Local Government Shared Services

Business Case for Local Government Shared Services (LGSS)

Management Summary

Status: FINAL

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1. Management Summary

1.1 Introduction

The vision for the “Local Government Shared Service” (LGSS) is a step change in the extent of and commitment to collaboration and partnership working for the three founding authorities. Part of the historic collaboration relates to the implementation and deployment of a shared Oracle eBusiness Suite (EBS) instance for Northamptonshire (NCC) and Cambridgeshire County Councils (CCC). In November 2008, this partnership expanded to include Slough, who are an established Oracle EBS user and share the desire to achieve additional benefits through collaborative working, rather than working alone.

The first formal outline business case for LGSS was released in January 2007, relating to just Northamptonshire and Cambridgeshire County Councils. However, since then, the LGSS concept and wider operating environment has evolved significantly, therefore requiring a new business case. Some of the key changes include:

- Engagement of Slough Borough Council (SBC) to join the proposed venture;
- Recent legal precedents that have led to a more cautious approach to engaging the private sector in a joint venture company. Hence, the proposal is now a public sector-owned Teckal company (this point is further explored in section 1.3);
- Consideration of a wider scope, beyond the original transactional finance and HR administration processes, to include wider professional support services and also, regarding Slough, the inclusion of revenues & benefits and the customer contact centre;
- Each of the authorities have already made savings relating to the in-scope functions, reducing the baseline cost for comparison; and
- More challenging financial forecast for local government and the wider public sector, putting greater pressure on the need for LGSS to demonstrate an effective return on investment against other potential projects, in order to justify the management effort and wider resources the programme is using.

The LGSS team have recently developed an options appraisal, which looked at a number of options to move the agenda forwards at a high level. This appraisal has been reviewed and the output of that assessment can be found in Appendix F. The option to continue with the LGSS shared service venture has been the basis of this business case. This document comprises the business case for LGSS, incorporating 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 three Councils, and also a series of stakeholder workshops led by Deloitte to bring together the analysis and highlight the salient points;
- Baseline analysis – undertaken by each Council, using a common template, with support from Deloitte;
- Benchmarking – using industry standard benchmarks or Deloitte comparators, where applicable;
- Organisation design – led by Northamptonshire, on behalf of the three Councils, to create an outline management structure for LGSS based on the above scope and propose the potential impacts on the client-retained management;
- ICT support infrastructure – undertaken by Deloitte in consultation with each Council;
- Oracle EBS – convergence and development plan, costings provided by Fujitsu.

1.2 Scope

For the purpose of this business case, the following functions have been evaluated and are proposed to be in scope:

- HR (including organisation development);
- Finance;
- Internal Audit;
- Legal;
- Procurement Services;
- Revenues and Benefits (SBC only); and
- Contact Centre (SBC only).

Although professional services have been included within the scope of this document, this modification of scope against the original OBC is clearly subject to approval by Members, as is the future of the programme overall.

1.3 Delivery options

Prior to the development of this business case, the LGSS programme board undertook an assessment of the various delivery options available to deliver the LGSS vision. This analysis was undertaken in consultation with the programme's legal advisors, Sharpe Pritchard.

1.3.1 Four key options

In outline, four key options were considered to progress the shared service venture:

Delivery / governance model	Exclusively public sector controlled?	What is the legal entity?	Procurement issues
Minority interest JVC	No (<50%)	The JVC	All services delivered by the JVC must be subject to OJEU or using national public sector frameworks (e.g., BuyingSolutions). The procurement process would lead to the appointment of the JVC private sector partner, who would control the venture and would underwrite the success of the venture in terms of financial and performance risks.
Controlled JVC	No (>50%)	The JVC	All services delivered by the JVC must be subject to OJEU or using national public sector frameworks (e.g., BuyingSolutions). The procurement process would lead to the appointment of the JVC private sector partner. The private sector would have a stake in the ventures success (or failure), but would not control it.
Section 101 Joint Committee	Yes	One of the authorities would act on behalf of the Joint Committee, as the employing and contracting authority.	The private sector can be procured to meet the specific requirements of the Joint Committee either through OJEU or using national public sector frameworks (e.g., BuyingSolutions).
Teckal Company	Yes	The limited company (or LLP) which is wholly-owned by the local authorities.	No private sector involvement allowed in the management of the venture. Any private sector services would need to be bought via OJEU or using national public sector frameworks (e.g., BuyingSolutions).

1.3.2 The evaluation of delivery options

The above four options were appraised against 6 key criteria which were identified as key attributes for a successful venture. Each option was evaluated using a risk rating, with green being the most positive (3 points), amber the next favourable (2 points) and red being the worst assessment (1 point). The summary of the evaluation is shown below:

Delivery / model	Alignment with vision	Culture, brand & identity	Governance effectiveness	Maturity of model	Supply market interest	Financial impact
Minority interest JVC	This would effectively be outsourcing, as private sector control the venture. This goes against the vision.	A new venture with the private sector could enable a new culture to develop with new performance mgt and rewards approach.	Venture managed via a company Board, representing all owners, focused on the interests of the company.	Have been in the past for similarly scoped ventures.	Supplier feedback has highlighted preference for conventional outsourcing contract to avoid overhead of JVC.	JVC – overhead associated with running a business Private sector control – PSP would expect a margin of 10-15% of in-scope services.
Controlled JVC	Venture would be controlled by local government with private sector having minority stake.	A new venture with the private sector could enable a new culture to develop with new performance mgt and rewards approach	Venture managed via a company Board, representing all owners, focused on the interests of the company.	An untested model in UK.	Supplier feedback raised concerns about implied risk sharing through having a stake, but not being able to control that risk.	JVC overhead associated with running the independent business.
Section 101 Joint Committee	Designed and run completely by local government.	Staff remain employees of one or more of the local authorities & must use the authority's performance mgt system. Cultural change far harder.	Previous client experience of this type of model is not positive, with governance arrangements being perceived as weak.	Used for many years for various local authority partnerships.	This is a well known model, leading to a traditional client-supplier contract.	Services are hosted by an existing organisation & no operating margin paid to private sector.
Teckal Company	Designed and run completely by local government.	A new venture with new management team could enable a new culture / brand to develop, with new performance mgt and rewards approach.	Venture managed via a company Board, representing all owners, focused on the interests of the company.	Used in a very limited number of cases.	From a supplier perspective, no concerns have been raised.	Teckal company has overhead associated with running an independent business.

On the basis of the evaluation process summarised above, the authorities selected the "Teckal Company" option as the preferred approach subject to legal guidance and business case approval.

1.4 Key assumptions

We have used scenarios to model the potential benefits of including professional services, and also to test the potential impact of additional costs being incurred by LGSS. Below is a summary of some of our key assumptions:

- *In scenario only* - potential savings for the internal audit, legal and procurement areas being achieved through better deployment of resources and reduction in use of third party advisors/specialists;

- *In base case* - potential saving from adopting a local government delivered Oracle hosting solution, rather than the current commercially hosted solution;
- *In base case* - complete estimate of the Oracle development costs in the revised LGSS financial model. This will particularly focus on the HRM enhancements required to enable the transformation of in-scope services;
- *In scenario only* – potential reduced third party expenditure on professional services in the area of internal audit, legal and procurement: in this scenario, current levels of third party expenditure on professional services in the areas of internal audit, legal and procurement would be reduced by 3.33% in Year 3, 6.67% in Year 4 and would rise to generate year-on-year savings of 10% from Year 5 of operation (i.e. £343,943 p.a.).
- *In scenario only* – potential increased procurement savings through increased collaboration and category management. In this scenario, 1% of the current annual procurement contract spend (excluding utilities, Children & Young People and Adult Social Care) has been used as an indicative quantification of the potential benefits resulting LGSS providing procurement services to the customer authorities.
- *For base case and some scenarios* – we have developed Council-specific financial cases, in order to understand the impact of LGSS on the Authorities individually, based on two separate payment mechanisms.

Lastly, our analysis includes a high level qualitative appraisal of the pros and cons of including Information and Communications Technology (ICT) and Property services within the scope of LGSS. No financial or performance baseline analysis has been undertaken regarding these services and, therefore, our assessment should be considered as the beginning of this evaluation process and not a recommendation for inclusion or otherwise.

1.5 Investment appraisal

Below is a summary of the programme's financial appraisal (section 6.2), illustrating the aggregated implementation costs (capital and revenue shown separately), the recurrent net revenue impact, net cashflow and discounted cashflow (shown in £000s):

Project costs	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**	**Totals**
Capital	£3,883	£0	£0	£0	£0	£3,883
Revenue	£2,033	£2,555	£648	£0	£0	£5,235
Contingency @ 20%	£1,183	£511	£130	£0	£0	£1,824
Total project spend	**£7,099**	**£3,065**	**£778**	**£0**	**£0**	£10,942
Recurrent revenue impact						
Net impact	**£127**	**-£981**	**-£3,206**	**-£3,514**	**-£3,465**	**-£31,816**
Net cashflow						
Annual	*£7,227*	*£2,084*	*-£2,429*	*-£3,514*	*-£3,465*	**-£20,874**
Discounted	*£7,227*	*£2,014*	*-£2,267*	*-£3,170*	*-£3,019*	**-£15,295**
Cumulative NPV	**£7,227**	**£9,241**	**£6,973**	**£3,804**	**£784**	
Net revenue saving %	**-**	**-2.83%**	**-9.26%**	**-10.15%**	**-10.01%**	

1.5.1 Summary of financial benefits

This business case is built upon a known anticipated baseline position. At present, the baseline service cost of in-scope services amounts to approximately £34.6m per annum. However, Cambridgeshire is currently in the process of improving the efficiency of their respective baseline services, and has anticipated known savings of over £2m per annum[1]. Therefore, this anticipated saving has been removed from the baseline within our financial model: the **baseline cost is £32.6m per annum** (net of income).

Our analysis estimates that potential **annual savings across** the three councils after all programme-related costs have been accounted for, should be £3.206m in year 2; rising to **£3.463m by year 5**; the year 5 level of savings is expected to continue till year 10 (2020-21) thus generating a total of **£31.816m** in recurrent revenue savings.. These savings relate to adopting a common streamlined service delivery model, and optimising process efficiency, for Finance, HR and payroll services. For these services, this saving equates to 10% per annum of the baseline cost.

Based on our financial analysis, we anticipate that LGSS will generate a **positive NPV in year 5 (2015-16)**, with a **final NPV of £15.3m in 2020-21[2].** It will start to realise net cashable savings from 2012-13 with a payback period of 3 years. Our financial assumptions are predicated on all the in-scope services being redesigned and re-launched, through several phases, by April 2012. In section 8, we have developed a number of scenarios to test the sensitivity of the financial model to positive and adverse changes.

This financial performance is broadly consistent with other shared service initiatives in both the public and commercial sectors and should be considered within the context of each Council, in some cases, having already reduced the cost of in-scope services over a number of years.

Lastly, it should be noted that this business case is a joint investment appraisal for the three authorities. It was agreed that the allocation of costs and savings to each authority would be undertaken after the aggregated LGSS OBC was developed, on a basis agreed by Strategic Stakeholders. Furthermore, this business case has not included historic costs incurred (such as programme team costs, Oracle software enterprise license costs, etc) as they have been treated as 'sunk costs'[3].

1.5.2 Key Costs

We have anticipated **programme costs of £10.9m** over a 3 year period from November 2009, relating to both capital and revenue expenditure items. These costs include the following:

- Core systems migration, development and configuration costs - £3.6m
- Target Operating Model design and support (advice / QA) - £0.27m
- Programme team (backfill and temporary resources) - £2.88m
- Training (based on train the trainer approach) - £0.3m
- Staff transition (e.g., redundancy / early retirement) - £2.05m
- Contingency (20% of programme costs) - £1.8m

Regarding additional operational costs, the organisation design analysis has not anticipated any net increase in management costs. Furthermore, while the LGSS venture will incur costs from the founding Councils for the use of accommodation and ICT infrastructure services, these have been calculated as being cost neutral against the baseline and will be charged back to the customer Councils. Finally, in creating a limited company, LGSS will be subject to tax if it makes a profit. We have assumed that the venture will not make a taxable profit, as potential 'profits' will be eliminated through reduced service charges back to the founding Councils.

1.5.3 In-Scope service evaluation

Scope area	OBC estimated saving	Wider benefit	Implementation risks

1 Cambridgeshire have identified the affected individual posts and have a roadmap of planned projects to achieve the cost savings urgently.

2 The investment appraisal within this OBC has been prepared over 10 years in order to facilitate comparison with previous Business Cases prepared for LGSS.

3 The financial treatment has been agreed with each authority and the Programme Director.

Scope area	OBC estimated saving	Wider benefit	Implementation risks
Finance advisory/ accounting	£179k	• Adoption of common chart of account design will facilitate improved reporting. • Potential for FTE reductions in the area of Associate Accounting Technicians (AAT's) posts. • Potential to pool specialist resources (e.g. PFI scheme expertise). • Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Potential to reduce spend on external advisors. • FTE savings through consolidation of management structures. • Reduction in Finance workload through implementation of self-service.	• Learning curve/cultural change required to enforce use of self-service for budget holders. • Certain professional Finance roles are not conducive to a pooled resource model e.g. Section 106 officers, who advise Council members, or areas where resource continuity is important (e.g. business case advisory services). • Nature of service provided will change, providing less "hand holding" to Managers. • Adoption of over-complex time recording and chargeback procedures.
Payroll[4]	£128k	• FTE savings through consolidation of management structures.	• Managing the transition process to new combined service.
HR administration & professional HR	£1,912k	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Improved process efficiencies through use of self-service HR. • Standardisation of processes; improved control e.g. improved establishment control, centralised job evaluation. • Opportunity to rationalise third party contracts e.g. for training. • Reduction in HR workload through implementation of self-service HR, with potential to re-direct spare capacity to strategic HR areas e.g. organisational change support.	• System change for CCC, due to removal of customisations – may lead to loss of functionality • Major impact from a change readiness perspective (see also Payroll). • Nature of service provided will change, with less "hand holding" of Managers – this change is likely to have greatest impact on CCC and SBC. • Adoption of over-complex time recording and chargeback procedures.

4 Savings from NCC Payroll assumed to accrue to the current project to in-source Payroll and have not been double-counted.

Scope area	OBC estimated saving	Wider benefit	Implementation risks
		• FTE savings through consolidation of management structures.	
Transactional Finance	£591k[5]	• Standardisation and streamlining of processes (e.g. single entry of supplier records and removing errors upstream in processes). • Automation of interfaces from cash receipting systems to Oracle. • FTE savings through consolidation of management structures. • Reduction in Finance workload through implementation of self-service.	• Question over whether or not to include financial assessments in scope – may sit better with retained organisation, due to overlap in responsibilities between Social Care/Finance. • Compliance with use of Purchase Orders is a major cultural change issue in SBC and CCC.
Audit and Risk Management	NIL however see Scenario 7	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Establishing a larger audit service with greater capacity / credibility to offer its services to other organisations. • Risk management process efficiencies e.g. more proactive risk management.	• Risk of loss of key staff who may not wish to travel more and support a wider number of clients. • Audit day rates very sensitive and cost/benefit of pooling resources could be offset by increased travel costs.
Legal	NIL, however see Scenario 7	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources; • FTE savings through consolidation of management structures.	• Adoption of over-complex time recording and chargeback procedures. • Increased premium for professional indemnity insurance.
Insurance	£5k	• Benefit by collaborating on procurement of insurance broker services. • Marginal benefit in combining expertise/capacity in specialist areas and reduce dependency on external resources.	• Cost saving partially offset by increase in professional indemnity insurance. • Adoption of over-complex time recording and chargeback procedures.
Procurement	£26k however see Scenario 7	• Process efficiencies through use of iProcurement and centralised contract management.	• Significant cultural change required to enforce compliance with agreed process.

5 Potential savings relating to Pensions Administration have been excluded from OBC, as posts are funded by the fund.

Scope area	OBC estimated saving	Wider benefit	Implementation risks
		• Opportunity to deploy common, successful category management strategies by sharing category specialists for major spend areas. • Opportunity to access framework contracts negotiated by the other Councils to achieve further procurement economies of scale. • FTE savings through consolidation of management structures.	• Ability to generate major savings for joint contracts is not clear, due to both geographic / market constraints, and existing use of consortium contracts where viable. • Heavily customised iProcurement application in use at CCC – may lead to loss of functionality when CCC move to "vanilla" Oracle. • Adoption of over-complex time recording and chargeback procedures.
Contact Centre	NIL	• Key benefit in including this in scope is the ability to attract future revenue from District and Borough Councils (subject to 10% Teckal trading restriction).	• N/A
Revenues and Benefits	NIL	• Key benefit in including this in scope is the ability to attract future revenue from District and Borough Councils (subject to 10% Teckal trading restriction).	• N/A
Core systems support / maintenance	£607k	• Improved solution resilience • Provide a wider opportunity to deliver ICT services through an connected infrastructure	Relies on effective procurement of 3rd party contract or delivery of an LGSS 'in-sourced' hosting model.
TOTAL	**c.£3.5m**		

In a number of areas we have only modelled financial benefits through scenarios, rather than include the savings estimates within the core financial model. These scenarios build on the wider benefits of collaboration in the context of the wider services being considered (e.g., Internal Audit, Legal and Procurement (e.g., category management and procurement advice)), for example:

- deploying best practice service delivery models that exist within perhaps one of partner authorities to the others, without the need to redesign the service and 'implement' a new service from scratch, just expand the current best service;
- pooling specialist resources and create additional capacity where resources within each individual organisation are scarce – due to the limited availability of appropriate information and issues raised by some stakeholders, we felt that the prudent approach would be to exclude savings for areas such as Legal Services, Internal Audit and Risk Management;
- offering a coherent and comprehensive support service to the founding Councils, reducing the potential conflicts or tensions between services that are in-scope and dependent functions that are retained; and

- sourcing more cost effective services from 3rd party suppliers (when it is not appropriate for LGSS to recruit permanent roles) through looking at a wider package of support needs for three customer Councils, rather than just one.

1.5.4 Qualitative assessment of other scope options: Property & IT Services

When considering outsourcing, some local authorities have looked at creating "bundles" of support services, such as Finance, HR, ICT and Property into a single procurement process. This is often undertaken to maximise the overall contract value to the private sector, making the deal more attractive and encouraging a proportionately lower margin.

In the case of LGSS, this logic (which is often flawed) does not necessarily apply, as this programme is not about outsourcing to the private sector. The main justification for including these other services should be considered in the wider vision for LGSS, enabling the partner authorities to:

- share the best practice and service design models available from the partner authorities;
- pool scarce or high cost expertise;
- reduce transactional costs (such as the helpdesk); and
- include services that are complementary.

This business case was not commissioned to evaluate wider services, such as Property and ICT, and therefore, it is not possible to reach firm conclusions regarding the appropriateness of their inclusion. Nevertheless, it is clear that certainly ICT complements the current in-scope services well, in terms of:

- Customer service and accountability for results – for example, as LGSS is responsible for the delivery and support of Oracle EBS, a customer reporting poor Oracle self-service performance would prefer to know that LGSS will resolve the issue. However, if ICT remains with the founding Councils, the customer would need to:
  - initially decide whether to call the internal ICT helpdesk or call the LGSS helpdesk;
  - risk being pushed between LGSS and the internal ICT helpdesk to resolve the issue; and
  - rely on the internal ICT service and LGSS Oracle support team to work constructively well together to serve the customer.

  If LGSS had complete ownership, responsibility and accountability for the ICT service from Oracle hosting through to desktop support, it could then deliver an integrated helpdesk and straightforward service level. It would also mean that non-resolution of ICT issues would sit squarely with LGSS.
- Operational effectiveness – the LGSS will need significant co-operation and support from the organisations supporting the partner Councils' ICT infrastructure. It will rely on them for LAN access, messaging and storage services, security, availability, etc. Complete ownership of the ICT environment could well improve the efficiency of the LGSS's implementation and operation.
- Business benefit – just as sharing HR and Finance services is expected to achieve additional value to the customer authorities, it is difficult to see why ICT would not deliver similar benefits. Although, some aspects of the ICT service will be very organisation-specific, many will be common (such as helpdesk, service management, supplier management, etc).

Regarding Property Services, the synergies between its functions and wider LGSS services are less clear cut. However, as part of the rationale for LGSS relates to creating a single, arms-length vehicle for the delivery of support services, sharing best practice and making changes once and reusing the outputs three times, Property could be treated in a similar way to other in-scope services.

In section 3.5, we have undertaken a more detail breakdown of the potential pros and cons (for both ICT and Property & Facilities Management (PFM) to further progress the discussion. Before a decision is made, we would suggest that further business cases are explored for both areas.

1.5.5 Scenario analysis

The table below describes the sensitivity scenarios that were modelled for LGSS, together with the key impacts:

Scenario #	Description	When is a positive NPV achieved & by how much?	What is the NPV after 10 years?
1	"Big Bang": In this scenario, all LGSS staff moves would complete at the same time as cut-over to the converged Oracle EBS application on 1st October 2010.	2014-15 (£1.846m)	£17.926m
2	Increased external advisory fees: This scenario assumes that additional external advisory spend is required in the second year of the project to support the programme team.	2015-16 (£1.824m)	£14.988m
3	Oracle EBS upgrade: The opportunity of upgrading to Oracle EBS Release 12 straight after the convergence is considered in this scenario. This would effectively require a two-stage project, with the Councils converging to a single instance of Oracle in stage 1 and then upgrading to Oracle EBS Release 12 in stage 2.	2015-16 (£0.392m)	£13.556m
4	Zero contingency: This scenario is based on having zero contingency, which is not recommended as it is very high risk.	2014-15 (£1.013m)	£17.093m
5	10% contingency: This scenario is based on having 10% contingency in place of the 20% contingency provision in the financial model.	2014-15 (£0.115m)	£16.194m
6	Transactional only: This scenario considers changing the scope of the services in LGSS to include only transactional functions.	2015-16 (£0.306m)	£10.226m
7	Reduction in third party expenditure on legal, audit and procurement services: This scenario assumes that by year 5, 10% of existing third party expenditure on internal audit, legal and procurement services could	2014-15 (£0.179m)	£21.333m

Scenario #	Description	When is a positive NPV achieved & by how much?	What is the NPV after 10 years?
	be saved year-on-year.		
8	Increased procurement savings through more effective collaboration and category management: This scenario assumes that 1% of existing procurement contract expenditure could be saved year-on-year, commencing in year 3. *(Note that this excludes utilities, Children and Young People and Adult and Childrens' Services).*	2014-15 (£3.951m)	£32.430m

1.6 Key risks that could impact success

Within section 10 we have provided an analysis of the key risks facing this programme, as apparent through our consultation with key stakeholders. 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 the new 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 the 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 pushes the responsibility and ownership of simple changes out to staff 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 harmonisation of business processes. If the three 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.

1.7 Overview of LGSS implementation approach

The implementation of LGSS is based on a phased approach. It will be initiated with the design of an agreed Target Operating Model for LGSS, including payment mechanisms and service level definitions. It will then progress through a 2.5 year implementation programme, which will complete the transformation of the in-scope services by April 2012. Depending on the decision to proceed, the key programme milestone dates are as follows:

- **October 2009** – Analysis: completion of the revised business case;
- **December 2009** – Design: completion of the outline LGSS Target Operating Model, SLAs, payment mechanism, share holder agreement, and draft contractual documentation;
- **January 2010** – Decide: completion of business case to each Council for approval;
- **February 2010** – Procure: begin the procurement of a private sector vendor to support the Oracle convergence process, host the LGSS core applications, and provide Oracle EBS support & maintenance.
- **April 2010** – Appoint Management: appoint the top-level management team for the LGSS to lead the programme of more detailed design, migration, implementation and transformation.
- **August 2010** – Appoint Technology Vendor: select the new technology partner for LGSS and develop the transition arrangements from the incumbent arrangements;
- **October 2010** – Tranche 1 service transformation: Staff TUPE (excluding Legal Services) and Business Systems available;
- **April 2011** – Tranche 2 service transformation: deployment of a single Oracle and process solution for the three authorities; TUPE of Legal Services staff;
- **October 2011** – Tranche 3 service transformation; and
- **April 2012** – Tranche 4 service transformation.

1.8 Conclusions

Overall, the business case estimates that LGSS could enable the three Councils to reduce the cost of in-scope services by nearly £3m per annum (c. 9%), achieving a positive NPV by year 5 and having a 3 year payback period. However, beyond the above quantified financial benefits, wider opportunities exist that appear to support this shared service venture, namely:

- **Reducing the net cost of change for each Council** – 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 supporting the emerging 'Total Place' agenda;
- **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. While the LGSS model arguably may not deliver the same extent of capacity or enhanced skills 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 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.
- **Achieve savings from adopting common procurement category strategies and sharing category management expertise –** there may be opportunities to achieve further savings through pooling scarce, specialist category management teams and deploying best practice category management techniques. This could be particularly attractive in high cost and complex areas (for example, adult social care). There may be some further benefit from joint sourcing (i.e., procuring contracts together). However, the opportunities for this would be limited by the nature of supply market to support the diverse geography, and demonstrating additional value over and above existing consortia contracts.
- **Supporting sustainable communities in Cambridgeshire, Northamptonshire & Slough –** all three local authorities, like the rest of the sector, are facing challenging financial forecasts. Reducing the cost of support services through LGSS enables the authorities to prioritise more revenue funds into frontline services (such as adult social care) and reduces the need for rises in Location Taxation.

Inherently, however, achieving the savings anticipated will require greater commitment from the partner Councils to make decisions rapidly, provide the clear leadership needed to enable change and recognising that the journey of service transformation will not be a linear, upward trajectory. If the partner authorities are not able to agree to the implications of the proposal target operating model and service delivery model, then it is unlikely that the venture will succeed moving forwards.

1.9 Next steps

The following are the recommended key next steps:

- Decision to proceed or stop: clear leadership is needed to set the tone for the future of this initiative and avoid protracted analysis and further uncertainty for the staff concerned.
- Create interim governance arrangements to oversee the following:
  - Clarify the legal position regarding pension fund liabilities and responsibility of LGSS to accelerate payment of the deficit. This issue has not been addressed by this OBC.
  - Update business case to detailed business case.
  - Payment mechanism: if the quantum of benefit appears worthwhile, the authorities need to develop a workable payment mechanism that enables a fair distribution of investment and savings.
  - Governance review: revisit the LGSS governance framework to improve ownership, transparency and leadership.
- Create momentum and direction: enable the lead officers to drive the agenda and establish the new LGSS management team as shadow board prior to establishing the company in April.
- Refinement of service requirements: to build a common high level service specification with agreed service levels.
- Creation of legal framework: to address the outstanding issues raised by the LGSS legal advisors.
- Begin the service redesign process: transforming the services delivered by LGSS.