APPENDIX 2

LOCAL AUTHORITY "SHARED SERVICES" ARRANGEMENTS

1. Introduction

1.1 As part of the drive for efficiency savings in the public sector, for some time now there has been increasing pressure on local authorities and other public sector organisations to develop "shared service" arrangements.

1.2 In Nottinghamshire, collectively and individually the councils have built up substantial experience over recent years of attempting to set up joint and shared service ventures and other service externalisations. Examples include:

- The contracting out of refuse collection, street cleansing and grounds maintenance services by Gedling in the 1990s, subsequently all brought back in house.
- Building Control
- Gedling housing stock LSVT
- Vehicle procurement
- Procurement of various IT hardware, software and support systems and services
- Emergency planning
- Shared procurement and urban design officers
- Payroll services
- Estates services
- Proposals to establish revenues, benefits and "back office" shared services ventures
- Establishment of Leisure trusts for leisure centre management and operation
- Joint procurement of vending and direct debit services for leisure operations

1.3 This paper attempts to summarise some of the key learning from that experience and draw conclusions in order to inform the taking forward of any future joint and shared service proposals.

2. Experiences to Date

2.1 Authorities may talk of proposals to “merge” their operations or join their workforces. In practice, these proposals generally boil down to one of the following:

- One authority may do the work for several
- The authorities might set up a jointly owned delivery vehicle to do the work for all
- The authorities might collaborate in contracting out the work to the private sector or another organisation.

2.2 In all cases, it should be noted that the arrangement will technically involve the establishment of formal contractual arrangements and a “procurement” exercise. In the first, in effect one council will become the contractor for the others and the workforces of the “client” councils will have to be transferred to the contractor. In the second, having established the company, each council will have a contract with the company and will transfer their workforces. In the third, each council will have a contract with the private sector provider and will transfer their workforces.

2.3 A number of things need to be borne in mind which Gedling’s experience has suggested may well have significant cost implications. In every case, an “intelligent client”, contract control and commissioning function will need to be established within the client council. Work will need to be done to draw up specifications and contract terms. Negotiations will need to take place. The establishment pre-contract of a “client/contractor” split within the council to prevent conflicts of interest may well have profound implications for the morale and culture within the councils.

2.4 Whilst every option may hold out the prospect of some savings through economies of scale, each presents difficulties. Experience in dealing with the housing stock transfer and in looking at the possible establishment of a building control joint company or a leisure trust, reflection on a frustrated attempt by some neighbouring authorities to enter into a revenues and benefits contract with the private sector and consideration of the High Court’s recent decision that the London Boroughs’ insurance company was unlawful suggest the following:

- If one council seeks to arrange for another council to do the work, then depending on value this will almost certainly be a procurement which is caught by the requirement to open it up to external competition.
- If councils try to avoid this by setting up their own company and simply giving the work to it, then there are doubts about the

power to do this and they will, in any event, probably also be in breach of European procurement rules.

- If councils do decide to set up a company as a potential delivery vehicle, then the costs involved in doing this, including the costs involved in staffing it to operate on a “shadow” basis so that it is able to put together a tender for the work and conduct meaningful negotiations, should be taken into account- experiences of setting up shadow RSL for the purposes of housing LSVT are relevant here. These costs are wasted if the contract cannot subsequently be awarded to the company.

- If councils decide to put a service out to open tender, then this will involve considerable staff and external advisor time (and therefore cost) in drawing up specifications, contracts, managing the procurement and putting in place all the associated arrangements. Further, the requirement to provide the pension guarantee for the pension liabilities in respect of any transferring workforce must also be borne in mind- this was a considerable cost for the stock transfer and appears to have been a factor in the collapse of the revenues and benefits shared services proposal mentioned above.

2.5 Another significant complicating factor behind any shared services/joint working proposal involving the question of the transfer and merger of workforces is the human resource dimension. The likelihood is that the workforces of different councils will have, even for what is ostensibly the same type of work, different structures, sizes of workforce, pay and benefits structures (governed in each case by local job evaluation schemes), cultures etc. It is not possible simply to bring them together and have them work together- complex and potentially disruptive and costly assimilation issues arise.

2.6 Leaving the workforces in each current “host” council and trying to manage them as though they were a virtual single entity may undermine achievement of the purpose of the purported joint enterprise. Having one of the Councils operate as the host, “contractor”, authority will mean, in the post-single status world, that the workforce from the client council will have to be assimilated into the pay and conditions package of the employing council, which is unlikely to have a neutral value for the employees concerned and therefore is unlikely likewise to have a neutral cost impact for the shared service. The only way to avoid this is by establishing a separate employing delivery vehicle, which can establish its own pay and conditions package without reference to the packages of its parent councils, but this then carries with it the legal, competition and other problems mentioned above.

2.7 These differences in workforce issues between councils are also reflected in the constitutions of councils and the choices they make about service standards and delivery methods. Whilst Council constitutions all tend to be structured along the same lines, there will be differences in detail in standing orders, financial regulations and decision making processes, never mind operational issues such as IT infrastructure, which can complicate the pursuit of joint and shared service solutions. Similarly, conflicting demands from different councils with regard to specifications for goods and services, such as heavy goods vehicles, may require compromises with regard to the agreement of a joint specification which can limit the level of savings. There is no doubt that the achievement of common governance, policy and infrastructure platforms would make the pursuit of joint procurement opportunities more straight forward.

2.8 Putting all this together leads to the conclusion that any proposal to bring about a “shared service” operation for a high value service will almost certainly require a costly and complex external procurement exercise which will be immensely disruptive and which will have an uncertain outcome. It may be possible for one council simply to arrange for another to provide it with a relatively low value service below the competition threshold, but by definition if this is of low value then it is unlikely to generate significant savings.

2.9 Significant savings and efficiencies are only likely to be achieved in practice through high value, high profile shared service ventures, which, as is mentioned above, will almost certainly require open competition. Given the very high costs involved in these cases, unless the business case demonstrates that very substantial savings would be achieved which would outweigh the costs involved, then in the current climate there is little point in pursuing them.

2.10 Experience has also demonstrated that there can be problems of quality, reliability and responsiveness with regard to services provided externally. We would also concur with the findings of the Audit Commission in its review of strategic service delivery externalisation arrangements (“For Better, For Worse”), that future development and enhancement of services provided under such arrangements can be difficult and costly. If, therefore, any externalisation arrangement, whether involving another local authority or the private sector and whether involving front line or “back office” functions, is only likely to achieve a marginal net financial saving for the Council, it may well be in the Council’s interests overall for the function to be retained in house.

2.11 If therefore the objective is to achieve cashable efficiency savings, then the shared service model might in practice offer only limited scope for significant savings for any individual district. If, however, the objective is to achieve greater service resilience or service enhancements, then mutual support arrangements between councils by making officers available to one another or by pooling equipment can offer a cost effective solution.

3. <u>What Works?</u>

3.1 The following is a list of joint/shared/collaborative procurement models which have been successfully put in place locally (with an indication of issues arising in those cases for consideration) and of issues arising from some larger scales, sometimes less successful projects:

3.1.1 Two authorities agreeing to create a post on a shared basis: has worked successfully for, say, procurement officers. Choice of host authority will have a bearing on cost, given different pay and reward structures, and may be issues of flexibility/responsiveness to individual councils' agendas. Less likely to be successful if the work is concerned with areas where there might be differences, and therefore conflicts of interest, between the councils.

3.1.2 One authority contracting for the provision of a relatively low value service from another- say, payroll services. Avoids European procurement issues if below the procurement threshold (but remember that it is the total cost over the whole contract period which is relevant here). It is also easy for relatively small numbers of staff to be transferred and assimilated under TUPE and single status. Cost of drawing up specifications and relatively simple contract terms not high. Issues of cost and quality mean more efficient, low overhead council likely to be best placed to be the "contractor". Unlikely to generate significant savings or income benefits for either party.

3.1.3 Joint purchasing of goods- examples are vehicles, IT hardware and software, IT backup services. Bulk purchase should generate savings compared with separate purchasing, but levels of potential savings for some could be reduced by cost of higher specifications demanded by some partners.

3.1.4 Larger value shared service proposals above the EU procurement threshold for any individual "client" authority will almost certainly have to go through open tendering. Experience suggests that any number of the following will apply and will tend to reduce the value of any anticipated savings:

- "client" council will need to establish a residual client function to manage the contract
- specialist and costly consultancy, legal and accountancy advice will be required
- it will be necessary for tender and contract documentation to be prepared, including the preparation of detailed specifications
- the County Council will require, in the event of a private sector supplier being awarded the contract, either the payment of a

lump sum or a guarantee to cover pension liabilities in respect of any transferring employees- for Gedling's LSVT the gross value of the pension liabilities required to be paid or guaranteed was £930,000, which helped mitigate against a potential risk in excess of £3 million.

- central support costs borne by the service to be contracted out are unlikely to be saved in full (or, perhaps, at all) by the "client" council

All of the above will need to be realistically estimated and allowed for as part of the business case. A cautious, even sceptical approach should be adopted to the estimation of gross savings which are likely to be achievable in practice before the above costs are taken into account.

3.1.5 Authorities might agree that they will each build up a particular expertise in one area and make that available to the others at cost, reducing the need for all to invest in training for work or functions which are not routinely required.

3.1.6 One authority might buy specialist or expensive equipment which is needed but not often used (such as IT disaster recovery capability) for use by several, or they might all buy it on a pooled basis.

3.1.7 Where common work platforms are in place, several authorities might agree mutual support arrangements to assist with unexpected peaks caused by absences or exceptional demand.

4. Conclusion

4.1 The conclusion for Gedling is that the first focus for us should be on making our operation of our existing in-house services as efficient as possible. We should continue to be open to joint service proposals, but these are likely in practice to be small scale/low value; further, given our relatively low costs, we may be more likely to be in the position of "contractor" than "client".