

Wards affected: All Wards

SHARED SERVICES PARTNERSHIP (LGSS AND MILTON KEYNES)

Responsible Cabinet Member: Councillor Middleton (Resources and Commercialisation)

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EXECUTIVE SUMMARY:

Milton Keynes Council has a significant financial challenge, as demand for services increases while Government funding reduces. This means the Council will need to deliver cashable savings of £30.9m over the period 2017/18 to 2019/20. The financial strategy to address this budget gap is based on three principles smarter, sustainable and different.

In October 2015, Cabinet gave approval to create an outline business case (OBC) based on the proposal that Milton Keynes Council would join the existing LGSS partnership as a full Joint Committee partner. The resulting OBC (Annex A) addresses all three principles of the financial strategy, but is primarily a proposal to deliver services differently.

Joining LGSS as a partner will deliver £4.5m of financial savings over the period 2016 to 2021, which will be shared with LGSS as set out in the confidential annex. In addition any benefits beyond the medium term financial plan requirements will be shared. As well as a clear financial benefit, the OBC sets out a number of non-financial benefits, such as resilience and flexibility, specialist roles, shared systems and support and sharing best practice, which strengthens the rationale for proceeding with this shared service.

This paper sets out further details on the proposed operation of the Joint Committee.

1. Recommendations

- 1.1 That based on the outline business case (Annex A) and the terms of the partnership arrangement (as set out in Annex C), the Council be recommended to agree:
 - (a) that Milton Keynes Council join the LGSS shared service partnership from 1 April 2016;
 - (b) to appoint three councillors to represent the Council on the Joint Committee, and delegate to the Committee responsibility for setting the LGSS Budget (within the amounts delegated by individual councils); agreeing the service plan; monitoring performance and quality of service delivery and making decisions on expenditure and commercial arrangements; and
 - (c) that the appointments to the Joint Committee be reviewed as part of the Council's annual process for appointments to outside organisations.
- 1.2 That the Scrutiny Management Committee be requested to review this proposal to inform the Council's decision in March 2016.

2. Background

2.1 Milton Keynes Council has a significant financial challenge, as demand for services increases while Government funding reduces. This means the Council will need to deliver cashable savings of £30.9m over the period 2017/18 to 2019/20. The financial strategy to address this budget gap is based on three principles smarter, sustainable and different.

2.2 In October 2015, Cabinet gave approval to create an outline business case (OBC) based on the proposal that Milton Keynes Council would join LGSS (a public sector shared services venture wholly owned by Cambridgeshire and Northamptonshire county councils) as a full Joint Committee partner. The resulting OBC addresses all three principles of the financial strategy, but is primarily a proposal to deliver services differently. The Cabinet decision in October outlined a challenging timescale to develop the OBC and recommendation to Cabinet for January 2016. The pace agreed by Cabinet is necessary for a number of reasons, mainly:

- The Council was procuring a new Enterprise Resource Planning system. The initial business case had shown a significant financial benefit, providing the new system was implemented before June 2017. This decision has been paused pending the shared service decision. Any delay beyond January would mean the financial benefits from the new ERP system would be delayed, and a new contract with existing provider SAP would need to be negotiated.
- A number of other procurement decisions are being paused to enable the maximum benefit to be achieved from the shared service partnership, additional delays would mean some of these benefits may be delayed.
- A period of uncertainty causes risks for the Council services, as key individuals may leave the organisation. The longer the period of uncertainty the greater the risk to the ongoing delivery of services.
- The Council needs to deliver financial savings for the medium term. Certainty on the future provision of services is required in order to make the necessary changes to improve efficiency and reduce costs, with the minimum impact on service delivery.

3. Introduction

3.1 This Cabinet report results from the Cabinet decision in October, to create an OBC exploring whether Milton Keynes Council should join the LGSS shared service arrangements as a partner. This report sets out the main findings from the OBC; the proposed governance and operation arrangements and the decisions required for the Council to join a shared services arrangement.

4. The Development of the OBC

4.1 The individual service proposals in the OBC (Annex A [\[Link\]](#)) have been developed by the relevant service leads for LGSS and Milton Keynes Council. A number of meetings have been held and data shared to consider the operating model and performance of both services at present and the opportunities, risks and benefits as a result of expanding the current shared service. All services have considered their future design reflecting the best elements of both services.

4.2 The design work by individual services has also included the identification of potential benefits, both financial and non-financial.

5. Scope

5.1 The table below sets out the services proposed to be included in the shared services arrangement with LGSS:

October Cabinet Report	January Cabinet Report	Scope of Services
Human Resources	Human Resources	HR policy, professional advice, payroll, management information and reporting, support for JNC/E and corporate training. However, social care training and development is excluded at this time.
Finance	Finance	Professional finance services including advice and support, reporting, training, payment of invoices, key financial administration systems and processes, including invoice payments and financial assessments
ICT	ICT	Providing essential ICT infrastructure, hosting of servers, ICT support and advice and applications support and development.
Revenues and Benefits	Revenues and Benefits	Council Tax, Business rates and Benefits administration. Policies would still be determined by MKC.
Procurement	Procurement	Advice and support to enable procurements, contract management advice, support and review, responsibility for maintaining the procurement process, including e-tendering and contracts register.
Insurance	Insurance	Advice on setting policy, ensuring cover is in place, claims handling and proactively working with services to minimise future liabilities.
Internal Audit, Risk Management and Fraud	Internal Audit, Risk Management and Fraud	Defining and delivering the audit plan, risk management approach and support, fraud, advice and support for managers.
	Democratic Services	CMIS, delivery of democratic support for the Council, excluding the Monitoring Officer and elections.
Legal Services		Not recommended to include at present. Exploring alternative approaches, which may see some elements provided by other councils.

- 5.2 The only service incorporated after the scope was defined in October was democratic services, which reflects a longer-term opportunity to create shared best practice and greater resilience. The only service which was in scope in October but is not being recommended at this time, is legal services.
- 5.3 However, there are a number of smaller services which could be incorporated into the shared service at a future time. These include health and safety, GIS and project management.

6. Financial Benefits

- 6.1 The Council needs to deliver financial savings of £30.9m from 2017/18 to 2019/20, as a result of increased service demand and reducing Government funding. This is a challenging position, where the priority for the Council is to minimise the impact on key services that the public value and require.
- 6.2 The Council's financial strategy has therefore reflected the position that the services in the scope of this OBC will need to make considerable savings, as part of closing the budget gap. However, it is also recognised that the effective operation of these services is essential to the delivery of front-line services and meeting some of the Council's statutory responsibilities, so the delivery of savings must be balanced with the impact of these cost reductions.
- 6.3 Outline Business Case includes the delivery of base budget savings of £3.145m from all services excluding Revenues and Benefits, and £1.3m from revenues and Benefits. These benefits will be shared between Milton Keynes Council and LGSS as set out in the confidential annex B in addition if savings are delivered in excess of the financial targets required in all partners medium term financial plans, these will be shared as set out as part of the financial arrangements for the partnership (confidential annex C).
- 6.4 As part of the financial strategy the Council had expected the services in scope to reduce costs by 7% per year and offset the costs of pay inflation. This proposal delivers this savings requirement, the only current exception is for Revenues and Benefits, where some of the delivery of savings is expected to be achieved from additional revenue sharing (i.e. if improved collection or an increase in the Council Tax or Business Rate Baseline, as a result of LGSS actions). These additional arrangements will need to be approved through individual business cases approved by all relevant authorities.

7. Non-Financial Benefits

- 7.1 In addition to the financial benefits all service leads considered the non-financial benefits for their service. These are outlined in the OBC, however the main points are as follows:
- Resilience and Flexibility – the greater size and scale of the shared service operation will create resilience for service delivery, which reduces the risks from the loss of key individuals. Greater numbers of people also increases the ability to prioritise work and therefore manage resource more flexibly.
 - Specialist roles – having larger teams, which are shared across five councils, (three partners plus two main delivery agreements) means there is greater capacity to retain specialist roles, which was becoming increasingly difficult for Milton Keynes on its own.

- Better Staff Retention – larger teams, gives greater potential for development, expose to different organisations and the ability to progress within the organisation. The experience of LGSS to date, has been that this is attractive for individuals and staff retention has improved as a result.
- Sharing Best Practice – supporting a number of councils with similar issues means there is potential to share ideas and best practice to develop a better service in the future. This also applies to areas where ideas may impact on the wider council, where support staff can provide links between organisations.
- Systems and Support – rather than supporting and running systems for individual councils, there a number of examples (the ERP system being the largest) where a single system could be used across a number of councils. This provides the opportunity to reduce running costs and gives a stronger basis to negotiate with suppliers on licence costs.
- Procurement – there are some services which could be jointly procured, either for the running of LGSS or the benefit of the wider council. This approach can include the possibility of having lots to ensure a joint procurement can still reflect local factors, but the greater buying power of a number of councils will be more attractive to the market. There are also opportunities to share learning and specifications, so even where a joint procurement is not possible there are still benefits and efficiencies.

8. Governance

- 8.1 LGSS is managed through a Joint Committee. This is a decision making body, with delegated powers from each partner council. The Committee currently comprises 3 Councillors from both Northamptonshire and Cambridgeshire County Councils, as the partners. The Chief Executives of both councils are currently advisers to the Committee, but have no voting rights.
- 8.2 Milton Keynes would have three new Councillors on the Joint Committee (making a total of 9), and the Chief Executive would also act as an advisor. Milton Keynes will nominate Councillors to the Committee as part of the annual process to confirm membership of all Committees.
- 8.3 The Joint Committee is responsible for setting the LGSS Budget (within the amounts delegated by individual councils); agreeing the service plan; monitoring performance and quality of service delivery and making decisions on expenditure and commercial arrangements. A summary of the main elements of the proposed governance model is set out in annex D.
- 8.4 It should be noted that policy and procurement decisions relating to the wider operation of the Council remain with Milton Keynes Council. For example even though the service delivery for Revenues and Benefits would be in LGSS, Milton Keynes Council would still be responsible for setting policies on matters such as Local Welfare Provision.
- 8.5 If there was an opportunity for a joint procurement, Milton Keynes Council would either need to delegate the approval for the leadership and decision making for that contract to a partner council, or Milton Keynes Council could still make a decision to approve the stage to go out to tender, approving the specification and then allow a single partner authority (which in some cases may be MKC) to award once tenders have been received.

- 8.6 In reality the majority of the baseline budget for LGSS is for staff. The Joint Committee will be responsible for a few small contracts for operational items across LGSS, but any major investment would still need approval through each partner council, to access the capital programme.
- 8.7 It is very likely – and of course subject to customary MKC' committee appointment' processes - that the Cabinet Member for Resources, and indeed his successors, would take one of the three available LGSS' Joint Committee' positions. As such, the Cabinet Member would be involved in the strategic decision making of LGSS, and be answerable for his and the overall quality of the strategic decision making and performance levels of LGSS.
- 8.8 In particular, the Cabinet Member would be available for challenge at monthly Cabinet, Overview and Scrutiny' committee and at Task & Finish' Groups as and when established. Council and indeed Opposition Parties therefore retain regular and meaningful opportunities to exercise challenge in connection to LGSS' strategic decision making and performance levels. In similar terms, as the S151 is a standing attendee at monthly Cabinet, he and his successors will be subject to overview, scrutiny and challenge, in connection to the operational decision making and performance levels of LGSS.
- 8.9 Given the S151' role is a nominated director on the LGSS operations board, and the Cabinet Member for Resources likely strategic decision making role on the Joint Committee, Council and Opposition Parties would be able to receive reports and exercise meaningful challenge, in connection to both strategic and operational matters at LGSS at regular junctures.

9. Operational Management

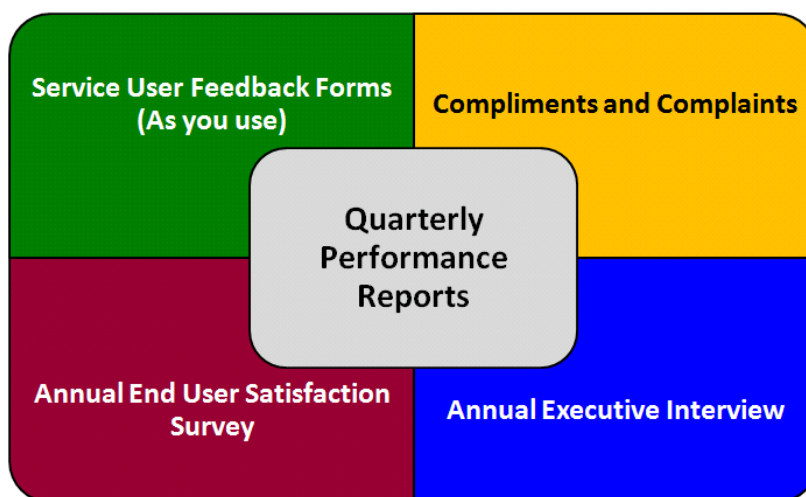
- 9.1 The operational management of LGSS is through a management Board. At present this Board is led by a Managing Director (John Kane) and has four Directors. The inclusion of Milton Keynes would require the addition of a Director role. This would be the Corporate Director Resources. This role would be both to represent Milton Keynes on the LGSS Management Board and to represent LGSS as part of the Corporate Leadership Team in the Council. This role will be responsible for managing a number of shared service functions (whilst retaining responsibility for functions which remain in MKC, such as property) and integrating Milton Keynes smoothly into the shared service.
- 9.2 The function of S151 officer will not transfer to LGSS but will continue to be delivered by the Corporate Director Resources. As no roles TUPE transfer, this post will continue to be employed by Milton Keynes Council.
- 9.3 In practice this will mean that the Corporate Director, Resources, will remain as S151 officer and will be part of the LGSS operational Board. This will ensure that MKC has a strong influence on the management and direction of services and there is a clear understanding within LGSS of the needs of the Milton Keynes Council.
- 9.4 The OBC does not include any savings at Director level in either of the current LGSS or MKC structures, reflecting the fact that as a significantly expanded shared service the capacity will need to be retained at this strategic level. A proposed 'Day 1' functional model of LGSS is included in Appendix A of the attached OBC.

9.5 Structures below the Board level will need to be developed in detail and appropriate HR processes undertaken (in line with the proposed changes to the service) to appoint staff to relevant roles. The process of integration and service development in the new arrangements will need to be managed well to maintain service standards throughout transitions.

10. Performance Management and Accountability

10.1 Performance will be measured against key performance indicators, which will be collated and reported quarterly. In addition each service will have an accountable manager, who will hold operational performance measures to ensure the delivery of the service across all aspects is performing well.

10.2 There is also a formal customer satisfaction and engagement framework, which analyses a range of data to give a view on service delivery. The framework comprises of 5 key components which are shown in the graphic below:



Annual End User Satisfaction Survey - focuses on the operational day to day delivery of LGSS Services, and provides all end users within our customer organisations with the opportunity to rate and comment on our services.

Annual Executive Interview - held with the Chief Executive, or delegated to a member of their management team. It helps to ensure LGSS supports our customers with their priorities and reflects improvements or concerns

Service User Feedback e-Forms - offered to customers throughout the year upon completion of a transaction/request/piece of work.

Quarterly performance reports

There are quarterly reports which compare performance against KPIs and with feedback received through the other channels.

Service Improvement Plans

Feedback received through the various channels within the Customer Satisfaction and Engagement Framework is analysed to both celebrate positive areas of performance but to also identify areas which require improvement.

This provides key information to produce annual directorate Service Improvement Plans (SIP) which set out the key improvements which will be implemented. The development of SIPs is undertaken in partnership between LGSS and customers to ensure improvements meet the needs of all parties. Progress against SIPs reported to customers on a quarterly basis.

- 10.3 As a partner Milton Keynes will also be part of the quarterly performance review process at both the Operational Board and Joint Committee.

11. Workforce Impact

- 11.1 As a partner in LGSS, Milton Keynes Council will remain the employer for the Milton Keynes staff who will become part of the shared service. So there is no requirement for TUPE, or changes to terms and conditions directly as a result of these proposals.
- 11.2 Over the medium term it is likely that workforce reductions will still be required, to reflect the ongoing need to reduce costs across all three partners. However, the development of the shared service means that these changes will take place across all the employing organisations. The ambition for LGSS is also to increase trading, so to minimise the impact of cost reductions on the workforce by undertaking additional trading activity.
- 11.3 In considering service design, business leads have considered the potential location of staff. It is apparent that for the majority of services there will still need to be a local presence, and teams will need to work in a more agile and virtual way. Staff will only be relocated to a single site if there is a good operational and financial reason, and changes would be made as part of a transition to a redesigned service. It is currently expected that there will be relatively little relocation of staff on a full time basis, although some individuals will need to work across more than one location.
- 11.4 LGSS is committed to minimising compulsory redundancies. If there is a strong financial and operational reason for locating services in a single location, there may be opportunities to re-train staff in other skills required in a locality. However, in order to deliver the scale of financial savings required, there will need to be workforce reductions overall in the medium term.

12. Further Decisions Required

- 12.1 In order to implement a shared service, Cabinet will need to make recommendations to Council in order to implement the changes to the Constitution required. This will delegate powers to the Joint Committee. This decision is scheduled for Council in March, to enable implementation from 1st April 2016.

13. Future Ambition

- 13.1 Milton Keynes joining LGSS would take the total employees of LGSS to c. 1,800 and the employees of the councils being supported to 25,000. The geography within LGSS would provide a significant local presence. The addition of a unitary council as a partner provides greater assurance to potential customers for some lower level services (not delivered by county councils) and the ability to create synergies across a two tier relationship. Therefore it is anticipated that Milton Keynes joining LGSS would provide a strong commercial trading basis for services in the future. The ambition is both to increase small scale (for example individual

schools) trading but also to encourage other councils to join the arrangements. However, the focus and ethos will be to retain a focus on providing services to the public sector.

14. Annexes

14.1 The follow documents are appended to this report:

Outline Business Case	Annex A [Link]
Benefits of Shared Service to Milton Keynes Council	Annex B
Partnership Financial Arrangements	Annex C
Governance Proposals	Annex D

15. Implications

15.1 Policy

This proposal reflects the financial strategy which requires costs to be reduced through smarter and more sustainable models of service delivery.

15.2 Resources and Risk

Yes	Capital	Yes	Revenue	No	Accommodation
Yes	IT	Yes	Medium Term Plan	Yes	Asset Management

The financial benefits from LGSS to Milton Keynes Council are set out in section 6. However, with more detailed design work and more time it is felt that the remaining benefits required will be identified. In addition it is likely that measures such as joint procurements will reduce costs for the wider council.

However, in developing the OBC managers have considered the need for additional investment. The table below sets out the investment requirements and potential funding sources.

Description	Service	£000	MKC £000	LGSS £000	Funding Source
IT ERP solution	IT	4,300	1,600	2,700	Capital
IT data hosting	IT	961	961		Capital
E recruitment	HR transactions	13	13		MKC
DBS e bulk	HR transactions	1	1		MKC
Revenue & Benefits system	Revenues & Benefits	TBA	TBA	TBA	TBC
Single View of Debt	Debt recovery	30	15	15	Additional Benefits
Total Investment		5,305	2,590	15	

MKC has already approved Resource allocation in the Capital Programme of £1.3m for the ERP replacement and £1.1m for data hosting, a total of £2.4m. While MKC will only pay for actual additional costs incurred, this leaves a shortfall of £0.16m for these two programmes. However, MKC will make an ongoing saving of £0.14m, from the licence and support savings from SAP (there will be significant additional benefits from changes to processes), which will be deferred for a year to pay for the additional implementation costs, if required.

The remainder, along with costs for DBS e bulk and e-recruitment, a total of £0.035m will be funded from the MKSP reserve. The Council had been looking at potential solutions in both these areas, but the implementation costs would be significantly higher than using a solution which is already developed and in place. These process improvements are also expected to deliver additional financial benefits from Milton Keynes Council services, although the value of this benefit has yet to be determined.

Risks and Mitigations

The key risks and mitigations for this proposal are as follows:

Risk	Mitigation
Loss of direct management, means services do not reflect Council needs	MKC as a partner will influence the planning and operation of the shared service through its role on the Joint Committee. This will include agreeing Service Plans and reviewing performance. The additional director role on the operational board will also enable priorities for and feedback from MKC to be incorporated.
Financial savings are not delivered	LGSS has delivered all financial savings requirements in previous years for existing partner authorities. Monitoring of savings plans and income will provide assurance on delivery, along with a project management approach where individual proposals require significant change.
Service quality does not meet Council requirements	MKC will monitor and manage service quality through both the operational board and the Joint Committee.
Non-financial benefits are not delivered	An integration plan for MKC will be developed once the Cabinet and Council decisions have been taken, which will focus on delivering both the practical changes and culture change necessary to maximise the benefits of a shared service arrangement.
Loss of key staff	As part of the transition staff will be engaged in the plans for the shared service and will understand the shape and opportunities a shared service could bring. There are some key areas of risk, this will need to be monitored and managed appropriately.

Other Shared Service Examples

At present the Local Government Association (LGA) has identified 416 shared service arrangements, with a varying range and remit. The LGA conducted a review of Shared Services in 2014, resulting in the publication “Services Shared: Costs Spared?” This review included considering a few shared service examples in detail (including LGSS) to evaluate if there was a benefit from these arrangements to councils. The key findings were as follows:

1. Clear financial benefits can be made from sharing services. Savings are achieved through consolidating organisation structures, integrating information technology, reducing accommodation, and improving procurement
2. Early savings are made by reducing staff – removing duplication and management posts.
3. These initial benefits are typically delivered rapidly with strong top-down leadership.
4. As shared services mature and evolve they are able to benefit from wider business transformation – such as better use of IT and assets, improved processes and cultural change programmes.
5. The set up and integration costs for merging services are modest with less than a two year payback period for all the shared service arrangements.
6. Baseline financial and performance information is essential to make the case for change and track the benefits of shared service arrangements in terms of efficiencies and service improvements. This was a difficulty with all the five shared service arrangements researched and made it hard to make performance comparisons.
7. Despite this, it appears that the shared service arrangements have succeeded in providing the same or better levels of performance at less cost.
8. Good performance against organisations’ key performance indicators are complemented by good staff indicators – such as high staff morale, low staff sickness and low turnover rates.
9. Rapid implementation of shared service arrangements helps build momentum for change.
10. Expanding established shared services to provide services for other public sector partners in a locality is a useful way to generate income and ensure efficiencies through greater economies of scale.

Carbon and Energy Management

15.3 Legal

Two or more local authorities can establish a committee consisting of members of two or more authorities for the joint discharge of functions of those authorities, ([section 101](#) Local Government Act 1972).

Joint committee arrangements do not affect the responsibilities of an authority's executive.

The Council may arrange for its functions to be carried out by another local authority (an agency arrangement). The statutory responsibility for the function remains with the delegating authority.

All delegations will be set out in a written agreement that clearly defines which functions are being transferred and any conditions to which the transfer is subject.

These joint arrangements will be set out in and become part of the council's constitution standing orders.

15.4 Other Implications

No	Equalities / Diversity	Yes	Sustainability	No	Human Rights
No	E-Government	Yes	Stakeholders	No	Crime and Disorder
No	Carbon and Energy Policy				