

**TITLE OF REPORT : SHARED SERVICES - COSTS & SAVINGS WITHIN THE HALTED JOINT PROJECT WITH STEVENAGE AND EAST HERTS COUNCILS**

REPORT OF THE HEAD OF FINANCE, PERFORMANCE & ASSET MANAGEMENT

**1. SUMMARY**

- 1.1 At a previous FAR Committee, Members requested that this area was reviewed to establish what costs NHDC incurred and what savings have now been made.

**2. RECOMMENDATION**

- 2.1 That the contents of this report be noted.

**3. REASONS FOR RECOMMENDATIONS**

- 3.1 This report was requested by Members in order to provide an overview of the costs and savings, as considered in this project.

**4. ALTERNATIVE OPTIONS CONSIDERED**

- 4.1 Following the closure of the tri-council project, officers have identified alternative and more robust savings proposals, as outlined in this report.
- 4.2 In terms of continuing with the business case for Shared Services, the NHDC Management Team concluded that the draft detailed business case did not provide persuasive evidence that sharing services was the best option for North Herts and it was not acceptable to the other authorities to seek to resolve the identified issues. A final detailed business case could not therefore be agreed.

**5. CONSULTATION WITH EXTERNAL ORGANISATIONS AND WARD MEMBERS**

- 5.1 Consultation has been undertaken with the Portfolio Holder for Finance & IT.
- 5.2 Communications within and across the three authorities were conducted in parallel by the respective Communications teams and co-ordinated via the Project Board whilst it was in existence.
- 5.3 The respective Leaders and appropriate Portfolio Holders in each authority were kept informed as the project progressed and were advised of, and supportive of, the Management Team conclusion.

**6. FORWARD PLAN**

- 6.1 This report does not contain a recommendation on a key decision and has not been referred to in the Forward Plan.

## **7. BACKGROUND**

- 7.1 In February 2011, NHDC Cabinet resolved that the Strategic Director, Finance Policy and Governance, in consultation with the Portfolio Holder for Finance and IT, be authorised to pursue the partnership opportunity with East Hertfordshire District Council (EHC) and Stevenage Borough Council (SBC) through development of a Strategic Business Case. This case was prepared for sharing the following services:

- ▶ Information & Communications Technology
- ▶ Human Resources and Payroll
- ▶ Facilities Management
- ▶ Print
- ▶ Exchequer Services
- ▶ Estates Management
- ▶ Procurement

- 7.2 The strategic business case initially prepared and considered by Cabinet in November 2011 identified the potential for savings in the region of £750k pa (£250k for each authority) from sharing services. These figures were based on a number of assumptions that required further detailed work to confirm their robustness and to determine a level of savings that were actually deliverable, together with clarity on the level of investment required to deliver those savings.

- 7.3 It was recognised from the outset that once the detailed business case was produced, each authority's Management team would have to review the business case from that authority's perspective and decide whether the case could be recommended to Members.

- 7.4 The savings estimates subsequently calculated for the detailed business case did not deliver the anticipated net savings originally estimated in the strategic business case. Due primarily to the additional start up costs required, the estimated savings of £250k pa for each of the three Councils in the strategic business case were reduced to a cumulative net saving over 5 years of approximately £619k, with savings accruing from year three onwards (as shown in table 1).

- 7.5 The NHDC Chief Executive and Strategic Director of Finance, Policy and Governance met with their opposite numbers in the other two authorities and sought to delay the decision on whether to share services until the necessary work had been carried out regarding refinement of estimates, service levels and governance arrangements. The other authorities did not wish to delay and North Herts Management team therefore confirmed that, from the North Herts perspective, the working draft of the detailed business case as it then stood did not provide a persuasive reason to share services. Therefore the NHDC Management team could not support it being put forward for consultation with the staff groups or recommendation to Members. The three authorities agreed that the joint project would halt at that point.

- 7.6 The NHDC Management Team then proceeded to consider how alternative savings might be achieved and identified potential savings that could be made from 2013/14, initially estimated to total approximately £900k over the 5 years. These savings were further explored in the Corporate Business planning process and subsequently

confirmed at around £740k over the five years (although still over £120k in excess of those estimated for the joint project). These figures are briefly outlined in this report in table 2.

## 8. ISSUES

### 8.1 Costs incurred by NHDC in participating in the project

8.1.1 Each authority identified internal staff who would undertake work as part of the project team and it was agreed that staffing costs would be shared between the three authorities. In addition a total budget of £80k was agreed to cover external costs that might be incurred in producing the detailed business case. At the conclusion of the project, around £87k per authority had been spent in terms of internal staff costs and £21k per authority for external expertise.

### 8.2 Shared Service Proposal

8.2.1 The savings and investments profile for the overall project was extended over the first five years of operation, with costs also identified for initial “set up”, which was classed as year zero. The assessment by NHDC Officers of the overall proposal at the time the project was closed was as follows:

**Table 1: Overall Savings/Investment Profile – NHDC/SBC/EHC**

	2012/13 £000's (year 0)	2013/14 £000's	2014/15 £000's	2015/16 £000's	2016/17 £000's	2017/18 £000's
Savings total SBC/EHC/NHDC	0	-321	-883	-972	-972	-972
Investment total SBC/EHC/NHDC	282	652	458	294	294	284
Net annual position	282	331	-425	-678	-678	-688
Cumulative position	282	613	188	-490	-1,168	-1,857
Net annual position per council	94	110	-142	-226	-226	-230
<b>Cumulative position per council</b>	<b>94</b>	<b>204</b>	<b>63</b>	<b>-163</b>	<b>-390</b>	<b>-619</b>

(negatives are savings/income; positives are expenditure)

8.2.2 The table above shows the overall profile of savings and investment for all three councils. The final line then breaks this down on a cumulative basis “per council”. So, each council would have needed to make capital investment in 2012/13 and 2013/14 (£94k and £110k respectively) and then started to realise savings from 2014/15 (£142k) onwards. The cumulative saving achievable was projected as £619k by 2017/18.

8.2.3 It should also be noted that further investment in IT related equipment was indicated for the five years from 2018/19 onwards (amounting to around another £1.1 million in total over those five years, to be split across the three authorities) due to the relatively short useful life of such equipment.

### 8.3 NHDC Alternative Savings

8.3.1 In comparison, the following savings were identified internally to NHDC and were confirmed as part of the budget setting process for 2013/14 onwards:

**Table 2: NHDC Savings Identified**

	2012/13 £000's Est cost	2013/14 £000's Est net saving	2014/15 £000's Est net saving	2015/16 £000's Est net saving	2016/17 £000's Est net saving	2017/18 £000's Est net saving
IT/HR restructure	75	-153	-166	-166	-166	-166
<b>Cumulative position</b>	<b>75</b>	<b>-78</b>	<b>-244</b>	<b>-410</b>	<b>-576</b>	<b>-742</b>

8.3.2 These efficiencies are now built into the 2013/14 budget in respect of restructures to IT and HR services. The combined savings in 2013/14 are projected to be in the region of £153k (part year saving) and then £166k per year thereafter. No requirement for further investment is projected in later years to maintain these savings levels.

8.3.3 In addition to the savings made by IT due to the restructure detailed above, the Service has also identified a number of potential income streams and is pursuing these. Whilst these can never be relied upon on an on-going basis, already income has been identified for 2013/2014 from providing support to another Hertfordshire authority for National Land Property Gazeteer consultancy work, and other potential sources of income are being negotiated.

## 9. LEGAL IMPLICATIONS

9.2 Legal teams at each authority were aware that partnership opportunities were being explored and were anticipating that details of the partnership arrangements would be included in the Detailed Business Case.

5.2 The terms of reference for Cabinet state that they are to approve those major service developments or reductions which also constitute Key Decisions. Cabinet also have power to promote and develop external partnerships to meet the Council's objectives.

## 10. FINANCIAL IMPLICATIONS

10.1 The financial implications are covered in the main body of the report.

10.2 Finance staff from each partner authority were involved in validating the costs and savings contained within the Strategic Business case. Further work took place during the Detailed Business Case phase and queries raised by Officers from North Herts resulted in further revisions to the costs and savings. The anticipated cumulative net savings from the proposed Shared Services over 5 years were estimated at £619k by NHDC Officers, with savings accruing from year 3 onwards. Annual net savings were estimated in the region of £230k pa from 2015/16, although further investment had then been identified to be necessary from year six. As part of the Corporate Business Planning process, Heads of Service in the affected services had identified alternative options which are projected to deliver around £740k over a 5 year period, with savings

accruing from year 1, and no further investment being necessary. This represents £166k pa net ongoing annual saving from 2014/15 onwards.

## **11. RISK IMPLICATIONS**

- 11.1 A number of risks were identified in the detailed business case, e.g. whether the levels of service standards would be acceptable (as they remained undefined), falling savings projections, impact on staff morale and failure of IT systems, were identified by the Management team. Whilst these may have been mitigated by undertaking additional work, reviewing the model for sharing services and deferring the decision on whether or not to share until the mitigation measures had been completed, the other authorities were not prepared to defer the decision. The risks relating to this project were identified as a Top Risk for North Herts.

## **12. EQUALITIES IMPLICATIONS**

- 12.1 The Equality Act 2010 came into force on the 1<sup>st</sup> October 2010, a major piece of legislation. The Act also created a new Public Sector Equality Duty, which came into force on the 5<sup>th</sup> April 2011. There is a General duty that public bodies must meet, underpinned by more specific duties which are designed to help meet them.
- 12.2 In line with the Public Sector Equality Duty, public bodies must, in the exercise of its functions, give **due regard** to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.3 An informal corporate equality impact assessment was undertaken alongside consideration of the draft business case for shared services, but with the emphasis now being to restructure our own services to produce the required efficiencies, an equality analysis is required for each service restructure proposed to ensure that they do not unduly impact on any specific group of employees more than another.

## **13. SOCIAL VALUE IMPLICATIONS**

- 13.1 As the recommendations made in this report do not constitute a public service contract, the measurement of 'social value' as required by the Public Services (Social Value) Act 2012 need not be applied, although equalities implications and opportunities are identified in the relevant section at paragraphs 12.

## **14. HUMAN RESOURCE IMPLICATIONS**

- 14.1 Staff and Trade Unions were consulted on a regular basis as the shared support services proposals were developed. Consultation with Trade Unions and the NHDC Staff Consultation forum (SCF) was ongoing throughout the Detailed Business Case stage in line with the Council's Policies on Consultation Reorganisation and Transfer of Undertakings Protection of Employment (TUPE). An SCF representative attended all meetings with the Trade Union.
- 14.2 Communications with affected staff, and also all other staff groups, were carried out by a variety of methods to keep staff informed throughout. In addition, staff directly affected were informed of the Management Team decision at a face to face briefing at the earliest opportunity.

- 14.3 HR project work, support and advice in relation to North Herts staff, the relevant policies and terms and conditions was provided throughout the project by the Corporate Human Resources Manager, with support from the Employee Relations Officer.

## 15. APPENDICES

None

## 17. CONTACT OFFICERS

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## 18. BACKGROUND PAPERS

Strategic Business Case – Shared Support Services report to Cabinet 8<sup>th</sup> November 2011

Shared services update report to Cabinet 11<sup>th</sup> December 2012