East Kent Joint Services
Strategic Case

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V 1.0	Project team	

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1.0 Executive Summary

1.1 A major and dramatic reform of public services is now inevitable as government spending is significantly cut in the years to come. The four districts in East Kent working in partnership with Kent County Council recognise that the funding landscape within which local authorities operate will look very different in future and therefore a radical response is needed that fundamentally challenges the way local authorities organise, design and deliver services. However, the response is not just about the need to save money.

1.2 It is also directed by the desire to improve the quality of services and build greater resilience and capacity in the shared services that will be created by combining expertise and strength in depth. There is also a strong desire to respond effectively to the emerging regional agenda and the place of East Kent within this. By releasing senior management capacity the four councils can develop a coherent and cogent argument for East Kent. As an economic sub-region, to take a leading role in framing regeneration strategies that reflect and meet the distinctive needs of East Kent.

1.3 The central proposal is therefore to create a raft of shared services for a range of support and frontline services across the four districts within the next three years. Services would transfer over to the shared service arrangement in manageable tranches. The assumption being all four councils will generally opt into shared arrangements for the relevant services based on a common service specification and a baseline minimum level of service agreed beforehand. Individual councils have the option of paying for a top up in service levels if they wish. It should be stressed that as long as two councils opt into a shared arrangement for a particular service that is sufficient to proceed. Councils do not have to opt in individual services. The councils will consider this at two points. Firstly, when the tranche of services is delegated to EKJAC and secondly, when the business case is completed. While the majority of services will go into shared service arrangement, some services deemed as central to ensuring local democratic control or key to delivering local strategic priorities will stay outside the arrangement.

1.4 At this stage predictive savings, globally and for specific services have not been established. However, based on experience elsewhere and the pilot shared services already undertaken in East Kent suggest indicative savings of around at least 10% are anticipated. A key part of delivering increased savings will be to undertake a business process and a systems thinking approach review of each service.

1.5 The appropriate delivery vehicle for the shared service arrangement has yet to be finally determined. The joint Cabinets/Executive meeting on 23 September agreed a “twintrack” approach to pursue a host authority model until the legality of a company controlled by the East Kent councils called the Joint Services Group (JSG) is resolved.

If the legal powers to create a JSG become available in early 2010 an analysis will be carried out on the cost benefit of continuing with the hosting arrangement or moving down the JSG track. However, the hosting arrangement will stay in place until of the next council elections in May 2011 to allow some continuity around planning joint services. In making a decision about which option to take, Members will be guided by the following criteria: evidence around a financial appraisal; business review and legal justification prepared by senior officers at each council.

1.6 There is a crucial issue around the potential for externalising services in future with a preferred private sector partner or contractor. Given the resource commitment to setting up the hosting arrangement and the ambitious timetable envisaged it is not feasible to embark on a market testing exercise before May 2011, as this would involve producing a contract specification, competitive tendering and contractor selection tasks on top of all the other tasks and workstreams associated with hosting. Besides, the councils will want to drive out any significant savings first before considering externalisation. However, once the service business case has been completed and all the relevant data gathered and agreed a viable shared service should emerge that will be suitable, should the councils so wish, to be market tested in future. In any case the JSG will periodically demonstrate its delivering VFM or, will take steps to do so to the satisfaction of Members.

1.7 The Shared Services will come under the control of EKJAC which although it can delegate powers to officers, it is not a legal entity and cannot employ them. Therefore, they will be employed by one of the councils. Which council will host the shared service arrangement has not yet been decided, but a recommendation will be made to each council in the near future. However, it should be stressed that the host authority will be completely separate to the services that go into the hosting arrangement.

1.8 The Chief Executives of each council will have delegated powers to approve business cases bearing in mind two conditions (achieving a minimum threshold of 10% of the combined revenue budgets by the end of the second year and achieving satisfactory performance levels). If those two criteria are not met, or for any other reason, a Chief Executive can refer the matter to Members. If it concerns an Executive function, it would be considered by the Executive, and if a Council function, by the relevant committee. Members would then consider the case for and against the particular service being shared.

2.0 Background – how did we get here?

2.1 At the beginning of 2007 all four district councils decided not to submit a bid to the Department for Communities and Local Government to be a unitary authority under the invitation which accompanied the 2006 Local Government White Paper. The councils, in agreement with the other councils in Kent also declined an offer to submit a bid to be a "two-tier pathfinder" contained in the same white paper. However, all four councils did agree to support a Kent wide submission which set out a statement committing all Kent councils to closer collaborative working in future, including looking at ways of establishing shared services as a way of improving the two-tier system.

2.2 In the context of the Kent wide submission, work was commissioned from a consultant to develop a paper on the same theme particularly for East Kent. The report built on the joint work the four East Kent councils have developed for some years on the concept of sharing the delivery of services between themselves, either to achieve cost savings or to enhance the resilience of these services by way of a larger staff grouping.

2.3 The four councils agreed in January 2006, to a protocol which governed these joint working arrangements. The progress achieved so far in creating shared services includes – Personnel and Payroll, Internal Audit, Landlord Housing Services and Waste Collection – originate from the decision of all four councils to sign the protocol.

2.4 After all four East Kent district councils decided in early 2007 to give a formal commitment to closer collaborative working in future things have moved on. This commitment has been translated into a number of important innovations. For example, a joint East Kent Local Strategic Partnership was established in April 2008 to provide a far sighted strategic vision for the sub-region up to 2030. A shared sustainable community strategy vision was adopted by all four councils earlier this year. The East Kent Joint Arrangements Committee was also set up in June 2008 to facilitate decision making around creating joint East Kent Services based on an agreed programme.

2.5 Given the tough economic situation local government faces and the pressing need to find savings this commitment has developed apace and options have been developed, based on what is happening elsewhere in the country. An appointed project group drawn from senior managers from each of the four districts was established in May 2009 to flesh out these different options.

2.6 The officer group identified four options – lead authority hosting, externalising services through contracting out to a private sector provider, joint management arrangement and a Joint Services Group (JSG). A SWOT analysis was produced for each of these four models. The SWOT analysis showed all four models had their strengths and weaknesses and each had been adopted as a viable option somewhere else.

2.7 The officer project team organised an away day programme for managers whose services were most likely to be directly affected by any move towards closer working amongst the four districts – Personnel, Finance, ICT and Legal services. The awayday took place on 24 June and part of that day's task was to identify a preferred option from the four discussed, based on the SWOT analysis, which could be put to a joint meeting of the four cabinets/executive planned on 8 July. As a result of the debate on the 8 July a majority preference did emerge for the Joint Services Group (JSG) model, as it offered a more all embracing and holistic solution and was radical enough to address the unprecedented challenges now facing local government. This outcome broadly accorded with the conclusions reached at the managers awayday, although the hosting arrangement also received support.

2.8 A JSG provides a single framework within which to bring together all services, rather than having to make separate arrangements on a service by service basis. However, it should be noted support for the JSG was not unanimous across all the councils.

2.9 The lead authority hosting model emerged as the second best option and shares many of the same features as the JSG, for example the need to harmonise terms and conditions for employees, the rationalisation of management numbers and achieving economies of scale. It should be stressed that a great deal of commonality between the hosting and JSG models exists and therefore it would be possible to move towards the hosting model and then JSG, if the decision was made, after May 2011. It should also be stressed that none of the four models that were evaluated are mutually exclusive. Features from each model can fit into other options and there will be elements from all models that will be reflected in the final outcome.

2.10 Whichever model is chosen, be it the JSG or hosting, both are really methods of procurement, the hosting or JSG method might provide the service in-house or contract it out and therefore will lead to a mixed economy.

2.11 The last joint Cabinets/Executive meeting on 23 September agreed a "twintrack" approach, to pursue both the JSG and host authority models until the issue of the legality of the JSG was finally resolved. Therefore, the hosting arrangement could represent an interim position or become permanent. If the legal power to create a JSG became available next year an analysis will be undertaken on the cost benefit of continuing with the hosting arrangement against the establishment of a JSG.

2.12 The intention is that when a service becomes shared, it does so under the control of EKJAC. EKJAC can delegate functions to officers in the same fashion as one of its member councils. For ease of administration it will be recommended to EKJAC to ensure that those officers are all employed by one authority, called in this report “the host”. These officers may be drawn from any one of the partner councils or be externally appointed. Thus a single council, to be confirmed by EKJAC, will be selected to host services transferred (using powers under S101 and S102 of the 1972 Local Government Act and other enabling powers). Clearly the host would have to be prepared to accept the responsibility. Within the host authority shared services transferred over will be ring fenced and not form part of the host authority’s management structure.

3.0 Vision

East Kent hosting arrangement concept

3.1 <u>Project Summary</u>

The key elements of the proposal discussed at the joint Cabinet meeting on 23rd September and by Chief Executives on 30 September are:

- The four partner Councils will approve participation in a joint services project and will give EKJAC authority to approve a “host” authority”.
- The decision to set up this host authority structure will be made by March2010 at the latest, by each council. This will include a suggested phased programme of services to be transferred into the host arrangement.
- A programme will be agreed for the phased transfer of services to the host over a defined period. This will be by using the powers set out in operating arrangements adopted for EKJAC .
- The host will “ring fence” the services, so that they are distinct from the management arrangements for the rest of the host authority.
- The Director of Shared Services will be accountable to EKJAC for the performance and management of shared services
- EKJAC will also be answerable to the client Councils for service delivery to meet the requirements of SLAs.

- Ultimately, legal responsibility for the services still rests with each of the councils

The host councils obligations will be:

- The host authority will become the legal employer of relevant staff. Affected staff will be added to the host's payroll, through their general ledger.

- A prime task is to establish the terms and conditions upon which these staff will transfer to the newly established joint services. It is expected there will be a separate set of terms and conditions for the host, which will reflect the most expedient option. The Head of Shared HR Services will lead on a workstream to establish the legality of this arrangement.

- Each council will agree to the lowest baseline service acceptable to all and contribute a fair proportion of the cost to provide that service. Individual councils have the option of paying for a top up level of service above the agreed core if they so decide.

- An opportunity will emerge to rationalise property assets following the creation of shared services, which will lead to the rapid optimum use of existing council buildings. But at this stage it's too early to quantify potential savings through selling surplus property.

3.2 Legal Position

Given the present uncertainty on the reach of the wellbeing powers, as they affect the potential to establish a JSG, a hosting arrangement could represent an interim position or become permanent. Even if the legal powers to create a JSG are enacted, the four councils may still decide to retain the hosting arrangement, if the criteria set out in the Executive summary doesn't support the JSG option.

3.3 Producing the Strategic Case

This document will be presented to EKJAC on 18 December 2009 setting out the case for the phased transfer of a programme of services to the host authority. This document provides the rationale for pursuing the hosting option, and in due course, if Members so decide, moving towards a JSG.

The strategic case includes:

- standard governance template for services transferring to the host

- broad indicative savings

- indicative investment requirements
- basis for charging service costs to partners
- an evaluation of the sequence / phasing for the transfer of different services.

As the programme proceeds each Council will have to make decisions about each specific service and whether it should be included. The decision may be for political, strategic or business reasons but it must be reasonable for each authority to have an indication of the cost to it of entering the Joint Service.

In relation to each service, each Council will need:

- an analysis of current costs
- an agreement on the base specification and service design of the joint service.
- an assessment of the likely costs of a shared service operation based on evidence from other authorities / projects, and also based on the potential for savings against current provision
- an indication of the potential charges to each authority
- a view as to whether to commission the base specification service or a higher level.

The East Kent shared services strategic case once approved by EKJAC on 18 December will go through each councils decision making process between January – February 2010.

4.0 Objectives behind the project

4.1 All councils face a challenging financial future. There is a pressing and ongoing need to achieve efficiency savings, simply to balance budgets and safeguard basic services. Without significant savings major cuts in front line services will be inevitable.

4.2 The economic downturn has accelerated budgeting pressures on local authorities with every indication that future reduced, or at best, frozen central government grant settlements for councils will mean major economies need to be found to maintain current services. The reasons for closer collaboration are not based solely on the necessity of finding financial savings. There are issues around capacity and resilience facing the East Kent councils. Therefore capitalising on opportunities to share scarce specialist skills and knowledge, which a single council cannot afford or which are vulnerable when staff leave or are absent, need to be taken.

4.3 Anecdotal evidence would suggest that simple joint working could yield savings of between 5 to 10%. When opportunities to transform services can be taken, it may be possible to increase those savings to 10 to 20%. However, joint working alone should not be seen as a complete solution to budget problems.

4.4 Rapid changes in the capability of ICT systems provide a strong impetus for business transformation. Collaborative working provides the opportunity to make the investment and drive step changes that will improve the quality of service experienced by customers.

4.5 The general advantages of a shared service solution can be summarised as the following:

- Efficiency savings by streamlining business processes, achieving economies of scale and rationalising management.
- Maintain and improve where possible quality of service by driving up performance through adopting current best practice across east Kent.
- Generating capacity by sharing specialist expertise and reducing dependence on a few key staff.
- Convergence of policies, processes and technology.
- Business transformation through applying business process re-engineering techniques to review existing service operations and secure improvements.
- Creating a more highly trained and motivated workforce through increased opportunity for personal development.

5.0 Options appraisal

5.1 As was stated in the background section, the project group explored four options initially – hosting authority, externalising services through contracting out to a private sector provider, joint management arrangement and a Joint Services Group (JSG) – and through a process of elimination, the first and fourth options have been identified as having the greatest merit and form the basis on which to move forward.

A SWOT analysis for the four options was developed by the project group to inform the choice of options selected.

In developing these models it is recognised there are similarities between them. The hosting and JSG models in particular, have several commonalities and points of convergence and were agreed by the project group and the Cabinets/Executive meeting on 23 September as the best option to pursue further.

5.2 The advantages of both models are similar:

- Achieving efficiency savings by streamlining processes, achieving economies of scale and rationalising management;
- Generating capacity by sharing specialist expertise;
- Convergence of processes, policies and technology;
- Business transformation through applying business process reengineering techniques;
- Creation of a single and unified set of HR policies e.g. common employment terms and conditions and a job evaluation scheme

For either hosting or a JSG each council can have a commissioning and contract management/monitoring role with the host for individual services. However, to achieve high levels of savings these will need to be kept to an acceptable level of activity. The exact nature of the client role will need to be determined by the four individual councils and closely related to the shared specification and any agreed top ups for that particular service.

5.3 For either hosting or a JSG it is also assumed democratic services, elements of finance and legal advice and policy development services will be kept as residual functions by each council. There is an issue of what other services should stay outside any hosting arrangement. Some councils may wish to also keep distinctively local or 'place shaping' services such as regeneration, community development, leisure etc. in-house.

5.4 What stays out of the hosting arrangement will need to be identified before those services deemed suitable for transfer to a hosting arrangement are incorporated into a programme.

6.0. Benefits for local residents

6.1 Our aim is to design our shared services so that the customer is at the heart of all the services we deliver; whether it's by telephone, face to face or the web.

6.2 Alongside this initiative we will work with Gateway Kent in order to give our customers access to a multi agency approach e.g. health, county services, the voluntary sector.

6.3 Our customers will benefit from having a workforce that uses the best working practices across East Kent, with processes and procedures that are efficient, but reflect the customer need – not the other way round.

6.4 The shared service arrangement will ensure that the residents of East Kent will achieve value for money from their council tax charge.

7.0 Financial appraisal

The financial appraisal will occur in two stages.

7.1 The first stage is to determine the overall potential for generating savings from joint working. This cannot be calculated with precision, since it is dependant upon a number of factors including:-

- the specific services which Members agree should be included in joint working
- the phasing of those services
- the baseline standard of service that partners agree to establish
- whether the services are managed / retained at local sites or placed within a centralised service
- the level of ICT and other investment
- the costs of redundancies

- the size and scope of the client side operations

7.2 However, in order to provide an indication of the scope of potential savings, Appendix 1 contains a schedule analysing the expenditure and headcount of services across the four partner authorities. For illustrative purposes it is assumed that a net saving of 10% could be achieved on the salary budget, then that indicates a saving of approximately £7.0m. This figure is a starting point and it is anticipated that greater savings will be achieved, but it is prudent to set the initial target at a realistic level. The Chief Executives will contemplate the impact of a greater level of savings on services.

7.3 The potential redundancy costs could bring into question the viability of the shared services, but some redundancies are inevitable as posts are reduced.

7.4 However, this could be mitigated by ensuring current staff can be redeployed into the new joint arrangement where possible. Part of this approach would be to ensure that staff where given the right skills through training and mentoring.

7.5 The second stage arises when the overall project is underway, and the detailed proposals for joint working are developed on a service by service basis. However, it is intended that the senior management costs will be reflected in any savings put forward in the business case.

7.6 The ideal solution is that the service proposal will be focused on how four separate teams can be structured to start working together and make savings (generally from headcount and procurement). It should therefore be simple and relatively straight forward to make the business case.

7.7 To avoid any confusion regarding sharing costs etc. a number of protocols have been developed to guide the development of a business case (see Appendix 2). These protocols will continue to be developed as projects progress, in order to further minimise the time it takes to agree a specific proposal, and also to reduce the risk of significant omissions. In general, the Appendices to this report will evolve and will be developed and enhanced as the process goes on.

7.8 A critical stage in joining the four authorities' services together will be the review of business processes. This will be part of the tool kit as evidence from other areas has identified an increase in savings when this work has been undertaken.

8.0 Proposed phasing programme of shared services to the host

8.1 Services will migrate to the host authority based on an agreed phasing programme. Phase one services would need to start to consider joint service level agreements and joint protocols soon. Joint working and familiarisation between the teams across the four districts should start now. Criteria will have been developed to identify which services should transfer and their order of priority (see Appendix 3).

8.2 The first tranche of services has been identified based on their scope to generate major savings and their synergy. Given the main reason for pursuing the hosting arrangement is to generate efficiencies, up front indicative savings are expected to be identified in the service business case before final transfer to the host authority. These savings should be based on the best comparable evidence from elsewhere and a realistic assessment from relevant managers and their accountant colleagues.

8.3 If the wider sharing of services envisaged in this document takes place then it is probable that Personnel and Payroll would join the proposed hosting arrangement on a date to be agreed, although it may be that internal audit remains outside because of the particular nature of that service.

8.4 All services deemed suitable to be included in a hosting arrangement should be able to be transferred ideally over a three year period starting from April 2011. It is likely that if the hosting arrangement starts from February 2010, it will take a year to prepare and organise the transfer of services. The phasing of services in tranche one to the host will be agreed by February 2010 and the phasing must be completed by April 2013. The project group have developed an indicative planning timetable based on the scoring matrix (see appendix 4). This timetable is optimistic and much will depend on the number and complexity of the services that transfer to the host authority, the capacity to receive them and the level of project support made available by the four councils to facilitate this.

8.5 Services in the tranches will need to be commissioned well in advance to allow sufficient time to complete the service business case and prepare for the “going live” of the new joint service. Therefore for the April 2011 tranche, work will need to begin from February 2010 and the same timings will be necessary for the two subsequent tranches.

8.6 The methodology for developing shared services will be developed. Therefore it is likely a designated project lead officer , drawn from the top tier of management from one of the four councils, and not drawn from the particular services concerned, will have the responsibility to oversee the project plan and ensure the delivery of key milestones. The project group will support the designated lead officer in developing the project plan, monitoring delivery and providing ongoing challenge.

8.7 Once Members agree a tranche of services in February of each year, starting in February 2010, it is assumed a Service Transformation Manager will be appointed as quickly as possible. The Transformation Manager is likely to be appointed in April/May on a seconded basis and will be employed by the host. There is an expectation that the Director of Shared Services, who will be appointed around March/April will have an influence on the appointment in conjunction with one or more of the the Chief Executives.If a suitable internal candidate exists from one of the four councils, the presumption is the post will not be advertised externally, but recruited internally. Once recruited the Transformation Manager will work with his or her equivalents as a project team to deliver the business case for creating the joint service.

8.8 The appointed Transformation Manager will take the lead in building the business case, on which to plan the design of the joint services and an officer structure to deliver it based on what is affordable. This will include an output based specification within the budget resources available from the four councils and minimum service standards. This package, developed jointly with the Director of Shared Services, would in effect provide a service offer with a price to the four clients around October/November, for their consideration and approval. Under the scheme of delegation agreed by Members, the EKF will oversee the final structure and configuration of each service placed in the hosting arrangement.

8.9 Each Chief Executive will need to consider how he is to support the members of the project team. In each service area there will also be involvement in staff support from; ICT, finance, legal, HR as well as the service itself. The project group need a central fund on which it can draw, for example for inter-service evaluation, events, and the validation of the project groups analysis (especially around phasing the delegation of services to the host).The project group will be tasked with identifying in more detail what actual sums will be needed to deliver the project in full. It is also to be assumed that disruption to services is to be avoided as far as possible.

8.10 Once agreed, services would legally transfer to EKJAC and through them the host authority would assume responsibility along with staff and other relevant costs. Services could remain at their present location and be managed from a distance. Although there might be no immediate change to the cost base for individual authorities, moving to a shared baseline service specification with the ability to ‘top up’ if individual councils so choose will have an impact on the cost base in the medium to long term for all four councils.

8.11 By the quote no “immediate change to the cost base” this is taken to mean that as from the council decisions approving this project, no individual council will undertake a significant restructure of its service without prior consultation with the other councils to ensure that it doesn’t have a negative impact on the future viability of that service. This is to ensure that staff and other resources are protected and that a council’s service is put forward on its true cost base rather than being artificially inflated or deflated. However, this could create a tension when one council is satisfied with a level of service below the minimum baseline agreed by the others.

9.0 Features of residual council and retained services

9.1 All four councils have the option of retaining those services they wish to keep in-house. The phasing programme assumes services that constitute the democratic core of the councils (committee administration, policy support, legal advice, elections, etc) will stay under the direct control of each council.

9.2 The project group have also made the assumption that there are several services that because of their value in delivering each council’s strategic priorities (regeneration, cultural services, community development, tourism, leisure, etc), Members would prefer to keep these services in-house (these proposed retained services are shown in appendix 4). There are also issues around each council investing in these discretionary services at different levels based on their relative priority. This therefore resolves the issue of why it is suggested these services are not included in the hosting or JSG arrangement. A common baseline of service and costs would be difficult to establish across the four councils at a level acceptable to all.

10. Member involvement in the process

10.1 The councils will retain their status as independent, separately elected bodies. Policy decisions, forward plans, strategies, budgets etc will still be decided by each of the four councils. 10.2 A “democratic core” of services will still be kept by each council to carry out the statutory functions e.g. committee services, legal advice and policy support. There will also be a retained client role for commissioning services and monitoring outputs through a formal contract or SLA arrangement with the host authority or the JSG. The performance of services delivered through the host authority arrangement will also be held to account by the scrutiny committees of each of the four councils.

10.2 Each council will have the option of deciding which services transfer into the hosting or JSG arrangement and which remain under the control of the individual council. Some councils may wish to keep in-house high profile “place shaping” services like regeneration, culture, leisure etc, which are seen as key to delivering the authority’s strategic priorities.

10.3 Member involvement to date in the development of the shared service models has largely been at the Cabinet/Executive level for each of the four councils and a Member sounding board drawing on one Member from each council. Joint Cabinet/Executive meetings to shape and steer the proposals emerging from the officer project group and the Chief Executives have been held on 7 July and 23 September. The Member sounding board, selected from Members with an interest or expertise in joint service delivery issues, scrutinises officers proposals and reports before they reach the joint Cabinet/Executive meetings. The Member sounding board has met on 15 September and 16 November.

10.4 The Member Sounding Board would continue to act as a critical friend through the course of the next phase in order to provide Members with some reassurance that the programme was being carefully monitored. This point was made in recognition of the tension between the desire to become intimately involved in the formulation of the service at Member level and the desire to see the timetable met and for reporting back to Members to be on an exception basis only.

10.5 Each council has planned a programme of briefings to ensure Members are properly engaged in this process and brought up to speed with developments

11. Proposed governance arrangements

11.1 Decisions on business cases with associated service specifications, SLAs, staffing structures, etc for particular services will be delegated by the four councils to their Chief Executives. On receiving the business case from the Director for Shared Services, the Chief Executives will consult their respective leaders and receive advice from their Monitoring Officers, S151 Officers and the project group.

11.2 For the future it is assumed that on or about February 2011 and February 2012 each council will approve an outline business case for a tranche of services which each council will then delegate to its Chief Executive in a similar way to what is currently proposed ..

11.3 Within the host authority the shared service arrangement will be treated as organisationally discrete, and not as part of the host authority's management structure. The host Chief Executive (as head of paid service) will be expected to have some line management responsibility for the Director of Shared Services. Management decisions affecting shared services vested with the host authority would be taken by the Director of Shared Services employed by the host but under overall direction of EKJAC rather than the host council These decisions will in practice be taken in consultation with the EKF. It is assumed that unless a suitable candidate is identified within one of the four councils, the post will be advertised externally. Senior Members on advice from the Chief Executives from each council will make the appointment. Any other posts created below, this will be appointed by the Director for Shared Services and if necessary a panel drawn from the four Chief Executives.

11.4 Given the scale and complexity of the work involved in creating shared services there is a strong presumption in favour of rapid phasing of agreed services over to the hosting arrangement. Therefore the principle is set out that once each council agrees which service transfers over to the host and when, the substantive detail of how this is managed is delegated to the four Chief Executives individually who will consult each other through the vehicle of the East Kent Forum.

11.5 It is proposed to effect the transfer of relevant services through three annual tranches starting in April 2011. Member scrutiny of the service business cases for each tranche would be on an exceptional basis only. Such activity would have to be time limited and be in accordance with the following criteria: projected savings targets were unlikely to be met; significant information or key facts were absent from the business service case, or if there was disagreement at the EKF as to the structure, funding arrangements or configuration of the new shared service. Although each council will approve the phasing of individual services through the three tranches, it is assumed this will be at a high level of scrutiny asking questions around principle – what will the new shared service look like? how much will it cost? what are the key milestones in setting up the shared service?, etc – not detailed matters.

11.6 There is a large element of trust built into this proposed way of working with Members, allowing senior managers to lead on the substantive issues around establishing shared services and carrying out appropriate consultation with Members.

The process of decision making for approving service business cases is as follows:

- Strategic case for shared services prepared by Project Group
- Proposed phasing of services to hosting arrangement
- Template for service specific business cases (see appendix 5)
- All included in the shared service proposal to be adopted by the four councils by March 2010 following EKJAC recommendation in December 2009
- Responsibility for developing service business cases given to service project teams using adopted template. Designated lead officers to complete business case template and agreed by EKF

- Lead officer to work with the service project team (consisting of the four Heads of Service or equivalent) in assembling the information and data needed for the completion of the business case

- Director of Shared Services to have strategic overview of the hosting arrangement and ensuring service business cases are completed on time and phasing achieved

- Project group to work closely with Director of Shared Services in helping lead officers prepare service business cases and being a source of advice and challenge for the EKF

- Chief Executives in consultation with their Leaders to approve business cases subject to criteria.

- Referral by the Chief Executives to Members for decision will occur if the service business case fails to meet the two following conditions: 10% revenue budget savings per annum by the end of the second year cannot be delivered; and levels of performance or standards of service for the new shared service cannot achieve satisfactory levels Not meeting one or both of these conditions will trigger the involvement of Members in making a decision about transferring the service to the hosting arrangement or not. A Chief Executive may refer this to the Executive or a committee as appropriate.

11.7 A delegation to EKJAC can be reversed by one of the councils. In practice the business case and the arrangements between the parties will address an exit strategy. In most, if not all cases, the arrangements will provide that withdrawal of a party can only take place on terms which are likely to include a minimum period of notice and compensatory provisions for the other authorities if they incur costs as a result of the withdrawal.

12. Risks for the hosting arrangement and Joint Service Group (JSG)

12.1 The high level risks have been identified at this early stage as follows:

- **Employment:** The hosting arrangement and JSG depends on an harmonisation of terms and conditions of employment to a level that is financially acceptable to all four councils, which in turn means revised pay grades, equal pay evaluations and bringing together pension rights and liabilities.

  There might also be a risk of key staff leaving the employ of the four councils if the transfer of services to the hosting arrangement or JSG becomes protracted.

- **Financial:** The host council will be the employer and under the JSG a new employment body would be created. These carry significant overheads, which would have to be covered through efficiency savings as services transfer over. Each council will become a partner in underwriting the liabilities of the JSG, such as future pension liabilities. Savings will depend on more effective utilisation of technology, rationalising business processes and a reduction in the number of managers. The latter assumes some redundancy costs. There will be the need for some upfront investment, eg new ICT systems, which relies on future savings to provide sufficient payback.

- **Technological:** The challenge of working across four districts requires good communications links to work between the sites. The complexity of ICT systems and the scale of data transfer means that communication links must be effective and resilient enough to deal with service needs.

- **Political:** The hosting arrangement or JSG will take time to put in place and there is a risk that one or more of the four councils decides to reconsider support for the hosting arrangement or the JSG prior to all the agreed services in the programme being transferred. This risk can be mitigated by ensuring consistent political support for the hosting arrangement or JSG from across all four councils and that communications to members on the development of the hosting arrangement or the JSG is kept regular and explained in an intelligible way. A member engagements strategy will be a crucial element of the project management framework.

  A definitive list of which services, functions and assets stay under the purview of each council will be developed, with a justification of why they need to stay in-house.

- **Legal:** Joint working with a joint committee and a hosting arrangement is permissible under existing legislation. The legal powers to establish an JSG are not clear at this time. Currently under Section 101 and Section 102of the Local Government Act 1972 and relevant regulations a local authority may delegate a function to a joint committee, officer or another council. This excludes an outside body for most functions unless permitted under the Deregulation and Contracting Out Act 1994. Giving joint committees separate legal status or broadening the wellbeing power in the Local Government Act 2000 would be helpful.

  Recent case law indicates that the creation of a JSG under the usual well-being powers solely for the purpose of saving money is not lawful. It is assumed this will be addressed by the Government in the near future. Until it is the justification for the creation of an JSG, it has to be directly referable to the well-being of the communities of the respective Councils, not simply beneficial to the Councils themselves.

13. Workforce plan (harmonisation of employment terms and conditions, etc)

13.1 Chief Executives have commissioned this already from the Head of the Shared HR Service .

14. Future investment needs for the project

14.1 As well as the appointment of the Director of Shared Services, it will be necessary to recruit, possibly through secondment, a project manager to produce and manage on a day-to-day basis the overall project plan for monitoring the delivery of key milestones associated with each service to be transferred. Other resources might need to be bought in as the requirements of the project become clearer. It is assumed the Director will be appointed on a two year basis to establish and oversee the host or JSG arrangements.

14.2 The demands on the time of the Chief Executives, project group and the designated lead officers for each transferring service should not be underestimated, in seeing this very ambitious project through to its conclusion.

14.3 There will be a huge opportunity cost involved for senior managers across all four districts.

15. Milestones and timetable to establish hosting arrangement

9 December	East Kent Joint Cabinet meeting
14 December	East Kent Joint Scrutiny Committee
18 December	East Kent Joint Arrangements Committee
6 January	Canterbury Overview and Scrutiny Committee
11 January	Dover Cabinet
20 January	Dover Scrutiny Policy and Performance Committee
4 February	Canterbury Executive Thanet Overview & Scrutiny Panel
8 February	Dover Cabinet
11 February	Thanet Cabinet
17 February	Shepway Cabinet
18 February	Canterbury Council
23 February	Thanet Council
3 March	Dover Council
17 March	Shepway Council

16. Recommendation for taking forward the proposal

The East Kent District Councils of Canterbury City Council, Dover District Council, The District Council of Shepway and Thanet District Council ("the East Kent Authorities") are minded to merge the delivery of each of the services generally described as ICT, face to face and contact centre customer services, revenues and benefits, residual housing services and building control ("the services") between two or more of them subject to the following process:-

a) A business case or business cases shall be prepared in respect of each of the services which shall amongst other things describe the proposed merged service, the arrangements between the parties, the savings to be achieved both generally and for each Council and the level of service it is proposed to provide, such business cases to be presented in an agreed format to each of the East Kent Authorities.

b) Each of the East Kent Authorities shall delegate to its Chief Executive in consultation with the Leader the power to approve a business case on its behalf mindful that the business case shows to his satisfaction that savings of 10% against the existing combined budgets must be achieved in the first two years and that an acceptable level of service to his council can be delivered.

c) If the Chief Executive is not so satisfied for those or any other reasons he shall expeditiously refer the business case for consideration to the Council's executive if it concerns an executive function or to the appropriate committee if it is a council function

d) If The Chief Executive or the executive or the committee as the case may be is so satisfied then a delegation to the East Kent Joint Arrangements Committee shall thereupon occur of the powers and duties of the Council as defined in the business case such delegation to take effect on 1st April 2011 or such other date or dates as the Chief Executives of the East Kent Authorities who have made similar delegations shall mutually agree in respect of that service.

e) The East Kent Joint Arrangements Committee will delegate such powers to officers as it thinks fit in relation to the services and is requested to appoint one of the East Kent Authorities as the host authority by whom all such officers will be employed.

f) Vacancy management arrangements shall be developed by the Chief Executives of the East Kent Authorities in relation to each of the services proposed to be merged pending such merger

g) Any decision regarding the delivery of the services by other methods by each of the East Kent Authorities be deferred and be reconsidered no earlier than May 2011.

h) To authorise the Chief Executives of each of the East Kent Aurthorities to take any steps necessary on behalf of their authorities to explore or facilitate the joint delivery of the services.

i) To appoint the Director of Shared Services with the intent he or she will take up their post as quickly as possible after the East Kent Authorities have adopted these proposals.

Appendix 1

Indicative Redundancy Costs

To assist in the initial preparation of a business case the table below has been produced, giving indicative statutory redundancy figures:

	Salary				
		£20k	£30k	£40k	£50k
Service Length	5 years	1,923	2,885	3,846	4,808
	10 years	3,846	5,769	7,692	9,615
	15 years	5,769	8,654	11,538	14,423
	20 years	8,462	12,692	16,923	21,154
	25 years	9,423	14,135	18,846	23,558

Indicative Per Capita Premises Fit-Out Costs

In practice the cost of fitting out premises will vary from service to service, and premises to premises. However, at the business case stage it is unlikely that the specific premises will have been identified, and that an accurate estimate can be calculated.

In order to progress this, the premises fit-out costs of the HR service will be used. This provided accommodation for 28 staff, and the main costs were:

	Type of Costs	Costs £k
1	Partitions, redecorations and carpeting	22.0
2	Desks and other furniture	20.0
3	Cabling	0.0
4	Telephony	0.0
5	PCs and laptops	21.0
6	Removals	1.0
7	Re-location and travel costs	1.1
8	**Total for 28 staff**	**65.1**
9	Average per capita cost	2.3

Indicative ICT Systems

The costs of replacing systems will vary significantly from authority to authority, and from supplier to supplier.

However, when reviewing business cases it is important to have some broad indication of the potential scale of expenditure.

The table below provides a broad indication of the historic costs and age of the main IT systems within Dover District Council:

System	DDC[4]	
	Age	£k
Accounting	10	200
Housing[1]	4	400
Revenues and Benefits	10	250
Cash Receipting[2]	0	50
CRM	4	300
Telephony[3]	14	100

Notes:

1 Housing system support ends in 2013; an alternative will be required before then (DDC or shared service).
2 Cash Receipting/Income is planned to go live December 2009.
3 The telephone system was replaced in 2005-2006.
4 There are no plans or requirements to upgrade/replace any of the other major systems, as they are providing sufficient functionality, and are being maintained / enhanced by the suppliers.

East Kent Shared Services

Indicative Potential Savings from Joint Working

Guidance Notes

Service Definitions

This table is intended to be indicative. The service definitions have to be very general. Don't agonise over precise definitions.

Financial Year

2009/10 budgets have been utilised, since these are complete and available. Comments have been added where there are significant service / budget changes expected in 2010/11, however these have not been incorporated into the figures.

Rest of the Council

This line is there to reconcile to the total budget. The aim is to avoid understatement that has led to puzzling outcomes in the Price Book.

Direct Service Expenditure

Direct service expenditure has been used. This excludes capital charges and FRS17 pension adjustments, because historic decisions and assets could otherwise distort the picture. Central support costs & recharges have also been excluded to prevent the risk of double counting and to show the direct cost of each service in its own right. The aim is to give a sense of the size of each service.

Net Service Expenditure

The aim is to provide a link to overall net service expenditure.

F.T.E. & Salary Costs

Again, provides indicative scope for savings.

Potential Savings

This is currently based on 5% of salary costs for each area. No consideration has been given at this time to the practicality of achieving this through the link to the saving of complete posts.

S.151 Officer Sign Off

The figures included are currently provisional and subject to Section 151 Officer review.

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Central support and Back office services							
CE, Directors / Heads of Service, PAs & WPOs	4,024,510	-400	4,024,110	52	3,255,250	325,525	
Personnel and Payroll	1,943,480	-4,750	1,938,730	32	1,206,860	120.686	Costs based on 09/10 original budget before shared service implementation
Finance accountancy	3,294,998	-50,338	3,244,661	76	3,034,150	303,415	NB - TDC & CCC budgeting for savings in 2010/11
Procurement	340,860	-10,160	330,700	10	329,110	32.911	
ICT	4,632,211	-12,160	4,620,051	68	2,688,050	268,805	
Legal Services	1,645,040	-125,320	1,519,720	31	1,395,860	139,586	
Policy and Performance	1,130,142	-13,252	1,116,889	23	1,001,520	100,152	

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Mail services	676,760	-500	676,260	17	391,880	39,188	
Printing services	1,130,170	-16,750	1,113,420	14	434,710	43,471	
Customer services	3,511,760	-6,000	3,505,760	136	3,489,940	348,994	
Democratic Services (including elections)	3,609,770	-241,750	3,368,020	42	1,394,680	139,468	
Marketing & Communications	1,126,220	-115,000	1,011,220	22	854,630	85,463	NB - TDC budgeting for post savings in 2010/11
Predominately statutory services							
Development Control	3,900,040	-2,669,200	1,230,840	90	3,172,720	317,272	
Planning Policy	1,905,000	-41,520	1,863,480	33	1,299,770	219,977	
Building Control	2,110,790	-1,757,120	353,670	43	1,807,750	180,775	

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Environmental Health	3,490,120	-639,850	2,850,270	65	2,376,520	237,652	
Land charges	598,620	-1,101,700	-503,080	7	196,340	19,634	
Revenues & Benefits	9,409,930	-4,595,700	4,814,230	252	7,664,470	766,447	NB - TDC budgeting for £400k savings against this in 2010/11. DDC budgeting for £120k pa saving.
Subsidy Payments / Income	180,187,760	-183,714,620	-3,526,860	0	0	0	
Waste collection & recycling	14,128,910	-2,492,120	11,636,790	194	4,161,390	416,139	
Street cleansing	4,090,430	-139,110	3,951,320	41	825,700	82,570	
Grounds maintenance	5,688,600	-170,120	5,518,480	125	2,378,560	237,856	
Parks & Open Spaces	1,575,040	-534,170	1,040,870	14	468,430	46,843	

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Beaches & Foreshores	944,000	-541,770	402,230	16	297,610	29,761	
Licensing	1,357,100	-929,320	427,780	35	1,158,820	115,882	
GF Housing	5,996,150	-3,334,550	2,661,600	79	2,873,170	287,317	
<u>Predominately non statutory services</u>							
Property	6,214,810	-6,668,700	-453,890	100	3,916,430	391,643	
Cemeteries, Crematoria & Closed Churchyards	804,950	-1,366,490	-561,540	15	295,840	29,584	NB - TDC manages a Crematorium
Public Conveniences	1,369,640	-79,230	1,290,410	5	114,480	11,448	
Council Offices	2,781,380	-145,120	2,636,260	26	614,140	61,414	NB - CCC will be budgeting for 1 divisional office closure in 2010/11
Parking	7,500,700	-12,600,710	-5,100,010	103	2,600,840	260,084	

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Leisure Services (including leisure trusts)	2,713,810	-709,720	2,004,090	25	787,370	78,737	
Community Development	2,966,060	-1,552,880	1,413,180	47	1,255,710	125,571	
Community Safety (including CCTV)	3,395,950	-1,283,970	2,111,980	71	2,032,870	203,287	
Cultural development	2,980,250	-911,270	2,068,980	40	1,059,980	105,998	
Museums	1,338,520	-270,890	1,067,630	18	800,640	80,064	
Regeneration & Economic Development	2,397,884	-457,410	1,940,474	36	1,543,920	154,392	
Tourism	1,761,140	-455,410	1,305,730	28	833,200	83,320	
Traffic & Transportation	769,956	-77,650	692,306	9	318,270	31,827	

	1. Direct Service Expenditure £	2. Direct Service Income £	3. Net Direct Expenditure £	4. F.T.E.	5. Salary Costs £	6. Potential Saving (10% of Salaries) £	Notes / Comments
Concessionary Fares	6,676,880	-1,830,730	4,846,150	3	56,200	5,620	
Corporate / Reconciliation Information							
Backfunding	7,412,800	-466,740	6,946,060	0	1,340,000	134,000	
Recharges to Non-GF budgets	-5,751,260	0	-5,751,260	0	0	0	Excludes figures from Thanet
Rest of the Council	10,497,750	-5,429,700	5,068,050	126	3,983,530	398,353	Excludes figures from Thanet
Total (should reconcile to net service expenditure and F.T.E.)	**217,145,690**	**-158,656,140**	**58,489,550**	**1,484**	**50,017,550**	**6,971,131**	Excludes figures from Thanet

Appendix 2

Protocols and Guidance for Developing Joint Working Business Cases

Overview

A number of issues were identified and considered in the development of the Joint HR project. These notes attempt to consolidate the lessons from the Joint HR project into more general guidelines, that should be broadly applicable to all projects.

This approach will serve to:-

- provide a degree of certainty to partners in relation to the "rules"facilitate the production of business cases
- ensure that these issues are debated once, rather than being debated during every project.

It is proposed that the following protocols are adopted. It is also recognised that in some cases, it may, exceptionally, be necessary to vary these protocols, but they should be adopted as the default options.

The key areas considered below are:-

a) Redundancy Costs
b) Early Retirement Costs
c) Staff Protection Costs
d) Treatment of backfunding
e) Charges to users
f) Capital assets
g) Group accounts
h) Audit fees
i) Premises fit-out costs
j) IT Systems

a) Redundancy Costs

The overriding principles in developing these guidelines are that:

- <u>Partners will pool statutory costs and will share them equally as a set-up cost</u>
  If partnership working is to be successful, then the impact of redundancy has to be shared by the partners1. This approach has to be agreed at the outset, since decisions about redundancy will be led by the head of the new service, and are therefore once the joint service is initiated they will generally be outside of the direct control of the partners.

- <u>The costs of enhancements will be charged back to the original partner</u>
  Eventually it is to be hoped that the partners will adopt common terms and conditions, including those relating to redundancy. However, until this happens, the costs of enhancements beyond the statutory minimum, will be recharged to the original authority that conferred these extra benefits on the staff.

[1] If all the staff to be made redundant following creation of a joint service originated from one or two of the partners and were recharged, in full, back to those partners, then the project could be prohibitive to those partners.

- Transfer of Staff to a Joint Service
  It is essential that partners do not undermine mutual trust by transferring staff into a joint service as a means of obtaining contributions from other partners towards redundancy costs.

  To assist in the initial preparation of a business case the table below has been produced, giving indicative statutory redundancy figures.

		Salary			
		£20k	£30k	£40k	£50k
Service Length	5 years	1,923	2,885	3,846	4,808
	10	3,846	5,769	7,692	9,615
	15	5,769	8,654	11,538	14,423
	20	8,462	12,692	16,923	21,154
	25	9,423	14,135	18,846	23,558

b) Early Retirement Costs

The basic actuarial strain arising from early retirement will be created as a partnership cost to be shared between the partners. Any actuarial strain arising from any enhancements (added years etc) will be a treated as a direct charge back to the authority that conferred the benefit on their staff. It is assumed that all such costs will be a set-up cost of the partnership. They will not be an on-going cost to the partnership.

c) Staff Protection Costs

The baseline minimum staff protection costs are assumed to be a stepped reduction in protection of terms and conditions over 3 years. The costs of this protection will be treated as a cost of the partnership and will be included in the recharges over the first 3 years.

The costs of additional protection, above the baseline level set out above (such as full protection of terms and conditions for 3 years) will be treated as a specific cost to the authority that conferred the benefit and will be recharged directly to that authority.

d) Treatment of Pension Fund Backfunding

“Backfunding” is the cost, to employers, of additional pension fund contributions to make up any shortfall in the pension fund, caused by a number of factors including lower than expected investment performance by the fund, increased longevity of members, the age profile of members (the “maturity of the scheme”), reduced returns on gilts etc.

An additional key factor is the way in which employers choose to make contributions to the deficit. In the past the normal practice was to add an employers on-cost to the basic salary cost, in order to generate the total payment to the pension fund. This on-cost rate was determined by the actuaries at every triennial valuation, on an authority by authority basis, and was typically designed to correct the deficit in the future – typically over the next 20 years.

This approach worked while staff numbers were relatively stable. However, as staff numbers (and hence the aggregate value of basic pay) declined, then so did the overall contribution to the deficit, thus worsening the deficit and leading to increased contribution rates at the next triennial valuation. For this reason, many authorities have switched to making a specific fixed annual lump sum contribution to the deficit (for DDC this is about £1.7m pa) regardless of any decline in staff numbers.

The transfer of large numbers of staff, and the treatment of any deficit associated with those staff, therefore has potentially profound effects upon the original authority, the hosting authority and any SSV.

It will have an even more profound effect if a hosted service is wound up, since the host could potentially find itself responsible for the pension fund deficit of the transferred staff.

In the recent joint working initiatives (Internal Audit and HR) the staff numbers have not been large enough for these issues to have been formally recognised and addressed. It should also be noted that employers have the discretion to agree the basis of the pension fund transfer values of staff (ie with a deficit, or fully funded), but again, this has never been formally addressed in the recent past, and the Pension Fund managers have not asked for a view from the authorities involved as to the preferences in relation to transfer values.

In order to address these issues it is proposed that the following approach to the hosted service is investigated:-

- A separate pension fund registration is set up for the hosted service. KCC have been approached, but the practicality will depend on how many separate hosted services are created.

- Staff will transfer to the hosted service with a fully funded transfer value. This will have the effect of leaving the deficit with the original employer where it arose.

- It may also have the effect that, when staff numbers in the partner authorities have dwindled, then the backfunding contribution will appear disproportionately large in relation to the salary base. This will create a “presentational” problem, rather than a financial one – the deficit existed anyway, it is simply a matter of where it appears in the accounts.

- The hosted service costs will include on-going pension fund contributions, and these will be recovered via charges to users.

- Over time, the hosted services pension fund may accrue its own deficit (or surplus) and will need to adjust contributions accordingly. These changes in costs will be included in the recharges to users.

- If the hosted service is would up, then any pension fund deficit or surplus will need to be returned to the partner authorities. This should be done pro rata to the charges for the service since its inception, or over the last 5 years.

- If the service has expanded to provide services to “non partner” authorities, this bears the risk that staff numbers, and potential deficits, will have grown, but if the service is subsequently closed, then the increased deficit will fall solely on the partners.

- For employees who are recruited to the hosted service or SSV (rather than transferees) it is assumed that new terms and conditions will apply, and these will not include the same pension arrangements and entitlements.

More work is needed to establish the treatment of any pension fund deficit that could arise under the SSV and the timescale within which the deficit must be addressed. If the timescale for the SSV to make up any deficit is short, then creation of an SSV could lead to higher pension fund costs being incurred and included in recharges to the partners in the short term.

e) Charges to Users

The two main alternatives are:-

- Charge a unit cost to the users, so that the set-up costs are recovered over, say, the first 5 years of the service. This leaves the host with a cash-flow deficit, but recharges the set-up to users, pro rata to useage. It marginally favours the smaller authorities.
- Share set-up costs equally between partners, then charge the annual costs pro rata to useage. This is simpler, and avoids the cash-flow issues, but marginally favours the bigger authorities.

It is proposed that the second of the 2 options above is adopted, but that if the service is subsequently provided to non partners, that they pay a premium, to reflect the set up costs and the risks, and that this premium is used to reduce the costs to the partners.

f) Ownership, Replacement and Charging for Assets

Some of the services will require the use of / access to significant capital assets. This section has not been written to consider the general issues, but it is likely that these will mostly relate to ICT assets.2

The main issues to consider are:

- Asset ownership
- Financing of capital assets
- Providing for asset replacement
- Accounting and charging treatment

Asset Ownership

Where the host, or SSV, requires access to, or the use of, significant assets, the ownership of that asset will become an issue.

Options include:

- Each partner retains their own systems – this may prevent a full centralisation / standardisation of the service and the full achievement of potential savings.

[2] This section assumes that the asset will remain with the original partner(s), the host or the SSV. If a private sector partner in included for the provision of some ICT services, then they may take over ownership of the assets, and all associated costs will be included in their fee.

- One partner takes ownership of existing systems, or provides one system.
- The existing system(s) are transferred into an SSV or the SSV procures a new system.

Determining the best option requires consideration of the implications of the different accounting approaches to be adopted by the host (local authority accounting) and an SSV (commercial accounting).

Financing of capital assets

Typically, a local authority finances its capital assets through one of:

- Capital receipts
- Borrowing
- Capital grant

Having purchased the asset, there is a depreciation charge in the accounts, but this is reversed out, so that there is no charge to the tax payer for depreciation and the true total revenue costs of services is understated. The only revenue cost is likely to arise from Minimum Revenue Provisions (MRPs) to provide for the repayment of the borrowing, if any borrowing has been used to finance the assets.

Providing for Asset Replacement

Local authorities do not, generally, make provision for the replacement of assets through their life, but if the asset is used for the production of a joint service, then failure to include a charge for the use of the asset means that some of the partners may, effectively, be getting access to, or use of, an asset for free.

Accounting and Charging Treatment

It is proposed that:

- where an asset is provided by one partner, for the use of all, a depreciation charge is introduced into the costing, and included in the unit costs. In this way, all partners will pay an equitable share of the costs.

- Where an asset is to be replaced, or purchased for joint working:
  - if one partner funds the asset replacement, then it can charge "depreciation" to the others.
  - if all partners share in the cost of the replacement, then the depreciation charge is not required.

- If the service is being provided by an SSV, then it will be necessary to decide whether the SSV will own the service assets, or whether the asset should stay in the ownership of one, or more, of the partners.
  - If the SSV is to own the assets then it will have to be given the partner(s) assets, or sufficient finance to procure them itself. It would then include a depreciation charge in the recharges.
  - if the SSV is also expected to finance the replacement of the assets in the future, it may need to add to its

recharges so that it can build up sufficient reserves to make the purchases.

Alternatively, it may be possible for the partners to make capital grants to the SSV, to finance the purchase. This would enable partners to continue to apply capital receipts (should they have them) for this purpose, but could lead to problems if some of the partners are unable to finance the grant.

g) Group Accounts with an SSV

It is anticipated that, by owning 25% of the SSV, and by not having overall control vested within one partner, that the issue of group accounts will not arise. However, the required treatment under IFRS will have to be examined to ensure that all efforts are made to avoid the requirements of group accounting, and any requirement to consolidate the SSV into the partners' accounts.

h) Audit Fees

Joint working is likely to increase overall audit fees. The main considerations are:-

- Hosted services will require additional auditing to check that the recharging of the costs of such services are reasonable and equitable, and that the accounting treatment for assets etc are reasonable.
- The SSV is likely to require its own audit on its accounts, as well as some involvement from the audit commission to check that the recharging of the costs of such services are reasonable and equitable, and that the accounting treatment for assets etc are reasonable.
  The overall EKJAC arrangements are also likely to be subject to some degree of audit review.

i) Premises Fit-Out Costs

In practice the cost of fitting out premises will vary from service to service, and premises to premises. However, at the business case stage it is unlikely that the specific premises will have been identified, and that an accurate estimate can be calculated.

In order to progress this, the premises fit-out costs of the HR service will be used. This provided accommodation for 28 staff, and the main costs were:-

	Type of Costs	Costs £k
1	Partitions, redecorations and carpeting	22.0
2	Desks and other furniture	20.0
3	Cabling	0.0
4	Telephony	0.0
5	PCs and laptops	21.0
6	Removals	1.0
7	Re-location and travel costs	1.1
8	**Total for 28 staff**	**65.1**
9	Average per capita cost	2.3

j) IT Systems

The costs of replacing systems will vary significantly from authority to authority, and from supplier to supplier.

However, when reviewing business cases it is important to have some broad indication of the potential scale of expenditure.

The table below provides a broad indication of the costs and age of the main IT systems within Dover District Council:

System	DDC	
	Age	£k
Accounting	10	200
Housing	4	400
Revenues and Benefits	10	250
Cash Receipting	0	50
CRM	4	300
Telephony	14	100

8. Proposed phasing programme of shared services to the host authority **Appendix 3**

Criteria for prioritising shared services and scores agreed by the East Kent Shared Services Project Group

Scoring is based on answering each criterion yes or no, with yes scoring one point. Because of the importance of generating savings the first criterion scores three points. The assumption is made that services with the highest scores transfer over to the hosting arrangement first. It is suggested that four tranches (two tranches per year 2011/12 and 2012/13) are agreed to make the programme more manageable. Some of the services listed will remain in each of the four councils as residual services. This is because they are part of the democratic core" for each of the four councils or these are services that contribute to delivering "place shaping" objectives set out in each councils strategic priorities.

	1. Are there potentially significant savings to be made?	2. Are the same core ICT systems and software used by two or more districts?	3. Are these Services broadly delivered in the same way	4. Is it difficult to maintain the resilience of the service?	5. Is the same provider used to deliver this service shared by two or more of the districts?	6. Is there a track record of collaborative working for this service between two or more districts?	7. Is this service key to the hosting arrangemen t being able to deliver its services from the beginning?	Score	Date to start under the hosting arrangement
ICT	Yes	Yes	No	Yes	Yes	Yes	Yes	8	April 2011
Revenues & Benefits	Yes	Yes	Yes	No	Yes	Yes	Yes	8	April 2011
Contact Centre	Yes	Yes	Yes	Yes	No	Yes	Yes	8	April 2011

	1. Are there potentially significant savings to be made?	2. Are the same core ICT systems and software used by two or more districts?	3. Are these Services broadly delivered in the same way	4. Is it difficult to maintain the resilience of the service?	5. Is the same provider used to deliver this service shared by two or more of the districts?	6. Is there a track record of collaborative working for this service between two or more districts?	7. Is this service key to the hosting arrangemen t being able to deliver its services from the beginning?	Score	Date to start under the hosting arrangement
Face-to-face customer services	Yes	Yes	Yes	Yes	No	Yes	Yes	8	April 2011
Finance transactional	Yes	Yes	Yes	Yes	No	Yes	No	7	April 2012
Procurement	Yes	Yes	Yes	No	Yes	Yes	No	7	April 2012
Building Control	Yes	Yes	Yes	Yes	No	Yes	No	7	April 2011
Printing services	Yes	Yes	Yes	No	Yes	No	No	6	April 2012
Development Control	Yes	Yes	Yes	Yes	No	No	No	6	April 2012

	1. Are there potentially significant savings to be made?	2. Are the same core ICT systems and software used by two or more districts?	3. Are these Services broadly delivered in the same way	4. Is it difficult to maintain the resilience of the service?	5. Is the same provider used to deliver this service shared by two or more of the districts?	6. Is there a track record of collaborative working for this service between two or more districts?	7. Is this service key to the hosting arrangement being able to deliver its services from the beginning?	Score	Date to start under the hosting arrangement
Environmental Health	Yes	Yes	Yes	Yes	No	No	No	6	April 2012
Development Control	Yes	Yes	Yes	Yes	No	No	No	6	April 2012
Mail services	Yes	No	Yes	No	Yes	Yes	No	6	April 2012
Finance accountancy	Yes	Yes	No	Yes	No	Yes	No	5	April 2012
Community Safety	Yes	Yes	No	No	No	Yes	No	5	April 2013
Parking	Yes	Yes	Yes	No	No	No	No	5	April 2013
Land charges	Yes	Yes	Yes	No	No	No	No	5	April 2013

	1. Are there potentially significant savings to be made?	2. Are the same core ICT systems and software used by two or more districts?	3. Are these Services broadly delivered in the same way	4. Is it difficult to maintain the resilience of the service?	5. Is the same provider used to deliver this service shared by two or more of the districts?	6. Is there a track record of collaborative working for this service between two or more districts?	7. Is this service key to the hosting arrangement being able to deliver its services from the beginning?	Score	Date to start under the hosting arrangement
Licensing	Yes	Yes	Yes	No	No	No	No	5	April 2013
Engineering	No	Yes	Yes	Yes	Yes	Yes	No	5	April 2012
Legal Services	No	Yes	Yes	Yes	No	Yes	No	4	April 2013
Property	Yes	No	No	No	No	No	No	4	April 2013
Grounds maintenance	Yes	No	Yes	No	No	No	No	4	October 2013

East Kent shared services under the hosting arrangement — Appendix 4

Based on project group scoring matrix

Agreed services to be transferred to the hosting arrangement over a three year period in annual tranches starting in April 2011

<table>
<tr><td>September 2009</td><td>• Human Resources and Payroll</td><td rowspan="3">Services retained by each authority because of “democratic core” or “place shaping” reasons

• Finance (corporate)
• Legal (corporate)
• Democratic services
• Elections
• Policy & Scrutiny
• Theatres/museums
• Cultural development
• Economic Development
• Planning policy
• Community development
• Tourism
• Strategic marketing & communications
• Leisure services
• Property – client
• Traffic & Transportation</td></tr>
<tr><td>April 2011</td><td>• ICT
• Contact Centre
• Face-to-face customer services (Gateways)
• Revenues and Benefits
• Landlord services
• Residual Housing Services
• Building Control</td></tr>
<tr><td>April 2012 or April 2013</td><td>• Development Control
• Engineering
• Environmental Health
• Finance (Accountancy)
• Finance (Transactional)
• Printing Services
• Mail Services
• Procurement
• Property Services
• Land Charges
• Parking
• Legal services
• Licensing
• Community Safety
• Grounds maintenance</td></tr>
</table>

The Waste Management contract between the four districts and KCC is not technically a shared service, but a joint contract, so doesn’t appear on the schedule of hosted services.

There will be an annual review for the tranche two and three in February 2011 and February 2012 to decide the final phasing. The associated project work around completing the business case and identifying the workstreams will start immediately after.

Appendix 5

Commissioning Shared Services through hosting arrangement

Business Case template

This template sets out the questions that need to be addressed in the business case for consideration by the East Kent Joint Arrangement Committee. A robust business case is essential to set out how and when a new shared service will be designed.

The process will operate in the way that the business case will be considered first by the respective management teams and then by the Chief Executive Forum, using delegated powers granted by EKJAC.

Proposed template for the service business cases (for consideration by East Kent Forum)

Executive summary

This will encapsulate the key facts and figures in making the business case for the service distilled from each of the four councils.

A. Strategic overview of project Insert name of service	
1. What is the purpose of the project?	
2. What organisational benefits will the project bring? (see page 54)	
3. Which criteria are most relevant to assess potential benefits? (see page 55)	
4. Who are the stakeholders in the success of the project?	
5. Are there common service definitions available for each authority set out in service or business plans? At this stage its important to scope the service, so the parameters of the shared service can be identified from the onset	
6. What is the vision for the combined service after three years?	
B. Resources for the project	
7. What are the full contact details of the lead officer?	
8. What other resources are involved in the project and the impact on other services?	
9. Is any funding being provided to deliver the project? If yes, from what source and who has it been agreed with?	
10. What % of time will the lead officer be	

working on the project?	
11. What is the project timetable and the critical milestones to be achieved?	
C. Key service information	
12. i) What are the basic facts we need to know about the service across the four authorities over the last three years? (location, outputs, service volumes, high level KPIs – for benchmarking purposes) ii) What is the combined total service budget (both in revenue and capital) for the four authorities? iii) What is the spend on key elements of service per head of population for each authority iv) What are the main income streams for the service? Are there any outstanding loans relevant to the service? Is there any current prudential borrowing for the service? v) What are the combined total service staff numbers for the four authorities? Is there a staff structure chart available in all cases? And does it include current pay grades? vi) What are the anticipated savings for the shared service per annum for each council for the first five years? vii) What are the current hardware and software ICT systems used by the service and their likely lifespan? And what is the current level of integration of systems between the authorities? viii) Are any elements of the service provided by contractors or other external partners? And what is the lifespan of the current contracts? ix) Can any relevant contract be terminated without incurring penalties? And if so, what are these likely to be? x) Are there likely to be additional capital investments required to achieve shared services? e.g. new ICT systems xi) Are there likely to be significant redundancy costs at the initial phase of creating the new joint service?	

xii) What are the accommodation needs for the shared service and is there likely to be any immediate savings as a result of disposing of surplus accommodation at the start of the shared service? xiii) When will a common charging protocol for services be adopted if relevant? xiv) What will be the impact on the residual council of creating this shared service? xv) Is there an exit arrangement prepared if the shared service fails for whatever reason?	
D. Key risks associated with providing a joint service. Lead officers will need to provide general mitigation (likelihood/impact) against the following risks:	
13. Financial risks: The joint service fails to reduce overall costs for the service or does not create the potential for future savings (do all partners use the same accounting treatment methodology e.g. CIPFA Code of Practice compliant)	
14. Operational risks: The phasing of changes will threaten continuity of services for partner authorities and risk a deterioration in service improvement in the run up to creating a joint service.	
15. Staff risks: The disruption and change associated with merging services exposes partner authorities to losing well trained and experienced staff.	
16. Reputation risks: The move towards creating a joint service fails to achieve the key benefits envisaged and this along with the disruption involved damages the reputation of the partners.	
17. Strategic risks: Relationships with key partnership and stakeholders suffers as a result of the changes involved and some of its major strategic aims are not achieved because of the diversion of management energy and resources.	

18. Governance risks That there are misunderstandings and disputes between the parties. Amongst other measures the business case should identify the arrangements between the parties to ensure fairness and equity, provide a means of resolving disputes and address the departure of one or more parties	

E. Implications

The creation of joint services would need the following major implications explained. At this stage the information needed will be basic. More depth will be required following the adoption of the outline business case..

i) Staffing implications:

It is likely there would need to be a convergence of salaries and terms and conditions of employment between staff if joint services were established and what impact this would have on overall costs for the service and the baseline costs for individual councils.

ii) Legal implications:

The EKJAC operating arrangements set out the basis upon which functions or services can be delegated to it. Reference should be made to those And any joint service partnership would need to identify any relevant legislation.

Follow up actions by lead officer once service plan business case is adopted

- Views of employees and trades union. Consultations will have taken place or planned with staff and Unison regarding the proposed changes and comments received or awaited.
- Dispute mechanism for resolution – method of arbitration
- Developing an options appraisal methodology setting out the different models of managing a joint service and evaluating these against agreed criteria to emerge with a preferred option.
- Developing a communications plan to keep staff aware of and involved in decisions affecting the service in the run up to a joint service.
- Developing a project risk register and designating a project team member responsible for mitigating individual risks based on impact likelihood methodology
- Identifying proposed governance arrangements to be put in place during the transition to a joint service arrangement.
- Addressing issues around a single service specification.

General benefits of establishing future joint services through a hosting arrangement. All services will be expected to demonstrate most of the following outcomes:

1. Building capacity and adding resilience to services:

- Attracting new recruits and retaining existing staff more easily through better career opportunities and structured training.
- Developing common strategies, policies and business plans.
- Expanding officer expertise and filling existing skills gaps.

2. Creating more efficient services:

- Integrating software and information systems to create shared platforms.
- Setting common targets and PIs.
- Achieving economies of scale and lowering unit costs for key element of service (an indicative total savings figure will need to be identified at this stage)
- Rationalisation of sites.

3. Improving customer focus:

- Alignment of systems, procedures, forms, letters etc.
- Develop shared website pages.
- Common approach to customer care/service standards.

How far do the relevant services meet the potential benefits identified? What criteria do we need to assess this?

1. Building capacity and adding resilience:

- Is it difficult to replace or recruit critical staff or managers for this service in order to build resilience?
- Does more than one authority use the same ICT systems and software to deliver the relevant service in question
- Do the districts already have a track record of collaborative working in this service area?

2. Creating more efficient services:

- Are there potential efficiency savings to be made through economies of scale if services are combined?
- Is the service suitable for invest to save? What is the likely payback period if managed on a different basis?
- Do one or more districts have difficulty in retaining current levels of service because of budget pressures?

3. Improving customer focus:

- Do some of the districts use the same CRM systems. What represents the best fit with existing suppliers in terms of getting current systems to work together?
- Is this service largely provided according to standard national template or is there scope for local political choice in service delivery?
- Is one or more district performing consistently above the family or national average for the relevant service in question and what are the implications for other partner councils?