

Cabinet

9 January 2018

Shared Services Proposal

Report of Alison Elsdon, Director of Finance

Cabinet Member: Nicholas Oliver, Cabinet Secretary and Portfolio Holder for Corporate Services

Purpose of the Report

1. The purpose of this report is to seek approval to establish a shared service with Newcastle City Council for a range of transactional financial services which are currently provided by both councils.

Recommendations

It is recommended that the Corporate Services and Economic Growth Overview and Scrutiny Committee recommend that Cabinet:

1. Approves the establishment of a shared service with Newcastle City Council with effect from 1 April 2018.
2. Agrees that the name for the shared service is "NNTS".
3. Approves the establishment of a Joint Committee to oversee, regulate and monitor performance of the shared service.
4. Delegates the required constitutional amendments to the Monitoring Officer.
5. Approves the Joint Committee agreement (Appendix 3) between the two Councils.
6. Delegates the development and finalisation of the detailed operating agreement to the Director of Resources in Newcastle, and, Director of Finance in Northumberland.
7. Agrees that Northumberland County Council is the employer for all staff within the scope of the shared service and provide:
 - a) Office accommodation
 - b) Human Resources support
 - c) ICT platforms and support

- d) Procurement support
 - e) Accountancy and budget support
8. Agrees that Newcastle City Council will provide:
- a) Internal Audit and Risk Management support
 - b) Legal support
 - c) Joint Committee support
 - d) A proportion of ICT support for the Newcastle network in Northumberland
 - e) Transformational support
 - f) Communications and marketing
 - g) Digital Printing Service if this provides value for money. If not this will be done externally.
9. Agrees that all Newcastle City Council staff within the scope of the shared service will TUPE transfer into Northumberland County Council on 1 April 2018 or as soon as practicable thereafter.
10. Notes the ICT recommendations in the ICT paper, Appendix 11 of the business case.
11. Notes the financial model and three year savings proposal.
12. Approves the accommodation recommendations as outlined in paragraphs 51 and 52 of the business case.

Link to Corporate Plan

1. This proposal for a shared service is relevant to the “Developing the Organisation” priority included within the Corporate Plan 2013-17.

Key Issues

1. This report accompanies a business case (Appendices 1 to 13) to establish a shared service with Newcastle City Council to deliver transactional services. This business case sets out the scope, benefits, costs, savings and high-level implementation timetable associated with the proposed shared service. This covering report also sets out Newcastle City Council’s financial contribution and savings along with implications for our staff in scope of the shared service.
2. Agreement to and implementation of the proposed shared service would result in recurrent savings of £0.895 million over a three year period (four financial years) for Northumberland County Council.

3. Agreement to and implementation of the proposed shared service would result in recurrent savings totalling £1.773 million for Northumberland County Council and Newcastle City Council.
4. There will be one-off revenue costs estimated at £0.5 million which will be shared equally between the two councils.
5. There will be capital costs totalling £0.835 million which will be split equally between the two councils.
6. Northumberland County Council will be the employing authority for the Shared Service and Newcastle City Council staff will TUPE transfer to Northumberland County Council.
7. Accommodation has been identified from which the shared service can operate.
8. There will be a homeworking solution in place for staff within the shared service.
9. Office accommodation space will become available in both Wansbeck Square and County Hall.
10. The Benefits Officers currently working in Northumberland's towns within the Customer Service Centres will continue to provide the service from those locations.
11. The services remain within and continue to be delivered in-house by the Council.

Background

1. In an effort to identify savings, discussions commenced between the former Chief Executive of Northumberland County Council and the Chief Executive of Newcastle City Council in May 2016. Following a number of meetings it was agreed between the Chief Executives and the Directors of Resources that it would be worthwhile exploring the concept of a shared service further and in more detail.
2. The areas to be considered for the shared service included the revenues and benefits service and transactional finance services.
3. It was agreed that a Project Manager was required to develop the idea further, and to this end following a competitive recruitment exercise a joint appointment was made and Jayne Henderson from Newcastle City Council was appointed.
4. For the last year officers from both councils have worked together on the project and a full business case has now been produced and is available in the appendices to the report.

5. The key drivers for exploring the potential for a shared service were to continue to provide high quality transactional services for customers, by increasing the capacity and resilience of individual councils through the shared service; as well as, identifying efficiencies in service delivery and potential economies of scale.
6. Establishing a shared service is consistent with wider national local government reform. The proposed shared service satisfies the direction of travel of the Government's priorities, along with local need for resilient and efficient transactional services. It supports:
 - Value for money.
 - Operating models which will be more efficient as inefficiency and duplication will be removed.
 - Specialisms and expertise which will be shared.
 - The streamlining of processes.
 - The joint procurement of ICT systems and other contracts.
 - Leaner management and service support which in turn reduces costs.
 - Long-term resilience of transactional services within each council area as resources reduce.
 - The recent 'minded to' decision to create a North of Tyne Combined Authority with devolved powers from government.

Impact of the Proposal

1. The following services are within scope for the proposal:
 - Council Tax
 - Business Rates
 - Business Improvement District Levy (BID)
 - In-house Enforcement Agents (Newcastle only)
 - Housing Benefit
 - Council Tax Reduction
 - Crisis Support Scheme and Northumberland Emergency and Transition Scheme (NETS)
 - Blue Badges
 - Concessionary Travel (Northumberland only)
 - Free School Meal Assessment

- Accounts Receivable (Sundry Debt Income and Recovery)
 - Accounts Payable
 - Employee Services (Payroll)
 - Income Management
 - Business Systems supporting the above-mentioned services.
2. The Joint Committee will oversee, regulate and monitor performance of the Shared Service; and, it will be supported by a client group of senior officers from both councils.
 3. The operating agreement will include details of all service activity within the scope of the shared service and will form the service level agreement and governance arrangements for both councils. It will also provide the basis for performance management of those services. If there are any policy or operational changes required by either council, an assessment of the impact will be undertaken and both councils will negotiate and agree any financial and resource adjustments reasonably required.
 4. It is recommended that Northumberland County Council will be the employer for the shared service. Approximately 200 employees will TUPE transfer from Newcastle City Council to Northumberland County Council on 1 April 2018 or as soon as practicable thereafter on their current terms and conditions. It is recommended that initially all processing staff are transferred into the Shared Service without any restructuring or downsizing. Staff consultation regarding these arrangements will commence following Cabinet approval.
 5. If approved the management and support arrangements will be reviewed. It is expected that a new management and support structure will be in place by 30 September 2018.
 6. The financial benefits for Northumberland County Council are as follows:
 - a) A recurrent reduction in revenue costs as the cost of the Shared Service will be split 50:50 between the two councils. The following table shows the combined budget, the cost implications, and, level of savings for each council.

Combined Budgets in Scope

	Newcastle	Northumberland	Combined
	£000	£000	£000
Direct Staffing Costs	5,870	5,999	11,869
Additional staff costs to transfer in	180	153	333
Other Staffing Costs	191	62	253
Supplies & Services	897	894	1,791

Print & Postage	422	359	781
ICT Support & Maintenance	246	356	602
Gross Expenditure	7,806	7,823	15,629

The following figures assume that all budgets transfer to the Shared Service on 1 April 2018, that costs are shared 50:50 from that date, and that savings are realised with effect from 1 October 2018. It is likely that savings will accrue earlier than this date.

Split of costs and savings

Excluding corporate recharges & accommodation costs:	Newcastle £000	Northumberland £000	Combine d £000
Year 1 (2018-19)			
Projected gross cost	7,544	7,544	15,088
Savings	262	279	541
Year 2 (2019-20)			
Projected gross cost	7,245	7,245	14,490
Savings	299	299	598
Year 3 (2020-21)			
Projected gross cost	7,030	7,030	14,060
Savings	215	215	430
Year 4 (2021-22)			
Projected gross cost	6,928	6,928	13,856
Savings	102	102	204
Total Savings	878	895	1,773

b) Service and grant income remains the responsibility of each Council and each Council retains the risk with regard to income generation.

c) Revenue savings of at least £1.773 million will be delivered in the first three full years of the Shared Service. Assuming that the management structure is in place for 1 October 2018 the estimated savings will be as follows:

	2018-19 £000	2019-20 £000	2020-21 £000	2021-22 £000	Total £000
Savings					
Management Restructure	378	378	-	-	756
5% staff saving	-	220	430	204	854
ICT Support & Maintenance	163	-	-	-	163

Total savings	541	598	430	204	1,773
Recurrent reduction to the revenue budget	541	1,139	1,569	1,773	1,773

However in the first year of the Shared Service there will be one-off revenue costs incurred. These costs will be split 50:50 between the two councils:

	2018-19	2019-20	2020-21	2021-22	Total
	£000	£000	£000	£000	£000
One-off revenue costs					
Redundancy/strain on the fund ①	500	-	-	-	500
Total costs	500	-	-	-	500
Net Savings	41	598	430	204	1,273
Recurrent Savings	541	1,139	1,569	1,773	1,773

① The redundancy and strain on the pension fund costs are based on the average cost of all management staff within the scope of the proposed Shared Service. The cost in the worst case scenario, based on the cost of the most expensive managers within the scope of the proposed shared service, amounts to £0.880 million.

d) In addition to the revenue costs there will be capital costs of:

- £0.155 million in relation to the fit out of the new building. This cost will need to be split 50:50 and a capital provision will need to be made in Northumberland's capital programme if the shared service is approved; and,
- £0.085 million IT costs in relation to data line installation, and configuration of shared platforms. This cost will need to be split 50:50 and a capital provision will need to be made in Northumberland's capital programme if the shared service is approved; and,
- £0.595 million relating to the purchase of new PCs for all staff within the Shared Service. This is a cost that would be incurred across the two councils within one to two years regardless of a shared service arrangement. Newcastle City Council has a capital budget to cover their share of the costs. Northumberland County Council has a capital budget of £1.5 million to cover the desktop refresh

programme for the Council and not just the services in scope for the Shared Service arrangement.

7. Accommodation has been identified from which the shared service can operate. It is proposed that this building is purchased by Northumberland's Development Company, managed by Property Services and utilised by the Shared Service and all of the staff (approximately 340) will be located in Northumberland.
8. There will be a homeworking solution in place for staff where there is a performance tool to manage productivity; freeing up valuable office space and therefore saving money.
9. Office accommodation space will become available in both Wansbeck Square and County Hall.
10. The Benefits Officers currently working in Northumberland's towns within the Customer Service Centres will continue to provide the service from those locations.
11. The services remain within and continue to be delivered in-house by the Council.

Risks

1. The key risk for Northumberland County Council is as follows:
 - a) Accommodation – if the proposed accommodation is purchased by Northumberland's Development Company and only two of the three floors are utilised by the shared service there is a risk that the third floor may in the long term remain vacant. In the first few years this floor could be utilised/rented by either council as decant space as they complete their HQ refurbishments.

There is no current Council budget to cover the cost of leasing and running this new building. Currently the Revenues and Benefits Section occupy Wansbeck Square along with Customer Services and Transactional Services staff are predominantly based in County Hall.

The 2017-18 budget for running costs for Wansbeck Square is £0.216 million and an estimate of the cost of the space in County Hall for transactional services is £0.094 million. These costs include some space occupied by services which are not in scope i.e. Fraud Team, Customer Services, Insurance and VAT.

The estimated running costs for preferred accommodation are as follows:

Occupy 3 floors	Occupy 2 floors
£	£

Lease	280	187
Running Costs	291	194
Annual Cost	571	381

Northumberland County Council will need to fund 50% of the cost of accommodation e.g. £0.286 million or £0.191 million. Whichever configuration is agreed the accommodation running costs are lower than the current running costs of the space occupied by Northumberland staff albeit there are a number of staff that may need to be relocated. However, the new cost can only be covered by existing budgets if:

- Northumberland's Development Company releases Northumberland County Council from the lease agreement for Wansbeck Square early without charge.
- the Fraud Team are relocated. There will be space within County Hall to accommodate this.

There will continue to be a cost of accommodation for the Customer Services Team currently located in Wansbeck Square.

Further savings will accrue to Northumberland County Council if staff are moved from other buildings into the vacated space within County Hall and leases are surrendered or properties sold.

The full risk register is attached for information at Appendix 12 which sets out an assessment of the risks associated with the creation of the Shared Service; including, the impact on staff, ICT, performance and accommodation. This assessment has informed the recommendations within the business case and the decisions Cabinet are asked to approve. It will also inform the development of the detailed operating agreement.

Work still to be completed / Decisions Required

A report is to be taken to the Board of Northumberland's Development Company in January 2018 regarding the purchase of the preferred location and the release of the Council from its obligations at Wansbeck Square in Ashington. Should the Board decide not to purchase the new accommodation then Newcastle City Council has agreed to purchase it.

Overall Revenue Financial Implications for Northumberland County Council

The estimated costs and savings for Northumberland are as follows:

	£000
Current Gross cost of service (excluding corporate recharges & accommodation costs) 2018-19	7,823

50% of estimated cost of shared service	7,544
Full Year Revenue Saving	279
Less: One-off redundancy costs – based on average redundancy	(250)
2018-19 Revenue Saving	29

It is assumed that the cost of accommodation is neutral.

A target of 5% of staffing costs has been set for years 2 and 3 of the Shared Service delivering further savings to Northumberland County Council. Recurrent revenue savings by the end of the third full year for Northumberland would be in the region of £0.895 million. (2018-19 £0.279 million; 2019-20 £0.299 million; 2020-21 £0.215 million; 2021-22 £0.102 million).

How will success be measured?

- a) The appointed Head of the Shared Service will oversee implementation and will be responsible for delivery of the services in accordance with the service standards and policy direction set out in the operating agreement. The Shared Services Joint Committee and Client Group will oversee governance and performance management of the service standards and policy direction. The individual councils will continue to set the policy direction.
- b) Success of the Shared Service will be measured against the following criteria:
 - Increased resilience within each council;
 - Efficient, effective and optimised service delivery;
 - Budget savings for both councils;
 - A fit for purpose operating model;
 - Improved customer outcomes; and,
 - Exploring and identifying opportunities for further sharing of services.

Timeline

The timeline for implementation is as follows:

- January 2018 – Seek Cabinet approval in both councils for the Shared Service.
- January to March 2018 – Joint Committee is established; appointment of Head of the Shared Service; development of the detailed operating agreement; and, TUPE consultation with staff.
- February to September 2018 – Review and implement new management and support arrangements.

- 1 April 2018 or as soon as practicable thereafter – Newcastle City Council staff in scope will TUPE transfer to Northumberland County Council.
- July to August 2018 – Shared Service moves to new office accommodation.

Implications:

Policy	The development of Shared Services links directly to the Partnership element of 'Developing the Organisation' within the Corporate Plan 2013-2017 which states "we will continue to explore ways to share and pool services with other public services".
Finance and value for money	The shared service arrangement will deliver revenue savings of £1.773 million over the first three years of operation (£0.895 million for Northumberland County Council and £0.878 million for Newcastle City Council). A number of one off capital costs will be incurred at the outset along with potential redundancy costs. There may need to be a provision made for the revenue cost of accommodation dependent on the decision taken in terms of the accommodation options.
Legal	<p>The Shared Service Project included a Legal work stream with representatives from both councils. This work stream considered delivery options for creating a shared service as described in Appendix 2 of the business case.</p> <p>There will be a Joint Committee established and an agreement (Appendix 3 of the business case) with regard to governance arrangements. There will also be an operating agreement in place which is yet to be developed.</p>
Procurement	Not applicable for the formation of the proposed shared service. As the recommendation is to establish a shared service through a Joint Committee, there are no procurement implications. On-going purpose of contracts for ICT and other contracts will be reviewed as contracts expire. Northumberland County Council will lead on procurement activity on behalf of the Shared Service.
Human Resources	There will be a formal consultation process with staff and the unions have been consulted. There will be TUPE implications for Newcastle City Council staff who will transfer to Northumberland County Council. There will be a reduction in the number of management posts of in the first year of the shared service.
Property	Accommodation for the Shared Service has been identified and the approval of the Board of Northumberland's Development Company is awaited. The Board meeting will take place 22 January 2018.

Equalities	An equalities impact assessment is attached as Appendix 13.
Risk Assessment	There is a risk register at Appendix 12.
Crime & Disorder	Not applicable.
Customer Consideration	The day to day operations and the interactions with customers will not change as a result of the shared service.
Carbon reduction	Not applicable.
Wards	All.

Background papers:

None

Report sign off:

Authors must ensure that relevant officers and members have agreed the content of the report:

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List of Appendices

1.	Business Case
2.	Shared Service Delivery Options and Recommendation
3.	Draft Joint Committee Agreement
4.	Services Paper
4A	Full Council Tax Breakdown
4B	Council Tax Exemptions
4C	Council Tax Discounts
4D	Business Rates Information
4E	Payroll Breakdown
5.	Current Structures 2017
6.	Draft Structure 2018
7.	Accommodation Options and Costs
8.	Northumberland Business Park Brochure
9.	Northumberland Travel Induction Package
10.	Newcastle Revenues & Benefits Homeworking Protocol
11.	ICT Shared Service Paper
12.	Risk Register
13.	Equality Impact Assessment