

Shared Service – Business Case

Summary

- 1 This report provides details of the final Business Case for the shared service between CYC and North Yorkshire County Council (NYCC) for internal audit, counter fraud and information governance services. Approval is sought to proceed to the next phase of the project which involves both Councils transferring the relevant services to a company wholly owned by the two Councils.

Background

- 2 Local authorities are being encouraged to re-think traditional methods of service delivery in order to reduce waste, increase efficiency and improve outcomes. A key theme in the Government White Paper 'Strong and Prosperous Communities' was that one of the main ways for local authorities to achieve such improvements was through greater joint working to optimise economies of scale and maximise service efficiencies.
- 3 Following initial discussions between the two Councils regarding the possibilities of joint working, internal audit and counter fraud services were identified as suitable areas for early consideration. A report was presented to Corporate Services EMAP on 11 September 2007, setting out the potential benefits of collaboration. Members approved the development of a shared audit and fraud service between the two Councils, and agreed that a three phase strategic approach should be adopted as follows;
 - (a) Phase I – short term management arrangement and development of business options for the long term organisational structure of the service;
 - (b) Phase II – implementation of the agreed structure and benefits realisation;
 - (c) Phase III – review, evaluation and appraisal of other shared service opportunities.
- 4 Since September 2007, the two Councils have been working in partnership to develop the shared service. The objective has been to deliver a number of significant benefits for both Councils, including

greater resilience and capacity, increased flexibility to respond to changing priorities, improved efficiency and economies of scale, reduced reliance on key members of staff for service continuity and greater opportunity to develop in-house specialist skills. Development of the shared service has also allowed both Councils to demonstrate a positive response to the Government's efficiency and service transformation agenda, and provide a relatively discrete and low risk service area to fully assess the benefits of joint working.

- 5 A further report was presented to Corporate Services EMAP on 18 March 2008, which detailed the Outline Business Case (OBC) for the shared service. The OBC set out the aims and objectives of the project, and the outcome of the options analysis for the future direction and the long term organisational structure of the service. Members agreed that:
- (a) work should continue to progress the shared service between CYC and NYCC;
 - (b) officers should develop a detailed Business Case for the implementation of a wholly owned company limited by shares or guarantee as the preferred (in principle) long term organisational structure of the shared service.

It was also agreed that officers would seek final Member approval before progressing to full implementation of the chosen option.

- 6 The following outline timetable was agreed for developing the detailed Business Case/Project Implementation Plan;

Action	Date
Prepare detailed Project Implementation Plan – which would include the following elements; <ul style="list-style-type: none"> • Company formation • Governance arrangements • Client roles and reporting arrangements • Contract preparation • Charging arrangements • Cost allocation • Staffing • Accommodation, IT and support services 	April - August 2008
Prepare Change Management Programme	June - August 2008
Implement agreed structure, subject to final Member approval.	September - December 2008
Target go-live date	1 April 2009

- 7 A further progress report was presented to Corporate Services EMAP on 10 June 2008. The report provided details of:

- a) the progress made to integrate working practices and systems across both Council's teams;
 - b) the draft project implementation plan.
- 8 Members also approved the following minor adjustments to the scope of the project and hence the Outline Business Case:
- a) to incorporate the transactional elements of data management work at CYC within the shared service. This work includes the recording, distribution, monitoring and tracking of information requests to the Council (Freedom of Information requests and Data Protection Act – subject access enquiries), together with the administration of the Staff Warning Register and the central record of Regulation of Investigatory Powers Act (RIPA) authorisations.
 - b) to transfer two Administrative Support posts into the shared service. The two post holders provide administrative and technical support to the Audit and Fraud teams, as well as undertaking the transactional data management work.

Drivers for Change

- 9 The drivers for change both national and local facing the two Councils are:
- a) The transformational policy agenda. The Department for Communities and Local Government White Paper 'Strong and Prosperous Communities' encourages authorities to work collaboratively together, and with other public sector bodies to deliver efficiencies and value for money;
 - b) Comprehensive Area Assessment (CAA). The new CAA performance framework places an emphasis on organisational effectiveness, responsive services, partnering, increased efficiency, and joint commissioning. Effective partnership working is seen as vital to improving outcomes;
 - c) Comprehensive Spending Review (CSR07). The CSR07 has set an annual efficiency target of 3%. Councils are therefore expected to explore the scope for back office efficiencies by challenging existing methods of service delivery;
 - d) Local Government Reorganisation. Whilst North Yorkshire County Council's proposed bid for unitary status was not successful there remains a strong expectation from government that authorities in and around North Yorkshire will in future work more collaboratively;
 - e) Sub National Review. NYCC and CYC are members of the same regional group within the overall Yorkshire and Humberside regional strategy. The two Councils are therefore encouraged to work together to support regional priorities;

- f) The need to build service resilience and capacity across both authorities to maintain an effective and professional audit and fraud function, in the face of problems in covering key staff vacancies and difficulties in being able to respond to changing priorities and increasing workload demands;
- g) The need to retain skilled and experienced staff by creating greater critical mass and providing more opportunities for career development and specialism;
- h) The need to make best use of the scarce professional audit expertise available (particularly in contract and IT audit), given that both authorities encounter difficulties in building sufficient capacity in-house, so as to avoid the reliance on expensive external providers;
- i) The need to further enhance the professional standards of the audit and fraud services in both Councils so as to maintain and develop the effectiveness of the function and comply with legislative and regulatory requirements;
- j) The need for both Councils to develop proper arrangements for succession planning and reduce the existing reliance on certain key staff for service continuity.

Benefits of the Shared Service Partnership

- 10 The development of a shared service offers the opportunity to bring together related and complimentary professional disciplines across both Councils. The key benefits for both Councils from this partnership are:
 - a) Greater resilience and capacity. The combined team would be better placed to manage resource pressures, including staff vacancies and/or unexpected service demands;
 - b) Greater flexibility to respond to changing priorities, initiatives and/or new working methods;
 - c) The delivery of increased efficiencies through sharing best practice, integrating processes and reducing duplication of effort;
 - d) The ability to demonstrate a positive response to the government's efficiency and service transformation agenda;
 - e) The achievement of economies of scale by sharing overheads and reducing unproductive time whilst maintaining or improving current levels of performance;
 - f) An enhanced focus on service delivery and quality through the development of a dedicated professional services function;
 - g) Greater staff satisfaction and retention as a result of enhanced career opportunities and the ability of staff to specialise and/or gain broader experience;
 - h) Greater opportunity to develop audit specialisms and reduce the reliance on bought-in services;

- i) The provision of a robust shared service model which offers greater opportunity for future collaboration with other Councils in the region, particularly the North Yorkshire districts, and which helps to develop the existing market place;
- j) Improved succession planning arrangements and a reduced reliance on key members of staff for service continuity;
- k) The ability to adopt common approaches to new and developing initiatives (for example, Comprehensive Area Assessments and joint Private Finance Initiative projects).

Business Case

- 11 The Project Board has completed the detailed Business Case for Phase II of the shared service. The Business Case sets out the full implications of implementing the preferred option of a wholly owned company as the basis for the long term organisational structure of the shared service. Finance, Legal and HR representatives from both Councils have provided full support to the Project Board throughout the development of the Business Case.
- 12 As part of the process for completing the Business Case, the Project Board has also undertaken a further review to determine whether the option of using a wholly owned company still best serves the interests of the two Councils. This review has confirmed that the assumptions used to assess the original options are still valid. In addition, no significant issues have been identified during the preparation of the Business Case which would change the outcome of the initial assessment. The wholly owned company offers the required long-term resilience and would most likely achieve the expected efficiencies and economies of scale set out in the vision and objectives for the shared service. The company is also clearly perceived as an equal partnership between the two Councils, enabling both Councils to exercise the same degree of control and influence over future direction and development of the service. It also offers an appropriate structure to enable other local authorities and public sector bodies in the region to join in the partnership in the future, if this was considered beneficial. Forming a company also represents a more innovative solution and was therefore most likely to inform the two Councils of the possible lessons from shared service working.
- 13 The Project Board's proposals which are detailed in the Business Case include:
 - a) The scope of the shared service project to be further extended to include the residual elements of data management work at CYC;
 - b) The identified services to be transferred from both Councils to the new shared service company from 1 April 2009;
 - c) The company to be limited by shares with both Councils having an equal shareholding;

- d) A company board of directors comprising Members and officers from both Councils together with two external directors to bring relevant expertise and independent challenge;
- e) The company to be called Veritau Limited (using a name suggested by the staff in the combined service);
- f) The primary objective of the company will be to provide high quality services to the two Councils, with future external income generation limited to 10% of the shared service company's activities;
- g) The future service to be specified in the detailed Service Agreement, with the core service covering the provision of internal audit, counter fraud and information governance;
- h) The Service Agreement will run for 10 years, with an option for each Council to extend the Agreement for a further 5 years;
- i) Each Council will retain the right to terminate the Service Agreement by providing written notice;
- j) Each Council will nominate a client officer to oversee the delivery of services by the company;
- k) A joint Shared Service Contract Board to formally monitor and report on the delivery of the service;
- l) The fee for the core services to be calculated on the basis of a single daily charge rate, multiplied by the level of service required by each Council (based on an agreed number of days);
- m) The daily charge rate and service level in 2009/10 to be based on the existing budgets and resources available to each Council;
- n) Each Council to be able to request additional work, with the fee calculated on the basis of agreed charge rates for the appropriate grade of staff;
- o) The rights and obligations of each Council as shareholder in the shared service company and the ongoing relationship between the two Councils as shareholders will be confirmed in the Project Agreement;
- p) Dispute resolution and exit arrangements to be confirmed in the Project Agreement;
- q) Each Council to provide the company with fully serviced office accommodation and certain agreed support services;
- r) Staff employed in or carrying out the existing services will transfer to the shared service company in accordance with the Transfer of Undertakings (Protection of Employment) Regulations (TUPE);
- s) The company will introduce its own terms and conditions and pay and grading structure for new staff employed after the date of transfer and/or for existing staff who elect to change over from their existing terms and conditions;
- t) The new proposed terms and conditions to be based on a competency framework and to incorporate performance related pay;

- u) Staff to be given the option of transferring from their existing terms and conditions to those of the new company;
 - v) The company to seek admitted body status to the Local Government pension Scheme (administered by NYCC).
- 14 A copy of the full Business Case is attached as **Annex A**.
- 15 A comparison between the current costs of the internal audit, fraud and information governance services of both Councils, and the client and contractor costs under the new arrangements has been included at paragraph 138 in the Business Case. The comparison excludes the cost of internal recharges such as accommodation and ICT, which will otherwise continue under the new arrangements. Members will note that there is no overall change in the cost of service provision.

Consultation

- 16 Staff from both authorities, together with representatives from Unison and the GMB have been kept informed of progress with the development of the shared service. The Project Board has provided copies of all key documentation, minutes of meetings and information sheets to the staff and union representatives. Regular staff workshops have been held, and a weekly e-mail newsletter has also been circulated.
- 17 Formal consultation with staff and the unions on the proposals commenced on 13 November 2008.

Options

- 18 Members have two options to consider. The first option is to confirm the recommendation of officers to proceed with the full implementation of the company, wholly owned by the two Councils, as the most appropriate long term structure for the shared service. The second option is ask officers to examine the alternative structural options for the shared service which were previously rejected, in more detail.

Analysis

- 19 The costs and benefits of implementing a company as the preferred option for the long term structure of the shared service are detailed in the Business Case.

Corporate Priorities

- 20 This report contributes to the Council's overall aims and priorities by helping to provide strong leadership, and by encouraging improvement in everything we do.

Implications

- 21 The implications are;

- **Financial** – Finance has been involved in the preparation of the Business Case/Project Implementation Plan. The Business Case includes details of the budget implications for the Council of implementing the shared service company as well as the financial projections and cash flow forecasts for the company itself. The start up costs will be fully met by the grant received from the former Yorkshire and Humberside Regional Centre of Excellence and the budgets originally allocated to the project by the two Councils. The existing service budgets have been apportioned between the client and contractor functions. The cost of the service to be provided by the company in 2009/10 has been based on the existing budgets and resources available to the Council. The future costs of the service will take account of any variation in the level of service required by the Council's client officer. The fee will be increased by an indexation factor to take account of inflation, less any agreed adjustment to reflect target efficiency improvements.

It is recognised that the company may at times have surplus funds to invest but may also require an overdraft facility to cover short term liquidity needs. It is proposed that the company will open its own bank account. Subject to agreement with the bank, it is proposed that there should be a 'sweep' facility between the Council's bank account and the company's bank account to enable any surplus funds to be invested alongside the Council's other balances. Such a facility would also enable the company to draw down funds as required to cover short term working capital needs. It is proposed that Council provides the shared service company with an overdraft facility. The overdraft facility would be limited to £60k with interest paid at 1% above the Bank of England base rate, calculated on a daily basis. Any interest charges would however be offset by the interest earned on surplus funds. The interest earned would be based on the average rate of return achieved by the Council, calculated on a monthly basis. A draft overdraft agreement has been prepared on this basis.

- **Human Resources (HR)** – HR has been involved in the preparation of the Business Case/Project Implementation Plan. The existing services will be transferred to the new company on 1 April 2009. In accordance with the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE), all employees assigned to the transferring services will automatically transfer to the new company. From the date of transfer, the terms and conditions of employment, plus any existing collective agreements and relevant company policies relating to terms and conditions of employment, such as maternity and paternity leave, will automatically be taken over by the company as the new employer. Although staff will transfer to the new company on their existing terms and conditions of employment, the company will require its own terms and conditions for any new staff employed after 1 April 2009. The Project Board has therefore prepared a schedule of proposed new terms and conditions for the company.

Staff and unions have been fully consulted on the TUPE transfer and the company's proposed staffing arrangements.

- **Equalities** - there are no equalities implications to this report.
- **Legal** – Legal Services has been involved in the preparation of the draft Business Case/Project Implementation Plan. The Council has the necessary legal powers to create a shared service company. However, any such arrangement must comply with the EU public procurement regime and the Public Contract Regulations 2006. Specific case law (including Teckal and Carbotermo SpA) has established that if a local authority wishes to award a contract to supply services to a company set up by that local authority, then the authority does not need to carry out a competitive tender exercise before such a contract is awarded, provided that the following principles apply;
 - the authority must exercise a similar degree of control over the company to that which it exercises over its own departments;
 - the exercise must be ‘a power of decisive influence over both the strategic objects and significant decisions of the company’
 - the essential part of the company's activities must be carried out on behalf of the controlling authority. Any activities undertaken for bodies other than the controlling authority can be of no more than marginal significance.

The exemption also applies to companies controlled by more than one authority, providing the principles set out above are complied with. To demonstrate compliance with the Teckal principles, it is proposed that the provision of services to external customers will be limited to no more than 10% of the shared service company's total activities.

There are also restrictions on the ability of local authorities to undertake trading activities through such a company. A local authority can make a decision to carry out an activity or provide a service which it considers is likely to improve the economic, social or environmental well being of its area (Local Government Act 2000). The well being function is an “ordinary function” for the purpose of Section 95 of the Local Government Act 2003. Section 95 provides a general power to local authorities to undertake trading activities. This general power is however limited to those authorities categorised as ‘fair’ or above for CPA purposes.

The general power is further regulated through the Local Government Power to Trade Order which specifies that before exercising the power, each authority must prepare a business case in support of the proposal and approve that business case. In the event that Members are minded to approve the recommendation to implement the shared service company, then this business case is considered to satisfy the requirements of the Local Government Power to Trade Order.

Section 95 also defines the type of company that an authority can use for trading activities. The Section states that the company must be a company regulated by Part V of the Local Government and Housing Act 1989, which limits the proposed structure to:

- companies limited by share;
- companies limited by guarantee with or without share capital;
- unlimited companies;
- societies registered under the Industrial and Provident Societies Act.

The company would be funded from the public sector so its own procurement activities would be bound by the Public Contract Regulations. The services to be provided to each Council will be specified in separate Service Agreements between the shared service company and each Council.

The proposed transfer of staff will be regulated by the Transfer of Undertakings (Protection of Employment) Regulations 2006 which guarantee that there will be equivalence of terms and conditions of employment. In addition, because this is a public sector TUPE transfer there would also be equality of pensions involving a “buy in” to the North Yorkshire Pension Fund.

The Council will need to authorise the shared service company to carry out functions relating to housing benefit and council tax benefit, using s70 of the Deregulation and Contracting Out Act 1994 and the Contracting Out (Functions of Local Authorities: Income-Related Benefits) Order 2002. The Council will then be able to authorise employees of the company to conduct investigations under s110A (3) to (7) of the Social Security Administration Act 1992.

To ensure proper governance and accountability to its two shareholders, it is proposed that the company will have a Board of Directors consisting of:

- the Executive Members for Corporate Services from both Councils;
- the Director of Resources (CYC);

- the Corporate Director – Finance and Central Services (NYCC);
- the Head of Internal Audit (as the senior officer within the company);
- two external Directors, jointly nominated by the two Councils.

The external Directors will be expected to bring expertise in running a company, as well as appropriate external challenge. It is therefore expected that the two external directors will be business professionals with experience in partnership working and supporting innovation, preferably gained in the public or voluntary sector. The following nomination has been made for one of the positions:

- Helen Kemp-Taylor – Head of Internal Audit at York NHS Hospital Trust.

The remaining position is still to be determined.

- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – IT has been consulted as part of work to prepare the Business Case/Project Implementation Plan. There are no specific IT implications arising from this report other than the need to agree a Service Level Agreement for the future provision of IT related support services to the company.
- **Property** - Property has been consulted as part of work to prepare the Business Case/Project Implementation Plan. It is proposed that the Council will in future provide fully serviced accommodation to the shared service company. The cost of such accommodation will be met by the Council's client officer. To facilitate this arrangement, it is proposed that the shared service company will enter into a Premises Licence with the Council rather than a formal property lease. A draft Premises Licence has been prepared on this basis.

Risk Management Assessment

- 22 A detailed risk assessment was undertaken as part of the work to prepare the Outline Business Case. The risk assessment included consideration of the risks associated with both the project and the preferred option for the long term structure of the shared service. The Project Board has continued to monitor the identified risks and, where possible has taken mitigating action.

Recommendation

- 23 Members are asked to:

- approve the implementation of the wholly owned company as the appropriate long term organisational structure for the shared service, in accordance with the details set out in this report and the attached Business Case;

Reason

To enable the implementation of the appropriate long term structure for the shared service (Part II of the strategic plan).

- agree to the appointment of the Executive Member for Corporate Services to the board of directors of the shared service company;

Reason

To ensure appropriate governance and accountability for the shared service company.

- agree to the appointment of the nominated officers to the board of directors of the shared service company;

Reason

To ensure appropriate governance and accountability for the shared service company.

- authorise the shared service company to carry out functions relating to housing benefit and council tax benefit, using s70 of the Deregulation and Contracting Out Act 1994 and the Contracting Out (Functions of Local Authorities: Income-Related Benefits) Order 2002;

Reason

To ensure that staff employed by the shared service company can properly undertake future investigations into benefit related fraud.

- authorise the Council to enter into a Premises License with the shared service company for the future use of office accommodation;

Reason

To enable the Council to provide fully serviced accommodation to the shared service company.

- authorise the Council to enter into an agreement for an overdraft facility with the shared service company.

Reason

To ensure that the shared service company has adequate funds to cover its working capital requirements.

Contact Details

Author:

Max Thomas
Audit and Fraud Manager
Audit and Risk Management
Telephone: 01904 552940

Chief Officer Responsible for the report:

Pauline Stuchfield
Assistant Director (Customer Services and
Governance)
Telephone: 01904 551706

Report Approved



Date

Specialist Implications Officers

Patrick Looker - Finance
Janet Neeve - HR
Glen McCusker - Legal

Wards Affected: Not applicable

All



For further information please contact the author of the report

Background Papers

Strategic Business Case for the Shared Service
Outline Business Case

Annexes

Annex 1 – Shared Service Business Case