

## Agenda

### Item 6

6. **EAST KENT JOINT SERVICES STRATEGIC CASE AND SUPPLEMENTARY REPORT** (Pages 1 - 12)

TO CONSIDER a joint report of the Head of Legal and Democratic Services (Canterbury), Head of Policy and Improvement (Canterbury), Head of Finance and ICT (Dover), Corporate Director (Shepway) and Director of Customer Services and Business Transformation (Thanet) and;

A supplementary report in response to matters raised by Shepway District Council, as per minute reference 27(j) of the East Kent (Joint Arrangements) Committee 18 December 2009 (*TO FOLLOW*).

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**EAST KENT JOINT ARRANGEMENTS COMMITTEE**

**20 January 2010**

<b>Subject:</b>	<b>Areas of concern for Shepway District Council (SDC) in relation to the strategic case for joint services</b>
<b>Director/Head of Service:</b>	This report is by the Project Team which comprises:  Director of Customer Services and Business Transformation (Thanet)  Head of Finance and ICT (Dover)  Head of Legal and Democratic Services (Canterbury)  Head of Policy and Improvement (Canterbury)
<b>Decision Issues:</b>	For information only
<b>Decision type:</b>	Non-Key.
<b>Classification:</b>	This report is open to the public.
<b>Summary:</b>	This report is prepared at the request of the East Kent Joint Arrangements Committee to examine matters raised by Shepway District Council.
<b>To Recommend</b>	<b>To note the report</b>
<b>Next stage in process</b>	<b>The East Kent Joint Arrangements Committee will receive this report and the East Kent Joint Scrutiny Committee will see it in draft.</b>

**SUPPORTING INFORMATION**

**Background**

This report is prepared in response to recommendation (j) of the East Kent Joint Arrangements Committee Minute No 27, 18 December 2009, which stated:-

“That prior to consideration by each participating council further examination of any matters raised by Shepway District Council is undertaken within the timescale set out in the report.”

The Chief Executive of Shepway District Council has raised the matters which that council wishes to be examined in his email of 23 December 2009 which is appended to this report.

The strategic case was produced by a project team comprising the Director of Customer Services and Business Transformation (Thanet), the Head of Finance and ICT (Dover), the Corporate Director (Shepway), the Head of Legal and Democratic Services (Canterbury) and the Head of Policy and Improvement (Canterbury).

This project team were invited to produce a response to the issues raised by the Chief Executive of Shepway District Council, and the Director of Customer Services and Business Transformation (Thanet), the Head of Finance and ICT (Dover), the Head of Legal and Democratic Services (Canterbury) and the Head of Policy and Improvement (Canterbury) have worked together to provide the information that follows.

It is important to recognise that the strategic case sets out the framework within which projects will occur. It sets out the project group's views for the methodology by which the detailed business cases will be developed and individual authorities will make their own decisions on them. The paper recognises that there are a number of issues upon which further work will be required. Approval of the strategic case commits partners to working in the general manner set out in the report to set up the basic arrangements and to working up business cases for specific service areas. It does not commit partners to participating in joint working for any service areas whatsoever, unless they are satisfied with the business case for that area when it is produced.

The question for members is whether, on the balance of risk, there is sufficient indication of the direction of travel in the strategic case to enable them to approve the recommendations in the report. For the avoidance of doubt the recommendations are to approve moving forward with the Tranche 1 services. Tranches 2 and 3 are advisory and decisions on those services have yet to be taken.

Turning to the points raised which we do section by section:

### **Outline of concerns**

- *The set up costs are unquantified.*

There are two aspects to this. First the set up costs of this project to bring together a range of services in a single joint working operation and the set up costs for each individual joint service.

On the first point, no monies have been spent on this project to date. In the future, each authority will need to find itself 25% of the salary and oncosts of the Director of Shared Services once he or she is appointed, together with the costs of any advice required to pursue this project and the system cost for setting up the infrastructure of the host.

So far as the cost of each service project is concerned the approach suggested at appendix 2 and the report template at appendix 5 are designed to ensure that each individual project report contains an identification of the resources required and sets those out so that each authority makes an informed decision on whether or not it will participate. In part to ameliorate the effect that set up costs might have the 10% saving target figure is only required to be achieved at the end of the second year of the existence of the joint service.

- *The timescales seem unrealistic*

The strategic case recognises that the timescales are challenging – see paragraph 8.4 of the document. The question for Members is whether we have a prudent alternative to proceed at a slower pace given the future financial situation which is widely perceived. The recommendations do allow for adjustment to a date when a shared service is due to commence if that proves to be necessary. This will only become clear as each business case is developed.

- *The financial model disadvantages authorities that have already started making significant efficiencies and transforming services..*

This appears to raise two issues. First in the treatment of redundancy and the second in the charging for each service.

On redundancy there is a suggested protocol attached to the strategic case which is in the course of development. We will in examining individual business cases find issues which may adversely impact on particular council's and which will be the subject of discussion at the time. The protocols are not legally binding but are there to inform the project and suggest ways in which potential problems may be addressed to the ultimate benefit of all. However, they are not there to inhibit agreement. Shepway may wish to suggest an alternative.

As to charging for a service, each partner must be charged an equitable proportion of the cost of the proposed shared service based on the business case. Past cost of individual council services are not strictly relevant but of course in deciding whether or not to participate in the new proposed shared service each council will make a decision informed by its current cost and the proposed recharge.

- *There is a lack of clarity over how staff will be selected to run projects.*

It is respectfully suggested this issue is dealt with at paragraphs 8.7 and 8.8 of the strategic case in so far as it is possible to be definitive at the present time.

- *The report suggests more of the same rather than a fundamental rethink of service delivery.*

In paragraphs 1.4, 4.3 and the final pages of Appendix 5 of the strategic case the readers attention is drawn to the need for service transformation. Appendix 5 particularly indicates the need to demonstrate service change and savings. If this needs to be made more explicit, it can be built into the template.

- *There is to be limited member input into setting service levels and costs.*

The timescale arises from the difficult fiscal situation which is anticipated and the time pressure therefore to deliver the project. Council's are not precluded from wider member involvement but in doing so will need to keep up with the time pressures involved.

#### **EKJAC report, EKJSSC recommendations – 18 December 2009**

- (a) *Refers to an agreed format without specifying the format. Appendix 2 to the strategic case makes suggestions for format.*

Appendix 5 to the strategic case is the proposed format but it is in the process of being developed. In part the broad nature of recommendation (h) is intended to cover the approval of details such as this.

- (b) *Elected members want to be involved in setting service levels and costs, which is taken away by this recommendation. 10% off the combined budgets provides an incentive to be expensive which penalises more efficient partners.*

The site visits made have shown that partner authorities in other joint working projects have found ways to maintain member engagement without a negative impact on the speed of working. Members involvement is specifically dealt with in section 10 of the report. In addition paragraph 11.5 deals with Member's scrutiny of the service business cases. Such activity would have to be time limited to enable the programme to be met. There is nothing in the recommendations which precludes a council from finding a mechanism to involve members and stay within the timescales of the programme. That is entirely up to each council.

Each business case shall demonstrate the optimum savings possible through business transformation process. The 10% off the combined budget does not provide an incentive to be expensive. The recharge to each council will be based on what it will cost to deliver the service to each. The collective budget and the 10% target saving are parameters within which the business case will be developed. Failure to achieve it is a trigger for requiring a formal report to members.

- (e) *There needs to be greater clarity about the power of the host (e.g. why is the host looking at terms and conditions as a prime task, or rationalisation of property assets?) and the power of EKJAC to move to alternative models (once delegation takes place EKJAC has some power to act without reference back to each council).*

The issue of the host is dealt with at paragraphs 1.7, 2.12 and 11.3 of the strategic case. Terms and conditions of the staff to be transferred into a new shared service are important issues, not only for the host authority, but for all authorities involved in that process. The Head of the East Kent Human Resources Partnership is examining that issue currently.

The rationalisation of property assets is not urgent. It is not a host council issue and insofar as it appears to be that in the report, it is in error. It is clear the shared services will be using the existing council accommodation in the medium term. In the longer term the rationalisation of property assets as shared services consolidate may become an issue. Clearly all the authorities want optimum use of their property assets. The power of EKJAC to move to alternative models assumes that the delegation to EKJAC will be very simple in nature. Recommendation (a) says that amongst other things the business case will identify the arrangements between the parties who are sharing the service. Any delegation will be on the basis of those arrangements.

Those arrangements could specify that delegation is solely made on the basis of that document and that any wish to deliver the services in some other fashion by EKJAC must be referred back to the constituent council's.

- (f) *Any vacancy management arrangements that are agreed need to have some clear basis for the rights of the individual partners to reject any particular employee.*

These vacancy management arrangements are to be developed by the chief executives. There have been no discussion on them as yet and presumably this is a marker put down as a negotiating point. There are some potential difficulties around this not least that large scale redundancy costs as a result of vetoes of individual members of staff by individual councils could make the set up cost of a service prohibitively expensive. However, the aim of this reference is to encourage partners to discuss recruitment plans with other partners before proceeding, with a view to exploiting any opportunities to downsize. There is no intent to foist staff upon partners and, ultimately, partners can continue to recruit, even though the others may feel concerned if they subsequently have to pick up 25% of any redundancies that later arise as a result.

- (g) *We have always wanted to explore alternative options (and intend to do so) for the purpose of robust comparison and feel blocked by this recommendation.*

See paragraphs 1.5, 2.9 and 8.5 of the strategic case. Planning and preparing for a joint service requires a high degree of commitment by the prospective partners. The report is simply advocating that until May 2011 scarce resources of each authority are directed towards planning a joint service and deciding whether it is acceptable or not. The same officers who should be working on the joint services project could otherwise be preparing tender documents. They are unlikely to have time to do both.

- (h) *The power vested here is too far reaching for SDC members, as it is suggested that this will be used to second staff to key posts. The costs and implications need to be shown up front.*

This wide-ranging power is needed to enable the tight timescales set out in this report to be met. In such a complex project there are bound to be many decisions which need to be made quickly and in a co-ordinated way. It is not possible to foresee a stage where all such decisions might be and to ask for the costs is unrealistic. It is possible to say that the costs of not having such a wide delegation would slow the project down which would have budgetary implications. See page 3, 4th bullet point headed "there is limited member input".

- (i) *The cost relating to this post are as yet unquantified.*

The cost of this post is between the cost of a director and a chief executive as an individual council but there is no point in doing a detailed executive search and development of this post until we have approval of a number of authorities

## **EKJSSC supporting information**

*The timelines are unrealistic and allow for very limited member input.*

See paragraphs 2.5, 4.2 and 11.4 which set out the situation and the context for the time table.

Paragraph 8.4 specifically states that the timetable is optimistic and that to achieve it will require the appropriate level of support from the full councils to facilitate it. As previously indicated member input is not proscribed by these arrangements but councillors do need to commit themselves to rapid progress.

*Partners are discouraged from having input to the recommendations as written.*

Members are urged to adopt the recommendations for the reasons set out in the covering report to the East Kent Joint Arrangements Committee. Further partnership working does require a degree of common understanding between the parties.

### **EKJSSC – The main report**

- 1.3 *Without undertaking the detailed analysis of services it is a sweeping statement to talk about 'common service specification and baseline minimum level of service' being 'agreed beforehand'. There is no evidence that paying more for a service will increase the service level. It should be possible to transform what we do; in fact to make savings we will need to.*

This would require an investment of time and resources which are not available. Paragraph 4.3 of the strategic case is derived from information on projects elsewhere and paragraph 7.2 sets out figures which, again, evidence from elsewhere suggests are an appropriate starting point. Given the proposed model, the service specification will be prepared subsequently and then an individual council will decide whether it wishes to participate or not on the basis of that specification and on the proposed charge. It is correct that paying more for a service does not necessarily increase the service level but we know from one of the existing shared services that one particular authority elected to pay more for a service which was otherwise unsustainable at current funding levels. The encouragement to consider a transformative approach to the new shared service has previously been covered (see 1.4 of the strategic case).

- 1.6 *Once services are delegated it is EKJAC that makes the decision on the models to be used; such decisions would be by majority vote. Also if partners have no intention of subjecting services to the market (as stated by two), then why is this paragraph in at all?*

'Services' are defined in the business case – see recommendation (a) – and will include the arrangements between the parties. It must not be assumed that those arrangements will provide for an unfettered delegation for all time to EKJAC. See previous remarks on recommendation (e) above. As to exposing services to the market as paragraph 1.6 points out this joint working exercise requires commitment from the partners to it but that is not to say beyond May 2011 collectively the partners may decide that market testing is appropriate.

- 1.8 *The combination of the budgets disadvantages those of us who have sought to make efficiencies over time. When you add in sharing of redundancy costs and the unquantified set up costs you have a cocktail for increasing the operating costs of SDC.*

The councils have to assume a level of funding for a new shared service. It may be in the case of an individual council that service is under-funded but whether over-funded or under-funded or just right it provides a starting point within which the new service can be shaped. It is recognised that simply subsidising another authority is unacceptable and it is likely that the issue of redundancy and other costs may need

to be tailored to each individual business case. The principal is that what may ultimately be for the greater benefit of council's both individually and collectively should not be inhibited if, for example, redundancy costs fall disproportionately upon one of the partners.

*2.8 / 2.9 / 2.10 / 2.11 are slightly misleading. There still seems to be a suggestion that we would move everything to a whole owned council company at some time in the future. The decision would seem to belong to EKJAC (unless we prevent such an action in the delegation).*

Recommendation (g) specifically puts this topic off to a further discussion post May 2011. A wholly owned council company is an option but it is one among a number. The question of the ability of EKJAC to make such a decision under delegated powers has already been addressed (see comments above on recommendations (e) and (g) and paragraph 1.6).

## **Appendix 2**

*The pooling of redundancy costs and the sharing of the actuarial strain arising from early retirements disadvantages authorities who have already made efficiencies (they will not be laying off any surplus staff, as they are unlikely to have any).*

*The treatment of pension backfunding requires a more detailed analysis, with a clearer understanding of the impact of the councils.*

The protocols attached to the strategic case are intended for guidance and are in any event in the course of development. Until we get into the detail of examining particular services we will not have a clear idea of these costs. As has previously been pointed out if it is not in the interest of any particular authority to share a service then clearly it will not do so.

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**Mark Ellender**

**From:** Alistair.Stewart@shepway.gov.uk  
**Sent:** 23 December 2009 16:24  
**To:** Colin Carmichael; richard.samuel@thanet.gov.uk; Nadeem.Aziz@dover.gov.uk  
**Cc:** Robert.Bliss@shepway.gov.uk; Kathryn.Beldon@shepway.gov.uk; donna.reed@thanet.gov.uk; Mark Ellender; Mark Bursnell; mike.davis@dover.gov.uk; CllrPaulWatkins@dover.gov.uk; John Gilbey; sandy.ezekiel@thanet.gov.uk; TillsonP@aol.com; ian.ward@dover.gov.uk; Tony Austin; martin.wise@thanet.gov.uk  
**Subject:** East Kent Joint Services Strategic Case  
**Importance:** High  
**Attachments:** Areas of concern - SDC.doc

Hi.

I have been asked to provide a view on the concerns being expressed by Shepway DC on the above project. Attached is a document that reiterates the points previously, and repeatedly, raised by Shepway representatives in various debates and email exchanges, alongside some detailed issues/comments specific to the report submitted to EKJAC on 18 December 2009.

I have only circulated the attachment to Chief Executives, Leaders, Lead Members & the Project Team. I have been asked to circulate to all Cabinet Members across the partnership, but feel that we should debate the attached document on 6 January 2010 before I circulate further.

I must stress that failure to reach formal agreement that addresses the points raised will see SDC withdraw from further debate on this project, at this time.

Regards

Alistair Stewart  
 Chief Executive

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## Areas of concern for Shepway District Council (SDC) in relation to the strategic case for joint services.

Following the East Kent Joint Arrangements Committee (EKJAC) on 18 December 2009 I was asked to document fully the areas of concern for SDC about the East Kent Joint Services Strategic Case (EKJSSC).

It must be noted that SDC is supportive of the concept of sharing services to reduce our costs and/or improve our services to our community. Unfortunately, unlike the waste or the HR and Payroll projects, this report provides little or no evidence that it can deliver on our base criteria. **Without formal agreement to address the points raised below SDC will not be able to stay within the project.**

I provide an outline of our concerns then make observations about the report itself.

- The set up costs are unquantified.
- The time scales seem unrealistic.
- The financial model disadvantages authorities that have already started making significant efficiencies and transforming services.
- There is a lack of clarity over how staff would be selected to run projects.
- The report suggests more of the same rather than a fundamental rethink of service delivery.
- There is to be limited member input into setting service levels and costs.

### EKJAC report EKJSSC recommendations – 18/12/09

- a) Refers to an agreed format without specifying the format. Appendix 2 to the strategic case makes suggestions for format and I will refer to this later.
- b) Elected members want to be involved in setting service levels and costs, which is taken away by this recommendation. 10% off the combined budgets provides an incentive to be expensive which penalises more efficient partners.
- e) There needs to be greater clarity about the power of the host (e.g. why is the host looking at terms and conditions as a prime task, or rationalisation of property assets?) and the power of EKJAC to move to alternative models (once delegation takes place EKJAC has some power to act without reference back to each council).
- f) Any vacancy management arrangements that are agreed need to have some clear basis for the rights of the individual partners to reject any particular employee.
- g) We have always wanted to explore alternative options (and intend to do so) for the purpose of robust comparison and feel blocked by this recommendation.
- h) The power vested here is too far reaching for SDC members, as it is suggested that this will be used to second staff to key posts. The costs and implications need to be shown up front.
- i) The costs relating to this post are as yet unquantified.

## **EKJAC report EKJSSC supporting information**

The timelines are unrealistic and allow for very limited member input. Partners are discouraged from having input to the recommendations as written. Good to see the acknowledgement that 2 or 3 councils could progress the project even if 1 or 2 pull out.

### **EKJSSC – the main report**

- 1.3 Without undertaking the detailed analysis of services it is a sweeping statement to talk about 'common service specification and baseline minimum level of service' being 'agreed beforehand'. There is no evidence that paying more for a service will increase the service level. It should be possible to transform what we do; in fact to make savings we will need to.
- 1.6 Once services are delegated it is EKJAC that makes the decision on the models to be used; such decisions would be by majority vote. Also if partners have no intention of subjecting services to the market (as stated by two), then why is this paragraph in at all?
- 1.8 The combination of the budgets disadvantages those of us who have sought to make efficiencies over time. When you add in sharing of redundancy costs and the unquantified set up costs you have a cocktail for increasing the operating costs of SDC.

2.8 / 2.9 / 2.10 / 2.11 are slightly misleading. There still seems to be a suggestion that we would move everything to a whole owned council company at some time in the future. The decision would seem to belong to EKJAC (unless we prevent such an action in the delegation).

### **Appendix 2**

The pooling of redundancy costs and the sharing of the actuarial strain arising from early retirements disadvantages authorities who have already made efficiencies (they will not be laying off any surplus staff, as they are unlikely to have any).

The treatment of pension backfunding requires a more detailed analysis, with a clearer understanding of the impact of each of the councils.

### **Summary comment**

**The project proposal has an imbalance in the treatment of liabilities and benefits, which would, if carried through, significantly disadvantage SDC.**

**Without formal agreement to address the points raised above SDC will not be able to stay within the project.**

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