**Wards affected**:
All Wards

ITEM **14**

**CABINET**

**12 OCTOBER 2015**

# A COMMERCIAL PROPOSAL FOR MILTON KEYNES COUNCIL – SHARED SERVICES

Responsible Cabinet Member: Councillor Middleton, (Cabinet member for Resources and Commercialism)

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**Executive Summary**

The Administration's published financial strategy, set out three touchstone principles: smarter, sustainable, different. These touchstone principles have and will continue to shape this Council's response to Central Government's national austerity programme. This shared service proposal satisfies all three touchstone principles, but in particular, different. As a touchstone principle, it seeks to recognise that this Council cannot continue to deliver services in the same way, and by 2020, it is likely that a number of services will not be directly delivered. The Administration are committed to continue to reimagine how Council services can continue to be delivered, whilst seeking both significant financial savings and safeguarding as much as possible the services so valued by residents.

Milton Keynes Council has to make financial savings and reprioritise spending equivalent to £59m by 2019/20, this includes reducing the cost of support services by around 40% (as set out in the Medium Term Financial Strategy).

Initial discussions with the Local Government Shared Service (LGSS) which is a Joint Committee arrangement between Northamptonshire County Council and Cambridgeshire County Council; have indicated there is likely to be a benefit to Milton Keynes in joining the shared service. The benefits would be a combination of financial and wider benefits.

This report requests authority to develop an outline business case for joining LGSS as a member of the Joint Committee and therefore becoming a partner which influences the leadership, management and direction of travel for LGSS.

The development of the outline business case is anticipated to be a short focused piece of work, which would then make a recommendation to Cabinet in January.

## 1. Recommendations

1.1 That the development of an outline business case for an equity partnership in LGSS (the Shared Service operated by Northamptonshire and Cambridgeshire County Councils) is approved.

1.2 It is noted that this paper authorises first step activities, namely devising an outline business case. As further work is completed, it will be shared publicly, and be subject to further Cabinet decision as set out later in this paper.

## 2. Introduction

2.1 The Council is under significant pressure to protect and improve services; addressing the national austerity programme. The combination of changes to Government funding and increased local demand, which is not recognised in funding settlements, means there is a need to identify savings and reprioritise spending equivalent to £59m by 2019/20.

2.2 It would be very challenging for the Council to seek to address this funding/demand issue by only reducing staff and services. The size and growth of Milton Keynes means that continued reductions of this scale would increase the risks to the continued delivery of statutory services. This report therefore proposes the development of a shared service approach, which would add volume and size and therefore create opportunities to change the service delivery model for the areas concerned.

## 3. Potential Benefits

3.1 For several services there are considerable benefits from pursuing a shared service agenda, including:

- The ability to share ICT costs, both for the platform and the support required;
- An increase in size offers opportunities for efficiency and the ability to retain specialist roles;
- Provide resilience in some service areas, where we are currently reliant on one or two individuals;
- Additional capacity for management savings;
- Procurement benefits through greater size and volume;
- Process savings through combining transactional processes and reducing overheads;
- A stronger base for trading regionally, maximising skills and reducing competition.

3.2 These benefits could be achieved through a contractual arrangement; but there are also positive advantages from greater regional working, which could support more strategic regional relationships and the development of approaches to common challenges. One example which would benefit Milton Keynes would be a more joined up approach to future growth across the region. A shared service with partners would provide a good basis for a more detailed understanding of the issues faced by other authorities and encourage a more collaborative approach.

3.3 The shared services model could also be progressed more quickly than a large commercial outsourcing proposal which would take longer to procure, ensuring some benefits are realised more quickly. The LGSS model primarily relies upon the delegation of functions between authorities which means matters can be progressed quickly if all parties agree. Although it should be noted that the investment capacity is only as great as individual authorities are prepared to fund. While a commercial partnership may include substantial front-loaded investment, to facilitate efficiency.

3.4 Over the last few years Milton Keynes has made several approaches to other councils to explore shared services options. The outcome to date has been information sharing and joint working but there has not been an appetite to develop more formal shared service arrangements. However, there has been a recent discussion with LGSS (a Joint Committee arrangement between

Cambridgeshire and Northamptonshire County Councils), seems to offer the potential to develop a shared service arrangement, building on their current model.

4. **Proposal**

4.1 The proposal is to work with LGSS to rapidly develop an outline business case to determine if a shared service model would deliver the anticipated benefits. The outline business case is expected to cover the following services:

| **SHARED SERVICE** |
|---|
| • Revenues and Benefits (including corporate debt collection)<br>• HR and payroll<br>• Finance (including transactions)<br>• ICT<br>• Procurement<br>• Internal audit, risk management and fraud<br>• Legal |

4.2 However, if there is an additional service area which would be beneficial to include, then this will be incorporated into the formal proposal for a Cabinet decision.

4.3 The shared service model would be to integrate MKC as a partner in LGSS, with appropriate changes to the Joint Committee structure (potentially the development of an alternative vehicle at a suitable point) and Management Board. This would give MKC influence over:

- The direction of travel for the shared service;
- The leadership and management arrangements
- Service quality and performance
- The expansion of their commercial offer.

5. **Advantages and Disadvantages**

5.1 These are as anticipated to be as follows:

**Advantages**

- Potential pace of delivery without the need for procurement
- Greater resilience and the chance to remodel professional services
- Facilitates regional working
- Professional services can more easily ensure quality for value added advisory services which are more complex under a commercial arrangement
- Opportunity as a partner to improve and enhance the LGSS offer for future financial benefit.
- Opportunities to share investment costs and skills to maximise the benefits and reduce risk.
- There will be greater flexibility in shaping and changing service models as legislation changes. For example the changes which Universal Credit will

bring, will impact on Revenue and Benefits. A contractual arrangement would have limited the capacity for change, or would incorporate this as a risk in the contractual terms.

**Disadvantages**

- The offer may not be as commercial as a private sector provider, however, without conducing a private sector market test it would be impossible to know exactly what the alternative benefits and risks would be. The outline business case will need to be assessed not only on the adequacy of the financial savings, but also on the service performance and potential risks and benefits for the future.
- The Council will need to ensure it has sufficient standing in the new arrangement to shape and develop proposals to achieve the expected benefits, as risks are not transferred to an alternative provider.
- The pace of change may be slower than for a commercial offer, as the investment will be limited by the capacity of the Council (s) to invest and the decision making and governance may be more complex.

## 6. Other Options

6.1 There are potentially three other options:

(1) Do nothing – which would mean financial savings would need to be achieved from remodelling services in house or through a contractual arrangement. This would potentially create greater risks to services and limit the options.

(2) Outsource services - a procurement approach would determine the benefits from this type of arrangement, however, this would give less flexibility about service delivery as the context for the Council changes, as this is determined by the terms of the contract, and less control over service quality. Although there is likely to be greater risk transfer, consequentially this is likely to result in less of a financial benefit.

(3) Develop an alternative shared service model – discussions over the last couple of years have not identified an alternative partner with the appetite to progress a model quickly. Setting up a new model would also take longer than integrating with an existing arrangement.

## 7. Process and Target Timescale

7.1 The decision for a shared service arrangement would be through the development of an outline business case and an agreement to proceed. This does not require a formal procurement route, so benefits could be achieved more quickly.

7.2 The timetable has yet to be agreed with LGSS, but if the model/offer including the ability to be an equity partner is worth pursuing, it should be evident relatively quickly. There are a number of inter-related decisions which means the need for clarity on the direction of travel needs to be determined as soon as is practicable, for example the development and implementation of savings and procurement decisions. However, sufficient time is also needed to undertake due diligence. So the timescale below would be a sensible target.

| **WHAT** | **WHEN** |
|---|---|
| Development of Outline Business Case | October to December |
| Formal Cabinet decision on proceeding | January |
| Contractual agreement | February |
| Benefits realisation | Dependent on model – some benefits could be quite quick to secure |

## 8. Implications

8.1 Policy

The recommendations of this report are consistent with the Council's Medium Term Financial Plan.

8.2 Resources and Risk

This proposal is to develop an outline business case to enable a decision to be taken on whether to proceed with a shared service approach. It is anticipated this will be a short piece of work with outlines the potential model for service delivery; the overall governance arrangements; anticipated service performance and potential financial and non-financial benefits and risks.

Current staff will need to prioritise this work, but it is anticipated that additional capacity will not be required at this stage. However, there is a risk to the development of alternative arrangements to deliver financial savings if the timescales outlined in the paper are not met.

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|---|---|---|---|---|---|
| N | Capital | N | Revenue | N | Accommodation |
| N | IT | N | Medium Term Plan | N | Asset Management |

There is no impact from the decision to develop an outline business case, providing work is focused and decisions are then made in a timely manner. Delays to the process could create issues with alternative procurement and service delivery decisions.

8.3 Carbon and Energy Management - None

8.4 Legal – To be identified and evaluated as part of the business case preparation.

8.5 Other implications – None

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|---|---|---|---|---|---|
| N | Equalities/Diversity | N | Sustainability | N | Human Rights |
| N | E-Government | N | Stakeholders | N | Crime and Disorder |
| N | Carbon and Energy Mgmt | | | | |