committee. In due course it is envisaged that it will convert into a separate entity to the Partner Authorities and will have its own 'stand-alone' management and governance in place. However, the core direction and strategy of the LGSS Partnership will be the responsibility of the founding authorities, acting through its senior governance structures.

4.6 Transition of services to the LGSS Partnership is likely to involve, amongst other things, the transfer between authorities, of staff who currently undertake these functions. When the separate entity is established in due course it is likely that staff will transfer to that corporate body. Naturally, this will be carried out in accordance with TUPE regulations.

4.7 The programme is working on the basis that the LGSS Partnership, as a separate entity will gain admitted body status into one of the Local

Government Pension Schemes of the Partner Authorities, to ensure that it's staff continue to be members of the LGPS. The cost implication of this will be carefully examined in the Detailed Business Case. Assumptions in the business case are based on informed conversations with our Pension Funds.

4.8 An Equality Impact Assessment Initial Screening Form has been completed for the LGS. It did not highlight any equality impacts and it is not considered that a full impact assessment is required.

4.9 The procurement of a private sector supplier to provide the hosting of key LGSS systems will need to commence at an early stage and before the LGSS Partnership exists as a separate legal entity. One of the Partner Authorities will carry out the procurement on behalf of both authorities, with a view to novating the contract to the LGSS Partnership, once it exists as a separate legal entity. This approach will require corresponding agreements between the Partner Authorities to cover any potential liabilities which might arise on the authority carrying out the procurement.

4.10 Depending on the decision to proceed, the implementation timescales (subject to review as part of Detailed Business Case) can be summarised as follows:

- Detailed Business Case – May 2010.
- Establishment of Joint Committee – June 2010
- Creation of Management Board – July 2010.
- Inauguration of LGSS Partnership – from July 2010.
- Transfer of services to LGSS – from October 2010.
- Private sector provider or alternative hosting services commence – April 2011.

5. CONSULTATION AND SCRUTINY

5.1 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 Corporate Director for Customer & Community Services) who have met on a regular basis throughout the programme.

5.2 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 staff and staff representatives.

5.3 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 and are due to review the subject subsequent to cabinet decision on the . 29th April 2010. It is also intended to have a joint scrutiny of the detail of the business case with the appropriate scrutiny group in Northamptonshire as soon as practical.

6. ALTERNATIVE OPTIONS CONSIDERED

6.1 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 and even 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 our legal advisors Sharpe Pritchard, 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	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 with public sector only partners, e.g. a 'Teckal' company.

6.2 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 support 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.

6.3 Option 2 allows the in-scope support services to be shared between the Partner Authorities above and beyond existing levels, supported by a more formal partnership arrangement, for example 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. However, experience of Joint Committees has not always positive, with the governance arrangements, in some cases, seen as weak, 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 staff would remain employees of 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, single points of professional leadership where appropriate and an established culture of collaboration to achieve the benefits of the LGSS vision.

6.4 A Joint Committee arrangement would appear to offer a lower scope for financial benefit in the longer term for the Partner Authorities in terms of achieving target cost savings compared to option 5. This needs to be considered in the light of potentially lower start up costs particularly in relation to pensions. Future scalability and revenue generation would be possible in some circumstances, as services could be provided to other public sector customers such as local District Councils without the requirement for them to become members of the Joint Committee. On balance, this is not 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, whilst pursuing, as a longer term objective, the preferred option of creating the LGSS Partnership as a separate legal entity

(Option 5).

6.5 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.

6.6 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.

6.7 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 Partnership 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 Partnership to trade and raise revenue from selling services to other organisations. In light of the decision in the Brent LAML case there has been a considerable shift in the understanding of the extent of the so called Well Being power under the Local Government Act 2000. The decision in this case imposes a more restrictive interpretation on the power and requires that, in order to fall within the well being powers, the proposed action should have as its object, some reasonably well defined outcome which will directly promote or improve the well being of its area. Leading Counsel has advised that the proposal to establish a company for the provision of support services, is unlikely to be regarded as meeting this test and therefore would be unlawful. As such, until the legal position is further developed or new legislation is enacted, this option is not currently available. However, in readiness for a change in the situation, we are advised that it is permissible to take preparatory steps short of establishing a company and it is proposed that such steps will be undertaken in parallel to the establishment of collaborative arrangements such as Option 2, a Joint Committee, that are within the permissible range of options.

6.8 For the above reasons, Option 2 is the recommended option with Option 5 remaining the longer term aspiration.

7. FINANCIAL IMPLICATIONS

	Current year	**Forecast**		
	2009-10	**2010-11**	**2011-12**	**2012-13 & beyond**
	£000	**£000**	**£000**	**£000**
Capital Investment				
Costs	0	1,297		
Funded by	Existing Excellence for our Customers Programme funding earmarked for ERP/Shared Services			
Revenue costs				
Costs –Project Costs (including contingency)		1,033	974	162
Recurrent revenue impact		38	-418	-930
Funded by	Invest to Save / existing Excellence for our Customers Programme funding earmarked for ERP/Shared Services			
Total Net Costs (capital & revenue)	**0**	**2,368**	**556**	**-768**

What benefits will the proposal deliver?	Please see section 5 of this report, supported by the Business Case Management Summary at Appendix 2.

8. RISK AND BUSINESS CONTINUITY MANAGEMENT

8.1 The Business Case provides a detailed analysis of key risks facing the programme. The joint programme team also maintain a full programme risk log, with high probability / impact risks being addressed on a monthly basis as part of the programme board meetings. A summary of the key risks / themes is provided below:

9. Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
Benefits anticipated in the business case may not be achieved. It has been assumed that the new HR and finance services will be based on a self-service 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 authorities to mitigate their business risks by focusing on exceptions and enabling change. LGSS will be expected to reduce costs and will achieve this by empowering the workforce via self service, pushing responsibility and ownership out to staff and managers and reducing transaction volumes and effort on the shared service centres.	**A**
The basis of benefits derived from any Shared Service is the integration and consolidation of functions and processes. If the Partner Authorities cannot agree and stay fully committed to this standardisation and improve process compliance, the future viability of the model and associated benefits will be put into serious jeopardy.	The integration approach of LGSS requires the commitment of the Partner Authorities to a single vision and approach that is based on the standardisation and harmonisation of business processes. This risk is mitigated by the existing partnership agreements in place and the additional commitments being sought in this cabinet paper.	**A**
LGSS will introduce significant changes to some of the core functional areas of the Partner Authorities. Unless the deployment of new ways of working is genuinely embedded both within the LGSS itself and also within the Partner Authorities, the programme will fail to deliver expected benefits and there could be significant risk to fundamental 'business as usual' operations during the transition to LGSS.	Appropriate levels of change management and stakeholder engagement will need to be deployed at all levels across both authorities. This risk will be mitigated by the existing partnership agreements in place and the additional commitments being sought by this cabinet paper and it is anticipated that the rating of this risk will reduce to Amber.	**R**

(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**
Well-being benefits identified may not be delivered to our communities.	**R**

9.0 RESOURCES AND PERFORMANCE

10.1 Already reported.

10. LEGAL IMPLICATIONS

10.1 The option to establish the LGSS Partnership as a separate legal entity in the form of a company, as set out in Option 5 above, is the preferred option. This would require that use of the so called 'Well Being' power under Section 2 of the Local Government Act 2000. However, as the result of recent developments in case law arising from the Brent LAML case which involved Local Authorities establishing a company for the purposes of mutual insurance, the scope of the Well Being power has been narrowed by the Court. In view of this uncertainty a Leading QC was instructed to provide advice in relation to this point and, following careful consideration of this project and its objectives, he concluded that there was a significant and unacceptable risk that the proposal to establish a company for the purposes envisaged in this report would not be a lawful exercise of this power.

10.2 The case law development in the Brent LAML case has proved controversial and gave rise to a considerable amount of adverse comment. The possibility that further legislative developments may be enacted in order to enable the type of activity proposed under Option 5, cannot be ruled out.

10.3 The alternative of a Joint Committee is based on a long established statutory power at Section 102 of the Local Government Act 1972. This enables authorities to establish joint committees which can be used for the purposes of overseeing shared services arrangements such as the LGSS Partnership. Such arrangements are established by Full Council and underpinned by a contractual agreement and governance arrangements setting out the delegations of authority. There are a number of examples of such arrangements in operation around the country and their legality has been confirmed by the Court of Appeal. As such they are considered to be a far less risky proposition in legal terms.

11 PARTNERSHIP WORKING

11.1 Already reported.

12 CLIMATE CHANGE

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

13 ACCESS AND INCLUSION

13.1 There are no significant issues arising from this report in relation to access and inclusion.

13.2

14 ENGAGEMENT AND CONSULTATION

14.1 No public engagement or consultation is required for the purpose of this report.

Appendices:

Appendix 1: **Design Principles**

Appendix 2 (a): **Deloitte summary of impact on LGSS Business Case removing Slough Borough Council**

Appendix 2 (b): **Management Summary from the Business Case for Local Government Shared Services – version 3.2, 7th December 2009.**

Appendix 3: **Business Case for Local Government Shared Services (LGSS) Version 3.2, 7th December 2009 [Note this is a confidential document and is not for publication by virtue of it relating to paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.**

Source Documents	**Contact**
Deloitte summary of impact on LGSS Business Case removing SBC	Attached as Appendix 2 (a)
Management Summary from the Business Case for Local Government Shared Services – version 3.2, 7th December 2009.	Attached as Appendix 2 (b)
Business Case for Local Government Shared Services (LGSS) Version 3.2, 7th December 2009	**Not for publication by virtue of paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.**

Defining LGSS – Design Principles

Workstreams	Level 1 Design Principles
Processes	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)	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	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	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	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