



CABINET

20 November 2013

Subject Heading:	Shared Back Office Functions with the London Borough of Newham
Cabinet Member	Councillor Michael Armstrong Councillor Roger Ramsey
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Policy context:	Council Budget Reductions
Financial summary:	Creation of a Joint Committee estimated to deliver annual savings of £10.612m by 2018/19 (£3.904m to Havering and £6.708m to Newham). Estimated investment and potential redundancy costs of £3.927m to be shared on the basis of the funding agreement. Further details set out in the financial implications section and Business Case
Is this a Key Decision?	Yes
Is this a Strategic Decision?	Yes
Reviewing OSC	Value Overview & Scrutiny Committee

The subject matter of this report deals with the following Council Objectives

Clean, safe and green borough	<input type="checkbox"/>
Excellence in education and learning	<input type="checkbox"/>
Opportunities for all through economic, social and cultural activity	<input type="checkbox"/>
Value and enhance the life of every individual	<input type="checkbox"/>
High customer satisfaction and a stable council tax	<input checked="" type="checkbox"/>

SUMMARY

This report is recommending the creation of a Joint Committee with the London Borough of Newham to create a shared back office function. The shared service is anticipated to save the two boroughs £10.6m per annum by 2018/19 with Havering's share being £3.9m.

RECOMMENDATIONS

1. To agree to creating a shared service for back office functions (as listed in the business case Appendix 2 schedule 2) with the London Borough of Newham.
2. To agree to the setting up of a Joint Committee with the London Borough of Newham as the chosen vehicle to deliver the shared service and to recommend to the Governance Committee that it approves the necessary changes to the Council's constitution to create such a body with an effective date of 1 December 2013.
3. To agree that power to determine the management structure of the shared service (as listed in the business case Appendix 2 Schedule 2) be delegated to the proposed Joint Committee as from 1 December 2013 and recommends to the Governance Committee that it approves the necessary changes to the Council's Constitution to achieve such a delegation.
4. To note that further detailed alterations to the council delegations will be required once the senior management structure for the shared service is known and that a further report will go to the Governance Committee in early 2014.
5. To approve the basis of the funding formula as identified in paragraph 7.1 and 7.2 of this report with the recalculation of the funding agreement percentages to be finalised later in the financial year once final budgets are known for each council.

6. To approve the delegation to the Group Director (Resources) in consultation with the Lead Member for Value the arrangement for the signing of the Joint Committee Agreement.

REPORT DETAIL

1. The background

- 1.1 This report is a brief summary of the business case and will need to be read in conjunction with the business case. The business case on the proposed shared back office service is attached.
- 1.2 Both Newham and Havering Councils have faced considerable financial pressures in recent years, with Havering having to make £40million on savings by 2014. Recognising that reductions in local government funding will continue but, however with little room as individual authorities to make further reductions in support service costs, the two Councils agreed, in October 2012, to work together to fully share back office services. The aim was to drive down costs and make savings which will allow protection for frontline services for residents.
- 1.3 The two Councils are building on a successful history of joint service transformation work. The Head of ICT is already shared with Newham as is some of the ICT services and in addition the council already undertakes collaboration on procurement.
- 1.4 Havering and Newham have worked quickly to develop the shared service in order to maximise the savings it can achieve. Go Live is aimed for December 2013, with full redesign and transformation of services completed by 2018/19. The two Councils are also ambitious to market the shared service to other councils, public and third sector organisations, creating a preferred model for support services and generating additional income for both councils.

2. Benefits of the shared back office service (See section 8 of the business case for details)

- 2.1 Havering and Newham see the main benefits of the shared service as:
- Improving the customer experience
 - Increasing operational efficiency
 - Reducing the costs of support services by sharing staff & assets
 - Resilience and flexibility through standard systems and a pool of resources
 - Building on best practice service delivery in either Council
 - Pooling scarce specialist resources and creating additional capacity
 - Savings through common procurement strategies and sharing expertise

- Reducing the cost of transformation for each Council by doing things only once

3. Scope and scale (See sections 9/10 of the business case for details)

3.1 The proposed shared service will include 21 separate services across the two Councils with a combined cost of shared in scope services of £57m and employing 1,100 people. The back office services include:

- Human Resources
- Payroll
- ICT
- Finance
- Council Tax, Benefits and Business Rates
- Legal Services
- Democratic Services
- Procurement
- Business Improvement
- Property, Asset Management and Facilities
- Health and Safety
- Audit, Insurance and Risk Management
- Transport

4. The Delivery Vehicle (See sections 13, and 14.1 to 14.12 of the business case for details)

4.1 The shared service will be delivered through a Joint Committee model, with three members of the Executive from each Council making up the Joint Committee. The Joint Committee was chosen over other models, such as simply outsourcing all the services, as it enables retention of all the savings, provided a more flexible approach to developing the shared service and will allow marketing of the service to take place to additional users. The Joint Committee will go live some time during December once both Councils have given approval.

4.2 Cabinet is recommended to agree the creation of a Joint Committee for the proposed shared service.

5. Joint Committee and Delegations Agreement (See section 14 of the business case and Appendix 2 of the business case)

5.1 A Joint Committee and Delegations Agreement has been developed and is included at Appendix 2 of the business case. This agreement sets out the legal framework that the Joint Committee will work within.

5.2 As the joint Committee will only be responsible for executive functions, its membership will comprise of 3 councillors from each Council who will be selected solely from those councillors with executive functions, ie Cabinet Members. This is a statutory requirement.

5.3 Currently a considerable number of powers are delegated by both Councils to various officers. Work is ongoing to identify which powers will need to be delegated to the joint committee and which will be directly delegated to identified officers. Those delegations will require alteration to the Councils' schemes of delegation which will be reported separately to a future Governance Committee. Initially the power that needs to be delegated to the Joint Committee is the power to determine the format of the senior management structure for the functions that will be run by the Joint Committee.

6. Staff impact (See section 14.13 of the business case for details)

6.1 Under the proposed model for the shared service all of its staff would continue to be employed by one of the two Councils; the shared service itself would not employ anyone. This means that there would be no need for a TUPE transfer of staff and the impact on the two Councils' pension funds would be negligible. Staff will remain on their existing terms and conditions.

6.2 The first stage of developing the new shared service structure will be the development of a shared management structure, starting later in 2013/14, followed by a redesign of all of the services in the new shared service over the next three years. Any redundancies will be managed through each Council's usual policies and procedures.

6.3 Staff working in the shared service will be located at one or other of the Councils, whilst remaining employed by their current Council.

7. Financial Savings (See section 15 of the business case for details)

7.1 A funding formula has been developed to share the savings and costs of the shared services.

Type of Savings	Agreement
Senior Management	Pro-rata to the respective relevant 2013/14 baseline budget
Duplication (9%)	50 : 50
Process Efficiency (11%)	Pro-rata to the respective relevant 2013/14 baseline budget
LBN Oracle Implementation	Newham only
Customers	50 : 50

7.2 For the period 1st April 2014 to 31st March 2019 the total annual cost incurred by the Joint Committee in discharging the delegated functions each financial year by the Joint Committee for the period 1st April 2014 to 31st March 2019

should not exceed the amount (at 1st April 2014 values) shown in column B of the table below. The proportion of that total cost paid by Newham and Havering Councils would be as set out respectively in columns C and D of the table below.

	B	C	D
	Total Cost of Shared Services £000	Newham %	Havering %
2014/15	53,128	64	36
2015/16	49,450	64	36
2016/17	48,296	63	37
2017/18	47,492	63	37
2018/19	46,628	63	37

- 7.3 The estimated total cost of discharging the delegated functions for future financial years and the relative proportions of the cost to be paid by each Council, following consultation with the Joint Committee, would be recalculated by the Councils annually by mid-January preceding the start of the relevant financial year on the same basis as set out above, unless otherwise agreed by the Councils.
- 7.4 The annual estimated cost of each delegated functions will be set and agreed by the Joint Committee, based on the annual Service Plan requested by each council and will then only be adjusted in the event of significant differences in the levels of service required by the Council's during the year. For this purpose a significant difference would be more than 1% of the total annual revenue cost of the whole shared service or of the cost of the relevant delegated function.
- 7.5 It is estimated that the shared service will achieve £41.2 million in savings over five years. £4.1 million in savings in its first full year (2014/15) rising to £10.6million by 2018/19. The split of savings is as follows: Havering will receive £15.1million and Newham £26.1million. These figures do not include any additional savings from accommodation or future joint procurement, or any income from other organisations joining the service.
- 7.4 The total cost of implementing the shared service is estimated at £3.9million over five years which is less than the first year's anticipated savings.

7.5 The profiled savings for the shared services are as below:

	Estimated Savings				
	Year 1 2014/15 (£000)	Year 2 2015/16 (£000)	Year 3 2016/17 (£000)	Year 4 2017/18 (£000)	Year 5 2018/19 (£000)
Havering	1,460	2,829	3,314	3,566	3,904
Newham	2,652	4,961	5,629	6,182	6,708
Total	4,112	7,790	8,943	9,748	10,612

7.6 The table below shows the estimated breakdown of the savings for Havering net of investment (excluding possible redundancy provision). Savings will not all fall to the General Fund as shown below. It should be noted that the actual split will be finalised as part of the recharging mechanism within the budget setting process.

	Estimated savings				
	Year 1 2014/15 (£000)	Year 2 2015/16 (£000)	Year 3 2016/17 (£000)	Year 4 2017/18 (£000)	Year 5 2018/19 (£000)
<i>Gross savings</i>	1,460	2,829	3,314	3,566	3,904
<i>Investment costs (excl. redundancy)</i>	337	169	-	-	-
Net total savings (excl. redundancy)	1,122	2,660	3,314	3,566	3,904
<i>General Fund</i>	892	2,114	2,635	2,834	3,103
<i>HRA</i>	118	280	349	376	412
<i>DSG</i>	13	32	40	43	47
<i>Capital</i>	51	120	149	161	176
<i>Pension Fund</i>	34	80	100	107	117
<i>Collection Fund</i>	14	33	42	45	49
	1,122	2,660	3,314	3,566	3,904

7.7 Cabinet is recommended to note the savings shown above.

REASONS AND OPTIONS

8. Reasons and Options

8.1 Reasons for the Decision

8.1.1 To enable the Council to continue to deliver financial savings a shared back office service with the London Borough of Newham has been proposed.

8.2 Alternative Options Considered

8.2.1 It is considered that minimal further savings in the back office functions could be made without considering alternative arrangements. The business case considers alternative delivery vehicles to that of a Joint Committee but however, it is considered that the alternatives at this moment in time do not deliver the same level of savings in the required timescale.

8.2.2 The setting up of a joint committee at this stage does not preclude the two Councils from deciding on another course of action in the future.

IMPLICATIONS AND RISKS

9. Financial implications and risks:

9.1 In simple terms the premise of project Romulus is that the new joint service will cost significantly less than the services currently delivered by the individual boroughs and that these savings will be shared by the two Councils. This would reduce the level of savings needed from other services, whilst reductions in Government funding seem highly likely to continue for several years.

Savings/Cost Share agreement

9.2 As detailed in para. 7.2 of this report the approach to sharing savings has been converted into an overall percentage split through to 2018/19. It is proposed that this split will be reviewed during the Programme's implementation later in 2013/14. It will also be updated should either Local Authority request a significant change to the level of service provided by the Joint Committee.

Potential Savings

- 9.3 As detailed in section 15.5 of the business case an estimate of the savings to be achieved has been calculated by establishing the controllable cost of each of the services to be shared and calculating a potential saving based on industry norm percentages. These have then been profiled and split between the Councils based on the agreed funding agreement referred to above.
- 9.4 The total controllable budgets of the services to be shared equals £57.240m. The estimated potential annual savings across the two Councils (not including any programme or transition costs) is £10.612m by 2018/19, as shown in paragraph 15.9.1 of the business case. The split of savings at 2018/19 is £3.904m to Havering and £6.708m to Newham. Estimated savings equate to 18.5% of the controllable service budgets and as such there will be very limited scope for any other significant savings to be delivered in these areas.
- 9.5 It should be noted that these saving will not all fall to the General Fund as some relate to other funds such as the HRA, DSG and Collection Fund as shown in para. 7.7 above. The actual split will be finalised as part of the recharging mechanism within the budget setting process.
- 9.6 Other than a general savings target of £500k (14/15) to be delivered via shared services/collaboration with other councils Havering's current budget strategy does not assume the delivery of these savings and as such this will need to be addressed as part of future year's budget setting. Any savings delivered over and above that built into the budget strategy will be treated as a windfall saving in the year in question. However, as the report to the last Cabinet meeting pointed out, it is highly likely that reductions in Government funding will continue for some time, possibly as far as the end of the decade, and as such, it is proposed to develop a new long term financial strategy. This programme will therefore contribute to meeting any future budget gap and/or any shortfall in existing savings. The strategy will be presented to Cabinet shortly after the local elections, for approval by the Administration.
- 9.7 If further savings are required over and above those stated in this Business Case then reductions in the level of service would need to be considered.
- 9.8 Whilst every effort has been made to ensure the robustness of the savings estimates above, it should also be noted that actual savings achieved as the scope of services to be shared and management structures are finalised will need to be identified as necessary.

Assumptions made as part of Savings Calculation

- 9.9 There are a number of assumptions made when calculating the potential savings and these are set out in para. 15.6 of the business case.
- 9.10 The assumptions do not allow for any further downsizing of the two Councils over the next five years that may occur. It is highly likely that this is going to

have to happen given austerity is with us until the end of the decade, so we should accept this is going to have to happen. The scale of operations of the shared service will therefore have to be adjusted accordingly.

Investment Costs

- 9.11 In order to generate these savings there will be a level of investment required to facilitate joint working, together with potential redundancy costs. These are estimated to cost £3.927m and further details are set out in section 15.3 of the business case. These costs will then be shared on the basis of the funding agreement. This will be regardless of the council incurring the costs, e.g. if more redundancy costs fall to one council as a result of staff recruitment to the joint committee, both councils will meet their share of costs.
- 9.12 As part of the creation of the Council's Transformation Reserve, provision has been made to fund redundancy costs. Any redundancy costs arising as a result of these proposals, and/or from any proposals currently being put forward elsewhere in the Council, will as far as possible be met from this Reserve. Should the cost of redundancy payments exceed the funds within the Reserve, the Group Director (Resources) will authorise funding from whatever is felt to be the most appropriate source.
- 9.13 It may also be deemed appropriate to fund the non redundancy investment costs from the savings delivered.

Funding of Joint Committee

- 9.14 The exact process is still to be finalised but it is envisaged that the joint committee would set a budget for the year based on service delivery requested by the two councils together with expected funding available from the Council. The process would involve the Councils approving their expected contributions prior to the joint committee budget being finalised.

Termination

- 9.15 The Joint Committee and Delegations Agreement is attached at Appendix 2 of the business case. This allows the Joint Committee Agreement to be terminated on agreement by both Havering and Newham. Each Council would at this point agree to pay a reasonable payment which reflects the obligations of that Council. Both Councils would need to try to minimise any losses arising from the termination of the Agreement. Amongst other issues the Councils would use their best endeavours to offer priority redeployment to any staff affected.
- 9.16 Should only one Council give notice it is stated that the Council wishing to withdraw from the Joint Committee would give not less than 12 months notice. The Council would be liable to fund both Councils reasonable costs arising directly from the withdrawal, but however excluding any on-going increase in costs from the carrying of functions within the Shared Services.

Risks

9.17 There are a number of risks associated with this project as follows:

9.17.1 Savings may be lower than anticipated due to in scope services changing. However, there is also a possibility that this could be mitigated by higher savings in some areas and/or accommodation/procurement savings being achieved.

9.17.2 There is a risk that when the service baseline budgets are recalculated this could not only alter the overall savings but impact on each Council's share. We have tried to mitigate these risks by carrying a robust review (and comparison) of both the Newham and Havering budgets.

9.17.3 Savings may be lower than expected should the Councils require an increased level of service or new operating model for the joint service.

9.17.4 There is a risk that the Joint Committee will overspend thus reducing the costs to the Councils but given in many instances it will be the same staff the risk could be seen as no higher than the current risk of overspend faced by the Councils.

9.17.5 Investment and potential redundancy cost may be higher than envisaged; again, this may be mitigated by higher savings in some areas and/or accommodation/procurement savings being achieved.

9.17.6 There is a risk that other corporate programmes will impact on the ability to progress the Romulus savings as anticipated thus leading to a different profile of savings.

10. Legal implications and risks:

10.1 The delegation of functions by a Council to another body is a major undertaking. In this case it is to a Joint Committee on which the Council will have equal membership with the other member Council. This should give the Council sufficient oversight and therefore comfort that the arrangement will ensure that the necessary services, albeit that they are back office ones, will continue to be provided.

10.2 While it will be possible for the Council, if it should wish to in the future to terminate the arrangement, it will be a complex and potentially expensive action to undertake, even if the other Council jointly agrees to the termination. Unilateral termination will be more expensive as certain costs of the other Council will have to be met.

10.3 However, given the pressure on the Council's budget in future years, the safeguards built into the proposed arrangements and the success of similar, if less extensive, joint arrangements elsewhere, then the relatively limited risks attached to such a proposal are acceptable.

11. Human Resources implications and risks:

11.1 Given the scale of savings that are being estimated from the Shared Service project, there are likely to be significant HR implications as a result of the proposals to share services between the LB Havering and the LB Newham. However, at this early stage it is difficult to assess the extent of these.

11.2 The HR risks associated with the proposals are also likely to be numerous and a detailed risks and issues assessment should be undertaken and mitigation considered as implementation plans are being developed.

11.3 In general terms, consideration should be given to the following HR risks:

- Whilst equal pay claims between Havering and Newham employees is not a risk (because employees will remain with their current employer), pay differentials between employees from the two Councils undertaking the same or similar work may feel 'unfair' and impact on morale, productivity and turnover.
- The differences in general terms and conditions of employment between the two Councils e.g. levels of leave, operation of flexi-time, pay protection arrangements etc. may also feel unfair to employees in both Councils.
- Operating two different sets of HR policies and procedures may lead to an increase in errors.
- Consideration should also be given to the impact on employees of taking on wider remits and more responsibility with potentially no extra remuneration.
- The potential for redundancies and the subsequent impact on employees that are made redundant and those that remain – the 'survivors' could lead to reduced productivity and poor morale.
- Whilst uncertainty remains around the new structure and individual impact on employees in scope of the project there is a risk that both Councils lose 'talent' where employees (that are able to) move to other employers.
- Lack of training, development and support for employees within scope could again lead to poor morale, an increase in turnover and a loss of 'talent'.
- Potential for challenge by recognised Trade Unions to the proposals and loss of 'goodwill' and flexibility from employees as a result.

11.4 All HR issues which do occur as part of any change process will be dealt with according to each Council's relevant HR policies and procedures and in compliance with employment legislation. All proposed changes will be subject to consultation with staff and their union representatives in both Councils.

11.5 Implementation will require careful handling and a clear communication strategy needs to be developed and put into place to ensure all employees

affected by the proposal in each Council are kept fully informed and uncertainty and disruption minimised.

12. Equalities implications and risks:

- 12.1 An Equality Analysis has been undertaken as part of this programme. At this stage it profiles the staff which are currently in scope of this programme as no proposed structures or restructures have been proposed as yet.
- 12.2 This process will be repeated at key stages to ensure that the Programme is developed in full recognition of the diverse needs, circumstances, and concerns of the people who will be affected by it.
- 12.3 As the project progresses and structures are developed, it will be easier to identify the risks and to see if any particular protected characteristics are disproportionately affected. It is also recognised that separate EAs might need to be produced for each Council to fully and thoroughly assess the impact on their workforce and communities.
- 12.4 An Action Plan and an assessment of the impact on the workforce and communities of each Borough and desired equality outcomes, including issues and recommendations will be produced when the EA is reviewed at the point when new structures are proposed.
- 12.5 The implementation of the Shared Back Office will be managed in accordance with each Council's agreed Change Management procedures, which take full account of equalities legislation and best practice in employment. In addition, employees will retain their current terms and conditions which include all procedures and entitlements as they relate to their employment contract.

BACKGROUND PAPERS

Equalities Assessment