Inverclyde council

**AGENDA ITEM NO: 3**

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| **Report To:** | **Inverclyde Council** | **Date:** | **29 September 2011** |
| **Report By:** | **Chief Executive** | **Report No:** | **CE004/11/JWM** |
| **Contact Officer:** | **John W Mundell** | **Contact No:** | **01475 712701** |
| **Subject:** | **Review of Clyde Valley Shared Support Services Proposals** | | |

## 1.0 PURPOSE

1.1 The purpose of this report is to advise Council of the key findings from the Detailed Business Case for Clyde Valley Shared Support Services including the investment required, potential benefits, risks and staffing implications for Inverclyde Council if it was to enter into a shared support service with 7 of the Clyde Valley Councils. The report also provides details of alternative savings developed internally.

1.2 The report requests the Council to consider continuing to participate in the development of shared support service options with other "like minded" Clyde Valley Councils.

## 2.0 SUMMARY

### Context

2.1 Following the publication of the Arbuthnott report in November 2009 which was jointly commissioned by the eight Clyde Valley Councils, it was agreed by seven of the Councils to prepare a Detailed Business Case on the possibility of sharing the provision of "back office" services to ensure more effective use of diminishing resources. The analysis is predicated on all seven Councils agreeing to share services at a minimum level.

2.2 Inverclyde Council's Financial Strategy has already helped the Council deliver substantial efficiencies and has resulted in a relatively strong budgetary position for 2011/12 and 2012/13. However, the Financial Strategy also projects the need for estimated further recurring savings of £20m over the period 2013/15 which equates to an approximate further cut of 10% in the Councils Revenue Budget.

2.3 In the context of severely curtailed budget settlements, it is logical for councils (especially smaller Councils) to proactively consider sharing investment and ongoing development and support costs to deliver economies of scale and efficiencies particularly for ICT infrastructure, applications support, software licences and transactional support services e.g. Payroll. Standardising, simplifying and sharing of these services helps make optimum use of scarce resources and significantly improves business systems resilience for participating councils.

### Business Case Proposals – 7 Clyde Valley Councils Participating

2.4 From the model, a business case (summarised in Appendix 1) for sharing the support services of Finance, Payroll, Revenues & Benefits, Human Resources and ICT across the Clyde Valley exists. At a Clyde Valley level and based on seven councils' participation:

- After 5 years the shared support service could generate gross annual recurring savings of up to £30m per annum across the participating Councils, rising to over £34m after 10 years
- A collective investment of between £28m and £31m over the first five years will be required to realise these savings, but this includes some costs that may already be budgeted for by individual councils. These figures exclude any pre-investment that has already been

Analysis has shown that there is little financial benefit in sharing customer access services in the proposals because the financial business case is weaker for this service area, there are significant variations in the current levels of service integration and the strategic preference for sharing customer services varies greatly across the seven Councils.

2.5 The model assumes that investment costs and savings will be shared by participating councils in proportion to the percentage of the total baseline cost of in-scope services included by each council. It is anticipated that such an allocation model will be used during the transition phase. However, it must be understood that once fully operational, the shared service would move to a transactional charging based model. In simple terms, this means that beyond the first five years, Councils will be charged on the basis of agreed rates and levels of service applied to the actual volumes of transactions processed etc.

2.6 In total, services with a present value of up to £155m per annum, could over a 10 year period, transfer to the shared support service and potentially involve a transfer of up to 3357 FTE staff across the Clyde Valley. It is estimated that approximately 25% of these staff could leave the service over the first 5 years. As a result of measures that councils will require to put in place to address declining financial resources, it is likely that regardless of whether a shared service arrangement is progressed, staff numbers will reduce over the next five years and the Shared Service Business Case projected savings would go some way to protecting frontline services.

2.7 A major part of the project was to identify the most appropriate vehicle for delivering the Clyde Valley Shared Support Services (CVSSS) vision. An options appraisal was undertaken on the following options:

- a lead authority
- a joint board
- a company wholly owned by the participating Councils (Public/Public)
- a company jointly owned by the participating councils and a private sector partner (Public/Private joint venture)

The Public/Public option was recommended subject to confirmation of acceptable governance arrangements. Appropriate governance arrangements that ensure a "one Council - one vote" scenario which delivers the necessary ongoing influence on the strategic direction and policies of a new organisation are an essential requirement for Inverclyde Council to consider participation.

2.8 With respect to the location of the future services, the seven councils were keen to establish whether it would be viable to utilise existing Council premises for the shared service and to have staff distributed across the Clyde Valley to ensure no area suffered an undue loss of jobs. It was concluded that a distributed model would be the most appropriate for the CVSSS.

2.9 For a project of this scale there are a number of Strategic and operational risks which are specifically addressed in the Clyde Valley Shared Support service Detailed Business Case. Risks for Inverclyde are considered in this report and would need to be managed.

2.10 It was agreed that each Council would take their respective views on the assumptions included in the Detailed Business Case on the basis of seven Councils participating and make any amendments prior to the presentation of the report to their respective Councils by the end of September 2011. In addition, the CMT believe that it was also appropriate for the Council to develop alternative internal savings options. Therefore, three options have been considered which are:-

(a) Commit in principle to sharing phase 1 only within 2 years and giving further consideration to phase 2 services after 5 years
(b) Commit in principle to sharing phases 1 and 2 within 2.5 years
(c) Do not share support services and develop alternative savings internally

Both the CVSSS options (a & b) and internal option (c) have been considered from a financial perspective within this report. It must be understood that the figures used in options (a & b) are based on 7 Councils participating.

**Financial Appendices Explained**

2.11 Appendix 2 (a & b) to this report shows the 2016/17 snapshot savings position based on the latest assumptions and provides an estimate of the one off costs associated with the implementation of the various options.

2.12 Appendix 3 to this report shows a 10 year cash flow model for each of the 3 options. In addition Appendix 3 gives the cumulative 10 year savings position for the period 2012 to 2021. It should be noted that the figures contained in Appendix 3 are based on a cash position and no attempt has been made to provide either a net present value or a discounted cash flow on the basis that this would be an exercise in spurious accuracy given the broad nature of some of the assumptions that underpin the figures being presented.

2.13 From Appendix 3b it can be seen that Phase 2 delivers a 10 year net saving of £4.945 million with a recurring savings from 2017/18 estimated at £942,000. Phase 1 (as shown in Appendix 3a) delivers a 10 year net saving of £4.382 million and recurring saving from 2017 of £876,000 finally the alternative model of not signing up delivers a 10 year net saving of £2.569 million and a recurring saving from 2016/17 of £374,000 as shown in Appendix 3c.

2.14 The comparison has been summarised as shown below:-

**<u>Financial & HR Impacts at a glance</u>**

| | Phase 1 (Adjusted) | Phase 1 & 2 (Adjusted) | Do not sign up |
|---|---|---|---|
| Recurring Net Saving by 2017/18 | £876,000 | £942,000 | £374,000 |
| Cumulative Savings 2012/21 (Net of one-off cost below) | £4.382 million | £4.945 million | £2.569 million |
| One-off costs 2012/17 | £2.88 million | £3.05 million | £0.676 million |
| Estimated FTE employees to TUPE | 106 | 167 | 0 |
| Estimated FTE reduction by 2016/17 | 22.7 | 27.9 | 13.6 |
| Potential FTE reduction in employees working within Inverclyde | 42.4 | 66.8 | 13.6 |

2.15 The CMT believe that based on the figures associated with seven Councils participating, Option (a) – Phase 1, which would require Inverclyde Council to share, Revenues & Benefits, ICT and transactional Finance and transactional HR services within 2 years is the most attractive option after having considered all aspects associated with the proposals.

**Current Status**

2.16 However, it is now known that West Dunbartonshire and Glasgow City Council have both decided not to participate further in the Clyde Valley Shared Support Services. It is therefore essential for those Councils that have indicated their wish to continue to participate in the development of Shared Support Services Options, that further detailed analysis is undertaken to ascertain if a viable Business Case still exists to progress proposals in partnership.

2.17 Therefore, in conclusion, the CMT believe that it is still appropriate for the Council to work with other "like minded" Clyde Valley Councils to develop further options which will deliver greater efficiencies and more robust business resilience for Inverclyde Council's future consideration.

## 3.0 RECOMMENDATIONS

3.1 The Council is asked to note the potential savings identified from the two options outlined in the Detailed Business Case and the alternative internal savings options and to:

(a) note the outcome of the Detailed Business Case was on the basis of 7 Clyde Valley Councils participating in Clyde Valley Shared Support Services;

(b) note, that not all Councils have agreed to participate in the establishment of Shared Support Services and therefore accept that the Detailed Business Case is no longer valid in its present form;

(c) note that the CMT would only recommend participation if appropriate governance arrangements are included which guarantee the fundamental principle of "one Council – one vote";

(d) note that the Trades Unions were opposed to aspects of the proposals contained within the specific Detailed Business Case and note that nevertheless, they are willing to be involved in the development of further shared support services options;

(e) agree with the principle that in order to improve business resilience and address future financial pressures then, sharing appropriate Council Services is an option which requires to be seriously considered;

(f) in principle, continue to participate in the development of revised shared support service options subject to further reports on:

1. Governance Arrangements
2. Revised Business Case and Resource Requirements.
3. An Equality Impact Assessment

(g) continue consultation with the Trade Unions locally on the establishment of options for sharing support services and recommend meaningful engagement with the Trade Unions at a regional level across the Clyde Valley for the further development of these proposals.

3.2 That the Chief Executive arranges for a report to be submitted to a future Council Meeting with revised detailed proposals for sharing support services.

**John W Mundell**
**Chief Executive**

## 4.0 BACKGROUND

4.1 Following the publication of the Sir John Arbuthnott report published in November 2009, the Leaders of the eight Clyde Valley Councils decided in March 2009 to explore opportunities for closer joint working and shared services. On 15 January 2010 Leaders and Chief Executives agreed that four work streams should be prioritised: support services, waste management, social transport and health and social care. It was agreed that East Renfrewshire Council, supported by Inverclyde Council, would lead the work stream group to review support services and that an Outline Business Case should be drafted for each of the four work streams and submitted to the Leaders by the end of November 2010.

4.2 At the Clyde Valley Leaders meeting on 26 November 2010, seven of the eight Clyde Valley Leaders gave in-principle support to sharing support services. Leaders were then asked to have their in-principle position agreed by their respective Councils by the end of February 2011 and to agree that further work on a Detailed Business Case and delivery vehicle options be undertaken and reported back to them by June 2011. On 24 February 2011 Inverclyde Council agreed unanimously to participate in the development of the Detailed Business Case (DBC).

4.3 The Detailed Business Case has now been completed and was based on seven Councils participating. The Executive Summary was circulated to Leaders and discussed at their meeting on 17 June 2011 and an updated version is attached as Appendix 1 to this report. It was agreed by Leaders that Councils would be asked to consider participation in the Shared Support Service; establish a public-public shared services delivery vehicle; and determine the speed and extent to which their Council would seek to migrate services into the new vehicle. Since then the Detailed Business Case has been finalised and has been circulated separately to all Elected Members. Copies of the Executive Summary and the full Detailed Business Case have also been published on Icon, the Council's intranet and an all Member Briefing was provided on 23 August 2011 by the Chief Executive. Additional briefings have been arranged for Political Groups and a further all Member Briefing was provided on the content of this report on 27 September 2011.

4.4 In the context of severely curtailed budget settlements, it is logical for councils (especially smaller Councils) to share investment and ongoing development and support costs to deliver economies of scale and efficiencies especially for ICT infrastructure, applications support, software licences and transactional support services e.g. payroll. Standardising, simplifying and sharing of these services make sense and optimise the use of scarce resources and significantly improves business systems resilience for participating councils.

4.5 This report seeks to provide a comprehensive explanation of the Detailed Business Case findings and analysis of the implications for Inverclyde Council. To do justice to the importance of the matter under consideration the report has of necessity required to be quite lengthy. Full consideration of the report is advised but for reference to key pieces of information members can be directed to certain paragraphs as follows:


- Development Approach paras 4.6 – 4.9
- Business Case Proposals - Clyde Valley paras 5.1 – 5.10
- Delivery Vehicle Options & Assessments paras 5.11 – 5.17
- Location of new shared service entity paras 5.18 – 5.2
- Governance Arrangements paras 5.21 – 5.25
- DBC Risks – Clyde Valley paras 5.26
- Business Case Implications for IC paras 6.1 – 6.7
- Financial Implications paras 7.1 – 7.13
- Implications paras 8.1 – 8.4
- Conclusions paras 9.1 – 9.4


**Development Approach**

4.6 The Detailed Business Case sought to build on the work done in the outline business case. Four key areas of work were undertaken to develop the Detailed Business Case:

- a detailed review and update of the financial model (based on 7 Councils participating);

- the development of outline proposals for the services to be shared including an assessment of existing IT and other key assets held by Councils that could be utilised by the shared service to help reduce the investment costs;

- a review of other Public Shared Support Service operations in England and a market testing exercise to learn from private sector organisations with experience of shared services; and

- An options appraisal of the most effective delivery vehicle (e.g. public partnership, lead authority or public-private joint venture).

4.7 Representative staff from across the relevant service areas in the seven Councils took part in a number of workshops as part of the development of the Detailed Business Case. Their contribution informed both the financial business case and outline proposals for the shared service.

4.8 The Detailed Business Case has been subject to collective scrutiny and review by Directors of Finance, who have indicated that for purpose of considering a business case, the financial underpinnings have been assessed as reasonable. The nature of the business case however needs to be recognised. A number of assumptions underpin the financial assessment and the approximate nature of some of the final figures needs to be acknowledged. In particular these costings are predicated on all 7 councils agreeing to transfer services to the shared service. Depending on individual council's positions following consideration of the Detailed Business Case, these costings will require to be reviewed and refined.

4.9 As mentioned above, the Detailed Business Case assumes that all seven Councils participate, that for full implementation, transactional, specialist and professional elements are shared but that strategic elements are retained (see Diagram 1 overleaf).

- Transactional tasks are the most basic in terms of sharing. They are rules based, repeatable, high volume tasks that are particularly suited to standardisation and sharing.

- Professional and specialist tasks require detailed expert knowledge of a subject, topic area or process. Staff undertaking these roles can also be shared.

- Strategic tasks require detailed local knowledge, may be required by statute or be specific to a particular Council. These are <u>not</u> suitable for sharing. The staff performing these tasks are retained within their respective Councils.

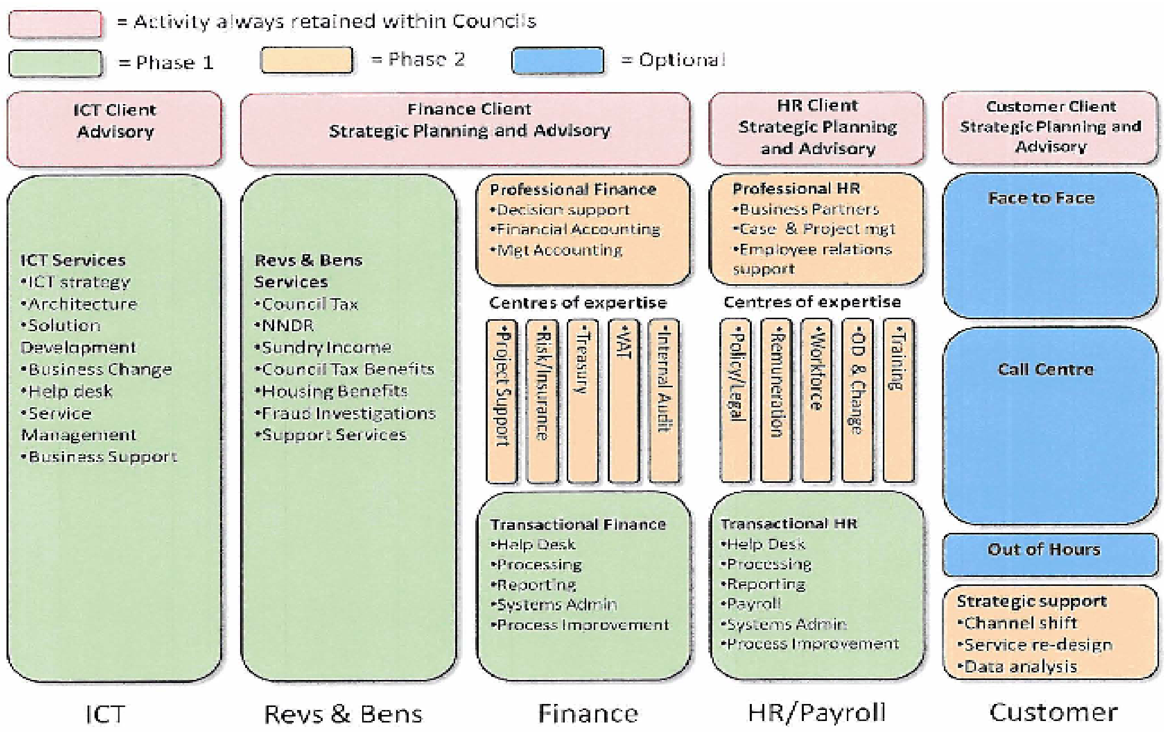
## 5.0 BUSINESS CASE PROPOSALS – 7 CLYDE VALLEY COUNCILS PARTICIPATING

5.1 From the model a business case for sharing the support services of Finance, Payroll, Revenues & Benefits, Human Resources and ICT across the Clyde Valley exists. At a Clyde Valley level and based on 7 councils' participation:

- After 5 years the shared support service could generate gross annual recurring savings of up to £30m per annum across the participating Councils, rising to over £34m after 10 years
- A collective investment of between £28m and £31m over the first five years will be required to realise these savings, but this includes some costs that may already be budgeted for by individual councils. These figures exclude any pre-investment that has already been incurred or is necessary prior to the formal establishment of the shared service entity.

5.2 Customer Access Services such as call centres and customer service centres were included within the original scope of the project. The business case shows little financial benefit in sharing customer access services. In addition, a number of Councils, including Inverclyde, have integrated their customer access arrangements with a range of front line operations. However, it may suit some Councils for the Shared Service to manage their customer access activities and therefore this is included as an option. Benefits could be achieved by sharing the development of online customer services and this has been included in the business case. The services included in Phase 1 and Phase 2 are shown in Diagram I below:-

***Diagram 1: Phased Transfer of Scope***




5.3 In order to achieve the full extent of the savings quoted above all seven councils would need to agree to share these services to the full extent they can be shared within 2.5 years.

5.4 The model assumes that investment costs and savings will be shared by participating councils in proportion to the percentage of the total baseline cost of in-scope services included by each council. It is anticipated that such an allocation model would be used during the transition phase. However, it must be understood that once fully operational, the shared service would move to a transactional charging based model. In simple terms, this means that beyond the first five years, Councils will be charged on the basis of agreed rates and levels of service applied to the actual volumes of transactions processed etc. Whilst developing the Detailed Business Case steps have been taken to endeavour to ensure as near as possible that baseline data has been consistently returned by individual councils, given the significance of this data as the basis for sharing costs and savings it will be essential that this is subject to further review and checking.

5.5 The Detailed Business Case is significantly wider in scope than the previous Outline Business Case put before Council in February 2011. The Detailed Business Case now includes services that were previously regarded as retained by Councils in the Outline Business Case and includes related services that were previously not covered. In total, services with a present value of up to £155m per annum, could over a 10 year period, transfer to the shared support service and potentially involve a transfer of up to 3357 FTE staff across the Clyde Valley.

5.6 It is estimated that approximately 25% of these staff could leave the service over the first 5 years. As a result of measures that councils would require to put in place to address declining financial resources, it is likely that regardless of whether a shared service arrangement is progressed, staff numbers will reduce over the next five years and the Shared Service Business Case projected savings would go some way to protecting frontline services.

5.7 The Detailed Business Case expects that the effect of the loss of staff would be distributed evenly across participant Councils through an organisational change process which aims to ensure no Council area would lose a disproportionate level of posts. It is also planned that employees would remain within existing premises while working as part of a wider virtual shared service provision in order to assist in ensuring the equality in terms of job losses. The issue of location is considered further in paragraphs 5.18 – 5.20 later in this report. The business case identifies mitigation in minimising the potential for compulsory redundancies through:

- Managing vacant posts to allow redeployment opportunities into vacancies or to lose vacant posts rather than filled posts
- An assumption that on average there will be an annual 4% natural turnover in staff, again generating vacant posts, and
- An ongoing voluntary trawl is expected to see 25% of the staff whose posts are removed choosing to leave on a voluntary basis

5.7 It is anticipated that if the Council signs up to Phase 1 of the project all affected employees would transfer to the new body by September 2012. In respect of Phase 2, due to the scale and complexity of the shared service all staff and services in scope would not necessarily transfer into the new vehicle on day one of its operation. Where staff transfer TUPE would apply within affected service areas, this would mean that all employment liabilities and obligations would transfer to the new body. Terms and Conditions would be more likely to be protected than a public/private entity as the shared service would be a local government controlled body.

5.8 Before recommending the phasing of services into a shared service a number of considerations were taken into account. These included the need:

- to build confidence in the service
- to have a number of councils sharing the service to get economies of scale.
- for the new management team to have a manageable task.
- to make early savings
- for an enterprise platform for Finance and HR to be introduced to make savings

5.9 It was therefore recommended that Councils would be asked to commit to sharing at least four services and share the investment involved. These were ICT, revenues and benefits, finance transactional and HR transactional as a minimum. It is modeled that these services would deliver over half of the potential savings. These were the projects with most buy in at the Clyde Valley lead officer's workshops because the processes can be standardised and are unlikely to be influenced by the strategic direction of the council. These are also services where there have been many examples of successful sharing/outsourcing in the public sector.

5.10 The speed with which Councils also shared the other services would be determined by the success of transferring transactional activities, the number of Councils willing to share a service and the further development work on the professional services. However, it is possible that some of the centres of expertise (as shown in Diagram 1 above) could be introduced before the completion of that initial phase if a number of Councils were willing to participate because the savings are not reliant on systems implementation.

**Delivery Vehicle Options & Assessments**

5.11 A major part of this second stage of the project was to identify the most appropriate vehicle for delivering the Clyde Valley shared services vision. An options appraisal was undertaken on the following options:

- a lead authority
- a joint board
- a company wholly owned by the participating Councils (Public/Public)
- a company jointly owned by the participating councils and a private sector partner (Public/Private joint venture)

Lead Authority Option

5.12 In a Lead Authority option, one Council would take on the operational management of the services to be shared on behalf of the other Councils. Staff working in the shared services would be employed by the lead authority on their terms and conditions as part of its establishment.

5.13 A lead authority option was ruled out because it comes with significant (operational and reputational) risk. There is weak binding commitment between participating councils with non-lead authorities having limited strategic control or influence over the lead authority. In this model it would be difficult to create an empowered shared service management team with the right skills mix (which is essential to the success of the shared service). Equally it would be difficult to create the right shared service culture, performance management and incentive arrangements.

Joint Board Option

5.14 A joint board would exercise local control of the shared services on behalf of the group of councils sharing. Membership of the joint board would be drawn from participating Councils. The establishment of the joint board and any subsequent changes would require primary legislation to be passed by the Scottish Parliament.

5.15 A joint board option was ruled out because its statutory nature provides very little flexibility for change (during a period when change in public sector is likely to be significant). The Scottish Government would have significant influence on plans and timing and would be required to give their approval to its establishment. It would take an extended timescale (12-24months) to set up and implement change. Under a Joint Board expansion options are severely constrained should other local authorities or public sector agencies wish to join at a later date.

Public/Public v Public/Private

5.16 The terms Public/Public and Public/Private refer to two options for creating an arms length company. Public/Public is a company formed by a partnership of two or more public sector bodies. Public/Private is a company formed by a partnership of one or more public sector bodies with one or more private sector partners; where all partners have an equity stake in the ownership of the company (sometimes called a joint venture with the private sector).

5.17 The assessment between the Public/Public and Public/Private option was relatively finely balanced. Both would provide an effective option for implementation of the CVSSS. On balance however it was concluded that the Public/Public option was the most pragmatic choice on the basis that it would:-

- be much quicker to set up and create early momentum and savings
- provide more flexibility for adapting to a changing public sector environment
- is able to contract with private sector to bring in necessary skills and expertise as needed and
- would provide more assurances to staff transferring in.

**Location**

5.18 The seven councils were keen to establish whether it would be viable to utilise existing Council premises for the shared service and to have staff distributed across the Clyde Valley to ensure no area suffered an undue loss of jobs. As part of the dialogue with experienced suppliers they fed back positively on this point indicating that a centralised location model was not necessary or indeed appropriate. Based on this feedback and in response to concerns about potential job losses from Council areas, it was concluded that a distributed model would be the most appropriate for the CVSSS.

5.19 This does not mean that the affected staff will continue to work in exactly the same office as they currently do, since it is likely that the CVSSS management team will wish to create distinct Shared Service areas (floors or wings) within buildings to help with the development of the new organisation culture and ways of working. Some staff may be required to work in a different Council's buildings but efforts will be made to minimise this.

5.20 A distributed model would enable locations to be chosen for CVSSS staff in each of the participating council areas. As a result of work done on the financial model the Clyde Valley Chief Executives are of the view that, whilst not inadvertently creating any barriers to the effective operation of the shared service, a mechanism should be put in place to avoid any particular council area suffering unduly at a local level as a result of job reductions that will arise from implementing the shared service. Staff undertaking the shared jobs in an area may not therefore be those originally employed by the council, although the aim would be to limit unnecessary staff re-locations. The operation of such a mechanism would be considered further by the Shadow Board however the intention is that any benefits would apply only to founder members. Inverclyde Council would ensure that the necessary local accommodation obligations would be met in this respect.

**Governance Arrangements**

5.21 Once Councils have agreed to participate in a shared service, a governance structure must be set up which allows key decisions to be made transparently and with the full involvement of all partners.

5.22 It is proposed that interim governance arrangements would be put in place from autumn 2011 that would shadow the final governance structure. This would comprise a shadow Strategic Board with elected member representation from all Councils involved. This Board would meet quarterly, set the strategic direction of the shared service and ensure it is established in line with partner Councils' decisions. It is proposed that the Leader of Council would represent Inverclyde, with the Depute Leader nominated as substitute. Independent work would be commissioned to comment on appropriate governance arrangements for the new entity once established.

5.23 Further work is underway to develop proposals on the most appropriate permanent governance model and to make recommendations on the level of Elected Member representation for participating Councils. Some Councils have indicated their preference for proportionate representation and others require a "one Council - one vote" scenario. The CMT would only recommend participation for Inverclyde Council with a governance arrangement that emulated the latter option to ensure the necessary ongoing influence on the strategic direction and policies of the new organisation.

5.24 A shadow Management Board consisting of Chief Executives from participating Councils would also be set up in the interim. This Board would meet monthly and would have a significant workload over the first six months.

**Links to Other Shared Services**

5.25 It is anticipated that the work stream on waste management will also propose a similar governance structure. If a similar shadow board structure is used for both projects then it is possible that Board meetings would run consecutively to make efficient use of time. A separate report will also be considered for Waste Management at this Council Meeting.

**Detailed Business Case Risks – Clyde Valley**

5.26 This is the one of the most ambitious shared service project currently being taken forward in the UK and, as such, comes with significant risks. It is essential that they are managed effectively to help ensure the shared service is sustainable, effective and successful. The initial focus must be on what is realistic and achievable. Some key risks have been highlighted below:

- One of the most significant risks is that service levels could dip during transitions. While some dips in performance are expected as a natural consequence of implementing change key service levels must be protected as a priority. For example, it would be particularly concerning if during the transition there were adverse impacts on Council Tax collection levels, if any staff went unpaid or there were delays to teacher recruitment. As a result, the implementation and phasing of service transitions will be critical to the success of the shared service and the financial assessment for Inverclyde Council has been adjusted to take account of this.

- The transfer of Council Tax responsibilities to a shared service would result in costs being incurred when aligning to a common system. There is a risk that this could prove to be abortive spend if the local taxation system is changed after the current Scottish Parliament's term.

- Considerable uncertainties remain over the future direction and timing of welfare changes. The Scottish Government has still to clarify proposals for the administration of Council Tax Benefit. However, the UK Government plans that Housing Benefit responsibilities will transfer to the DWP commencing from 2013. There is a risk that disruption could be faced by the service through transfer to a shared service and very soon thereafter transfer to the DWP. On the other hand, there may be benefits in one organisation negotiating with DWP rather than 7.

Members are asked to note that the Detailed Business Case includes no Housing Benefit savings as a result of this uncertainty.

- Existing Contractual Commitments

  A small number of councils have existing arrangements with private sector companies e.g. Glasgow City Council operate a joint venture with Serco to provide IT services. Work is ongoing to identify the most appropriate way to link these external organisations to the shared service.

- IT Platforms

  The business case is based on the implementation of an integrated Enterprise Resource Planning (ERP) system. ERP systems are best suited to large organisation and provide a range of functionality and potential cost savings not available on other systems. Whilst ERP systems are now well established and tested, some risk remains in implementing a system of this scale. Glasgow City Council already operates an ERP system.

- Culture Change and Self-Service

  The shared service will have a significant impact on services across the Council not just support services. The shared service model requires a fundamentally different approach to that currently applied. Processes and interactions across all functions become standardised so that operations can be simplified. More support services will be online and managers will be required to “self serve” and new IT skills will be needed.

  In addition, support service arrangements, e.g. ICT within the Council have developed to be tailored to individual service requirements and responsive to demands. Under a shared service arrangement such flexibility will not be available.

  The transition will require the Council to accept the principles of standardisation and self service, and to forgo the personalised solutions currently available. For many staff this will seem like added work initially, however at an organisational level this would be a more efficient approach.

- Sustaining Trust Between Partners

  Breakdown in trust and ineffective partnership working are most often cited as the reason that shared services fail. To date, the Clyde Valley Councils have worked on a co-operative basis to establish and drive the shared services agenda forward. As the process is now potentially moving into implementation the partnership will need to formalise the basis on which it moves forward.

**6.0 BUSINESS CASE IMPLICATIONS FOR INVERCLYDE COUNCIL**

6.1 In addition to the potential risks affecting the overall Clyde Valley project, specific risks for Inverclyde Council are highlighted in this section which would need to be managed effectively.

6.2 Inverclyde Council has a strong record of delivering savings through the ongoing development and delivery of an effective Finance Strategy. Savings and efficiencies have been produced in partnership with the Trade Unions via the Joint Budget Group (JBG). These savings have been achieved primarily by reducing staff costs with reductions achieved by natural turnover and voluntary redundancy.

6.3 To achieve further efficiencies in support services for the future if Inverclyde chose not to participate in the Clyde Valley proposals, it would be necessary to invest in technology and process improvement to a significant scale, which could not be justified. The additional investment required and resultant savings if the Council decided not to sign up to the Clyde Valley Shared Support Service option is therefore not included in the alternative savings proposals contained in Section 7.0 of this report or in the associated Appendix 2.

6.4 However, by sharing the investment costs across a number of councils, the investment costs to Inverclyde Council would be significantly less. A shared service therefore has the potential to provide more savings in the cost of support services and as a result, better protect funding for frontline services.

6.5 Specific risks to Inverclyde Council include:

The Council's in-year Council Tax collection levels have increased over the last 3-4 years. There is a risk that local collection could be adversely affected during the transition period and result in a temporary cash loss to the Council. It would be essential that Service Level Agreements put in place adequately safeguard the Council's position.

Current operational delivery arrangements are designed to ensure integrated working locally. For example, integrated working is in place between Revenues and Benefits staff and the Customer Contact Centre. Any revised operational arrangements where some of these services would transfer to a shared service would be required to ensure that the current benefits of integration continue to remain in place.

6.6 Specific benefits to Inverclyde Council include:

The ICT service in Inverclyde Council operates well and provides a successful modern service in the context of current funding levels. However an ICT service and other transactional and support services of larger size would create much greater economies of scale when considering future development and investment costs and also offer more robustness in service levels.

Shared services rely on well structured processes with little opportunity to circumvent proper procedures. Improved technology also reduces the risk of non compliant behaviours. Overall shared services will normally lead to an increase in compliance and reduce the audit risk to the Council.

6.7 In addition, Members should be fully aware that there is a comprehensive list of both strategic and operational risks contained within section 10 of the full Clyde Valley Shared Support Services Detailed Business Case.

## 7.0 CORPORATE MANAGEMENT TEAM CONSIDERATIONS

7.1 The Clyde Valley Detailed Business Case based on seven Councils participating, indicates a strong case for financial savings by sharing all support services. However, this financial benefit must be weighed against any risks associated with the shared service. As part of the analysis process, the CMT have considered the following:-

- whether the benefits outweighed the investment costs
- if the business case demonstrated that sharing could generate greater benefits than the Council working alone to improve the efficiency and effectiveness of its support services
- whether the key risks were identified and sufficiently mitigated
- what was best for Inverclyde strategically
- the impact on staff in support services, and
- the impact on the wider organisation if Inverclyde chose to share or opted not to take part.

7.2 It has been agreed that each Council would take their respective views on the assumptions included in the Detailed Business Case and make any amendments prior to the presentation of the report to their respective Councils by the end of September 2011. In addition, the CMT believe that it is also appropriate for the Council to develop alternative internal savings options. Therefore, three options have been considered which are:-

(a) Commit in principle to sharing phase 1 only within 2 years and giving further consideration to phase 2 services after 5 years
(b) Commit in principle to sharing phases 1 and 2 within 2.5 years
(c) Do not share support services and develop alternative savings internally

Both the CVSSS options and internal options are considered below from a financial perspective. It must be understood that the figures used in options (a & b) are based on 7 Councils participating.

**Financial Appendices Explained**

7.3 Appendix 2 (a & b) shows the 2016/17 snapshot savings position based on the latest assumptions and provides an estimate of the one off costs associated with the implementation of the various options.

7.4 Appendix 3 shows a 10 year cash flow model for each of the 3 options. In addition Appendix 3 gives the cumulative 10 year savings position for the period 2012 to 2021.

7,5 It should be noted that the figures contained in Appendix 3 are based on a cash position and no attempt has been made to provide either a net present value or a discounted cash flow on the basis that this would be an exercise in spurious accuracy given the broad nature of some of the assumptions that underpin the figures being presented.

**Financial Analysis**

7.6 From Appendix 3b it can be seen that Phase 2 delivers a 10 year net saving of £4.945 million with recurring savings from 2017/18 estimated at £942,000. Phase 1 (as shown in Appendix 3a) delivers a 10 year net saving of £4.382 million and recurring saving from 2017 of £876,000 finally the alternative model of not signing up delivers a 10 year net saving of £2.569 million and a recurring saving from 2016/17 of £374,000 as shown in Appendix 3c.

7.7 It is not surprising that from a financial perspective signing up to Clyde Valley is more financially attractive than not signing up. As previously highlighted this is due to the economies of scale which can be achieved by sharing management structures, systems and infrastructure. Of the 2 sign up options however there is little to choose especially given the levels of uncertainty regarding investment costs, delivery timescales and the number of Councils participating particularly in the Phase 2 option.

7.8 Therefore based on this version of the financial model, signing up to Phase 1 is the more attractive option because there is significantly less risk in terms of ongoing service delivery from that faced in the Phase 2.

7.9 It can be seen from Appendix 3 that the 10 year cumulative saving return and the recurring saving return of the alternative model is considerably less than the 2 signing up options. Whilst the relevant officers have made commendable efforts to come up with a viable financial alternative it was never going to match the saving levels of the Clyde Valley Shared Support Service options. There is however more certainty in the delivery of the alternative savings as the Council is in full control of the timing and the resultant impacts. However at a time when all services are facing potentially another significant reduction in their budgets as a result of the public sector spending squeeze, the level of savings identified in the alternative model are not sufficient.

7.10 As mentioned previously in this report, it should be noted that the figures presented in the two Clyde Valley options are based on 7 Councils signing up to the various options. It is already know that this is not going to be the case and as such there will be a reduction in the savings forecast over the period 2012/13 to 2016 (due to there being less savings overall in the pot) and there is likely to be a percentage increase in investment required to be paid by the Council. Whilst an element of this can be argued to have been factored in to the assumptions, if there are a number of Councils who do not sign up then this would require the whole financial model to be revisited.

7.11 Based on the analysis of all factors mentioned above in section 7.0, a business case for sharing support services does exist. Sharing will enable the Council to achieve greater savings than it could secure working alone to increase the efficiency and effectiveness of its support services. The comparison has been summarised below:-

**<u>Financial & HR Impacts at a glance</u>**

| | Phase 1 (Adjusted) | Phase 1 & 2 (Adjusted) | Do not sign up |
|---|---|---|---|
| Recurring Net Saving by 2017/18 | £876,000 | £942,000 | £374,000 |
| Cumulative Savings 2012/21 (Net of one-off costs below) | £4.382 million | £4.945 million | £2.569 million |
| One-off costs 2012/17 | £2.88 million | £3.05 million | £0.676 million |
| Estimated FTE employees to TUPE | 106 | 167 | 0 |
| Estimated FTE reduction by 2016/17 | 22.7 | 27.9 | 13.6 |
| Potential FTE reduction in employees working within Inverclyde | 42.4 | 66.8 | 13.6 |

7.12 The CMT believe that based on the figures associated with seven Councils participating, Option (a) – Phase 1, which would require Inverclyde Council to share Payroll, Revenues & Benefits, ICT and transactional Finance and transactional HR services within 2 years is the most attractive option after having considered all aspects associated with the proposals. This would mean that approximately 106 FTE staff would TUPE transfer into the new public body.

**Current Status**

7.13 However, it is now known that West Dunbartonshire Council and Glasgow City Council have both decided not to participate further in the Clyde Valley Shared Support Services. It is therefore essential for those Councils that have indicated their wish to continue to participate in the development of Shared Support Services Options, that further detailed analysis is undertaken to establish if a viable Business Case still exists to progress proposals in partnership.

## 8.0 IMPLICATIONS

**Legal**

8.1 Further work has been commissioned by the Clyde Valley team to establish the most appropriate governance options for these proposals. Some Councils prefer proportionate representation and others, a "one Council - one vote" approach. This work will be reviewed by senior legal representatives from the participating Councils. The CMT would not recommend participation unless the "one Council - one vote" rule applied and this should be deemed an essential requirement.

**Financial**

8.2 Based on the figures in Appendix 2a and on the basis the Council agree to the Corporate Management Team's recommendation to sign up in principle, to Phase 1 then the Council would require to fund £2.880 million of one off costs between 2012/13 and 2016/17.

The proposal would, as far as possible, utilise existing resources as follows:

1. Share of VST Costs = £710,000. Fund from the VST Earmarked Reserve.

2. Temporary Reduction in Council Tax Budgeted Collection = £430,000. Factor into the 2013/15 budget (and Financial Strategy) as requiring funding from General Fund Reserves.

3. Investment Costs= £1.74million. Fund from AMP saving of £1.0million arising from no longer requiring a new data centre at the Shared Campus. The balance of £0.74million to be funded from the projected savings of £894,000 over the period 2012/15 (see Appendix 3a).

**Human Resources**

8.3 Potentially affected employee groups have been advised of the Clyde Valley Shared Support Service proposals jointly by Management and Unison at a number of briefing sessions. Unison is against the Clyde Valley Shared Support Services Detailed Business Case for a number of reasons and a statement by Unison is shown in Appendix 5 of this report.

However, it is important to note that the joint Trades Unions are willing to be involved in developing alternative shared support service options for Inverclyde Council.

**Equalities**

8.4 The Detailed Business Case in relation to Support Services has not yet been subject to an equalities impact assessment and this will need to be undertaken as part of the next phase of implementation. The new organisation will need to give consideration to the different terms and conditions and rates of pay resulting from TUPE transfers of staff from the Clyde Valley Councils.

## 9.0 CONCLUSIONS

9.1 This report demonstrates that a business case exists for sharing the support services of Finance, Payroll, Revenues & Benefits, Human Resources and IT across the Clyde Valley on the basis of all seven Clyde Valley Councils participating. In assessing the merits of participating in a shared support service, Members require to consider both the associated risks and benefits. These are both financial and service-related and are clearly set out in this report.

9.2 From the analysis of the Detailed Business Case, and on the premise that seven Councils agreed to participate, the CMT would have recommended that the best option for Inverclyde Council would be Option (a) i.e. that

- the Council should commit to sharing Phase 1 services within 2 years and

- that once the shared service is established, a further report should be brought to Council with recommendations on which Phase 2 services if any, should be transitioned into the Shared service.

Savings of £876,000 per annum by year 5 should be generated by the Phase 1 services transferred into the shared service.

This option would allow the Council to commit to an initial range of services to be transferred and then allows the option of adding further services as the competence of the shared service develops, confidence builds and the business case for the Phase 2 services becomes more detailed. This should maximise savings within an acceptable risk profile.

9.3 However, it is now known that West Dunbartonshire Council and Glasgow City Councils have both decided not to participate further in the Clyde Valley Shared Support Services. It is therefore essential for those Councils that have indicated their wish to continue to participate in the development of Shared Support Services Options, that further detailed analysis is undertaken to ascertain if a viable Business Case still exists to progress proposals in partnership.

9.4 Therefore, in conclusion, the CMT believe that it is still appropriate for the Council to work with other “like minded” Clyde Valley Councils and the Trade Unions to develop further options which will deliver greater efficiencies and more robust business resilience for Inverclyde Council’s future consideration.

## 10.0 LIST OF BACKGROUND PAPERS

1. Clyde Valley Review 09 – November 2009 (Sir John Arbuthnott)
2. Clyde Valley Partnership Shared Services Workstream, Report to Inverclyde Council - 24 February 2011 (Chief Executive)
3. Clyde Valley Shared Support Services Detailed Business Case Executive Summary – August 2011 (D. Amos)
4. Clyde Valley Shared Support Services Detailed Business Case – August 2011 (D. Amos)

Clyde Valley Review

The proposal for Shared Support Services between seven Clyde Valley Councils demonstrates that savings of up to £30m per annum can be achieved through this challenging and innovative approach to modernised services. The savings meet the external financial pressures for change whilst addressing efficiencies for the future of our Support Services. Sharing more efficient support services will help us to protect our front line services as budgets continue to shrink.

As Chief Executives Sponsors for this workstream, we commend full consideration of this Detailed Business Case to you with a view to considering your Council's involvement. We believe that the Business Case is based on prudent assumptions and reflects the significant challenges of undertaking a transformation project of this size.

The public sector model chosen for delivery is flexible: it leaves the door open for more Councils or other public sector bodies to join at a later date and for further alignment of Support Services as may be necessary in changing future circumstances. At a time of ongoing public sector reform discussion and review we believe this level of flexibility is crucial. The dispersed staffing model proposed in the Detailed Business Case permits considerable employment to be retained in each Council area and utilises modern technology and our existing property assets.

The Business Case is based on sharing in two phases. Phase 1 covers the elements of Support Services that: are most similar across all Councils; are unlikely to be influenced by the strategic direction of the Council; and have the strongest track record of successfully being shared or outsourced in the public sector. These services would deliver over 60% of the potential savings. Phase 2 would deliver further savings by sharing more of the professional and specialist elements.

The Model provides flexibility in that each Council is asked to fully commit to joining Phase 1 initially but can then choose when or if to participate in Phase 2. Each Council's decision will depend on local circumstances and their own assessment of risk vs. return. For all Councils, a phased transition would be crucial making sure each Service is working well before the next major incremental transfer.

The Model allows us to build on existing best practice within the Clyde Valley; bring in new expertise, where needed, to improve our processes; increase our economies of scale, and pool our resources to invest in modern proven IT solutions that help simplify, standardise and automate manual processes. It will reduce duplication in the procurement of IT solutions, reduce infrastructure costs and allow us to provide more online services to our staff and customers.

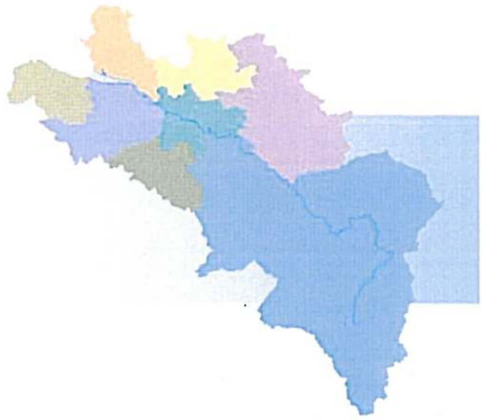
The proposal has a significant impact on up to 5% of staff across our Councils. The public sector model, where relevant staff transfer under TUPE arrangements, should help protect terms and conditions and pension rights. Staff numbers in these shared services will decrease by 25% over time and perhaps more. This will need to happen with or without shared services. Taking the shared services approach we expect that these reductions should be achieved by natural change and voluntary redundancy. Some staff will have to move location but where possible this will be kept to a minimum.

As we move to implement the Shared Support Service there is no doubt that new challenges, opportunities and barriers will emerge. However with strong partnership working, and determination to succeed, the Shared Support Service should provide increasing savings over many years.

We would like to thank particularly David Amos, the Project Director and Business Case Author, who has worked tirelessly to produce this detailed Business Case, and the staff from all seven Councils involved in the various project teams who helped develop the case and the Finance Directors who have provided constructive challenge and the necessary due diligence.

**Lorraine McMillan**
**Chief Executive**
**East Renfrewshire Council**

**John W Mundell**
**Chief Executive**
**Inverclyde Council**



# Clyde Valley Shared Support Services

# Detailed Business Case
# Executive Summary

**Status:** FINAL FOR RELEASE

**Project Director:**
David Amos
**Document Author:**
David Amos

**Version 1.0**

**August 2011**

## Partners

The participating Local Councils are:

# 1. Executive Summary

## 1.1 Summary of key conclusions

- There is a compelling business case for sharing the support services of Finance, Payroll, Revenues & Benefits, Human Resources and IT across the Clyde Valley:
    - after 5 years the shared support service could generate gross annual recurring savings of up to £30m per annum, rising to over £34m after 10 years;
    - an investment of between £28m and £31m over the first five years will be required to realise these savings, but this includes some costs already budgeted for by individual Councils.
- The detailed business case is significantly wider in scope than the previous Outline Business Case put before Leaders in December 2010. The detailed business case now includes services that were regarded as retained by Councils in the Outline Business Case and includes related services that were previously not covered.
    - Overall projected gross savings have increased by 2% despite the business case having one less Council and assuming no savings from Housing Benefits services due to the impact of the UK governments universal credit plans.
- Creating a public-public arms length organisation was assessed on balance as the best option for taking the shared service forward on the basis that it would be:
    - much quicker to set up and create early momentum and savings;
    - more flexible and adaptable within a changing Public Sector environment;
    - able to contract with Private Sector to bring in necessary skills and expertise;
    - more attractive for staff and trade unions.
- This is the most ambitious shared service project currently being taken forward in the UK and, as such, comes with significant risks. It is essential that the project is managed effectively to ensure the shared service is sustainable, effective and successful:
    - services and Councils must be transitioned into the shared service, taking account of service readiness and internal change programmes to reduce the risk of service failure;
    - initial focus will be on those service areas that offer greatest opportunities for early success to create momentum, positive feedback and early savings. The initial focus must be on what is realistic and achievable.
- Support service delivery will not be unchanged. More services will be online, managers will have to "self serve", new IT skills will be required and service levels could dip during transitions.
- Councils participating in the shared service will be required to make an up-front investment, however the detailed business case has been constructed to make the entry level as low as possible and should be achievable for all Councils.
- Services with a present cost of up to £155m per annum could transfer to the shared support service, involving a transfer of up to 3357 staff. Approximately 25% of these could leave the service over the first 5 years primarily by voluntary redundancy and natural staff turnover.
- A distributed model will be adopted for the location of the shared services staff and by making use of existing Council property assets, will reduce the need for major relocations of staff across the Clyde Valley and ensure shared service jobs will be located in each participating Council area.

## 1.2 Introduction & Background

The Scottish Public Sector is facing a period of prolonged budgetary constraint, with total Scottish Government spending falling by 11.6% in real terms between 2010/11 and 2014/15. In response to this unprecedented financial environment, Councils have to re-think the way in which services are delivered to drive down costs while continuing to meet the priority needs of their local communities.

Anticipating the reduction in Public Sector budgets the eight Clyde Valley Council Leaders commissioned Professor Sir John Arbuthnott in March 2009 to lead an independent review of joint working and shared services which was published in November 2009. The Clyde Valley Partnership met in January 2010 to consider its response and it was agreed that East Renfrewshire Council, supported by Inverclyde Council, would lead the work stream group looking at Support Services.

In June 2010, Leaders and Chief Executives agreed that the Support Services Work Stream should develop an Outline Business Case by November 2010. This work was completed on time and in accordance with the original agreed programme. Based on this, Leaders requested that a Detailed Business Case be developed by June 2011 and that work be undertaken to assess the best option for setting up the shared service organisation. Seven of the eight Councils subsequently formally ratified their involvement in the development of the detailed business case phase of the project.

A large amount of work has been undertaken by relevant staff from all participating Councils and the project team to bring forward the detailed business case, which is outlined in this Executive Summary. More detailed information can be found in the full Detailed Business Case document.

## 1.3 An Ambitious Vision for Clyde Valley

The Vision underlying this business case is far reaching, both for the Clyde Valley Councils and the wider Public Sector. The aim is to create a publicly owned shared service organisation which will:

- deliver best practice support services to partner Councils and local citizens;
- drive down support service costs to help protect priority frontline services;
- support equitable sharing of investment and gains amongst the participants;
- have flexibility to expand and develop over time in response to wider Public Sector reforms.

It builds on the significant work that individual Councils have undertaken in relation to their own internal programmes to simplify and standardise support services and, creates the opportunity to collectively move to the next logical step in this journey; the sharing of services. This will unlock additional savings opportunities that many individual Councils could not achieve on their own.

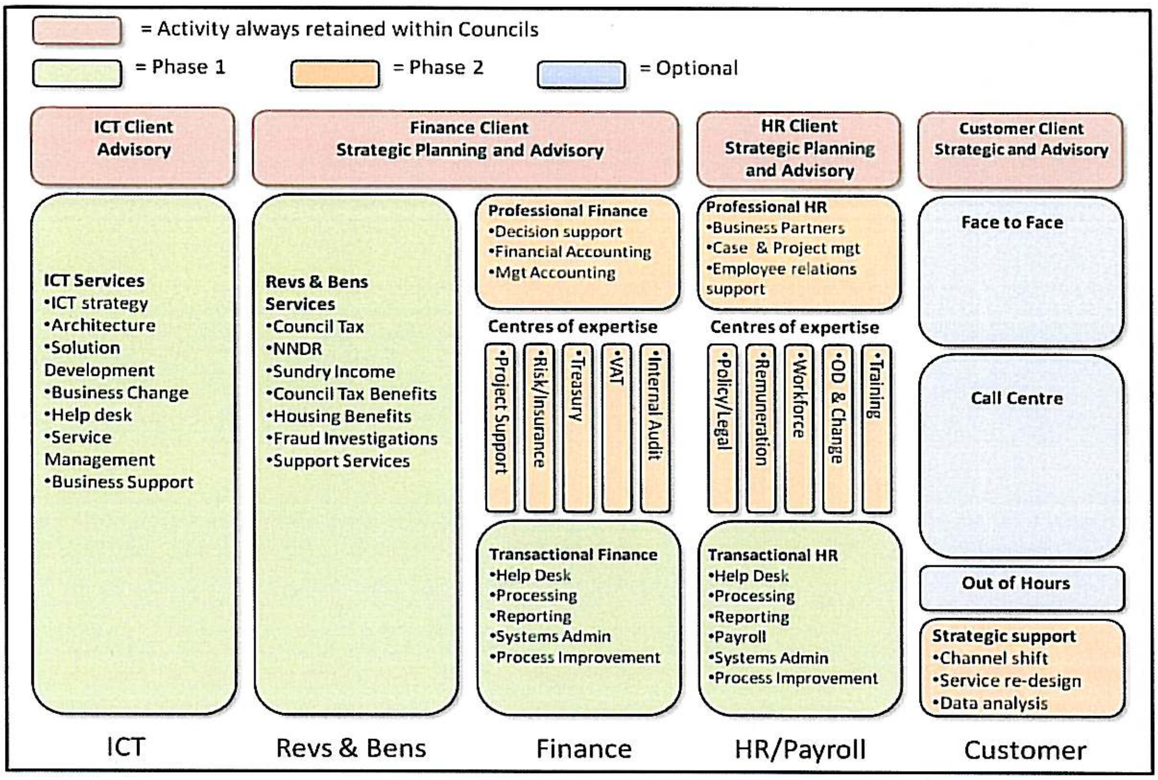
It will also add critical mass to the Clyde Valley's position as a competitive global centre for shared services, creating opportunities for cross fertilisation and skills sharing between sectors, and further strengthen this important part of the Clyde Valley economy.

## 1.4 Maintaining the Ambition

### Scope & Phasing

This work on the Detailed Business Case took the sharing model set out in the Outline Business Case and sought to further refine and develop this through a series of workshops with functional managers and senior Council stakeholders. The result has been a further development in the ambition of the proposals, and a recognition that over time, a greater depth of sharing is possible than that assumed in the outline business case. Diagram 1 below illustrates the range of services within the baseline and proposed phasing.

**Diagram 1 - Phasing and Scope of sharing**




In phase 1, services valued at approximately £111m will be transitioned into the shared service. These services will primarily be transactional based services and ICT where there is a good track record of success in shared services for Councils around the UK (i.e. the phase 1 services shown in diagram 1 above). The savings will build up over time and after 5 years could be up to £19m per annum.

In phase 2, a second tranche of services will be transitioned into the shared service with an additional value of £43m. These services are the more complex and specialist advisory services (phase 2 services in diagram 1 above) and could lead to an additional £11m of savings per annum 5 years after implementation. These services carry more risk than those in phase 1 as the model is less well tested, and there is the potential for a Council's strategic control being compromised if implemented poorly.

The business case shows little financial benefit in sharing Customer Access e.g. call centres and face to face services. In addition a number of Councils have integrated their customer access arrangements with a wide range of front line operations. However it may suit some Councils for the Shared Service to manage their customer access activities and therefore this is included as an option. Benefits will be achieved by sharing the development of online customer services and this has been included in the business case.

It would be the role of the new management team for the Shared Service to work with partner Councils to determine the most appropriate sequence for transferring services into the Shared Service vehicle to achieve early savings and success.

**Significant Scale**

Across the Clyde Valley Councils there is a significant amount of resource deployed within the in scope functions as shown in Table 1 below:

**Table 1 – Baseline Resource Deployment**

| Functional Area | Total Cost | Total FTE |
|---|---|---|
| Finance | £25.4m | 677 |
| HR and Payroll | £32.0m | 823 |
| ICT | £58.4 m | 552 |
| Revenues & Benefits | £33.4m | 1,070 |
| Customer Access | £5.9m | 236 |
| **Clyde Valley Total** | **£155.2m** | **3,357** |

This expansion in the identified total spend within these functional areas has further increased the potential for the Shared Service operation to unlock substantial savings to help protect priority front line services within the participating Councils.

A Clyde Valley Shared Support Service (CVSSS) of this scale would be the largest in the UK. The participating Councils would be taking a clear leadership role in the development of innovative and progressive responses to the financial challenges faced by the Public Sector.

**Participation by other public organisations**

The shared support service being proposed by the Clyde Valley Councils has attracted wider Public Sector interest. The proposals have been developed to ensure flexibility for future expansion and the provision of robust and scalable technology platforms to support this. The recently published report on the McLelland Review of ICT Infrastructure in the Public Sector in Scotland, highlights the opportunity for Public Sector bodies to make better shared use of ICT infrastructure. The implementation of the CVSSS would place the Clyde Valley partnership in a good position to pilot any proposals from the report.

## 1.5 A Compelling Financial Case

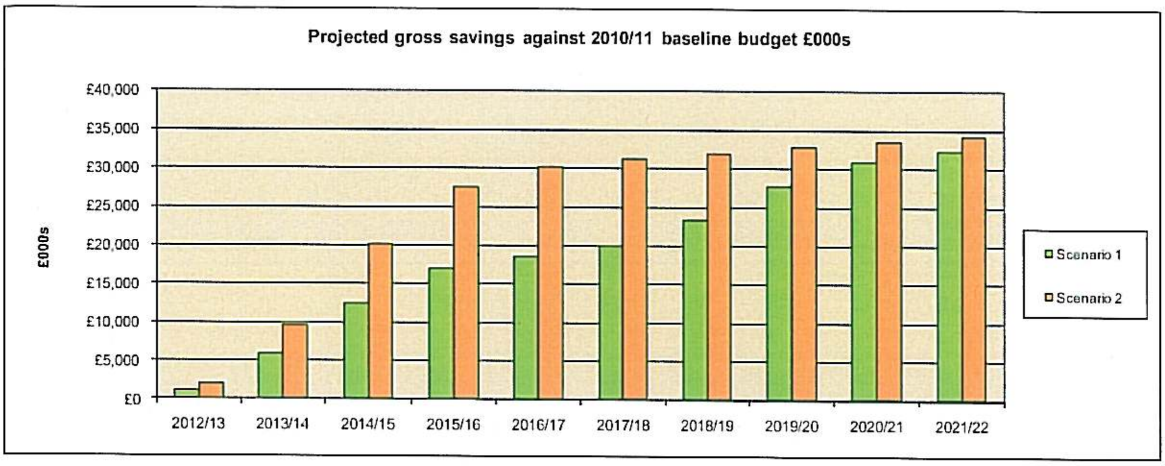
The additional work undertaken on the detailed business case over the last six months has further strengthened the financial case for a Clyde Valley Shared Support Service (CVSSS). Two scenarios are presented below to demonstrate the potential savings.

In the first scenario, phase 1 services are transitioned in over 2 years, embedded and then phase 2 services transitioned in from year 5 onwards and this could be seen as a conservative medium risk option. In the second scenario there is a rapid transition of both the phase 1 services and phase 2 over 2.5 years which could achieve higher savings by year 5 but will carry more risk primarily due to the rate of change. Diagram 2 below illustrates the annual savings profile projected over a ten year period for both scenarios.

The growth in savings from year one reflects the phased transition of Council functions into the Shared Service and the impact of moving to best practice processes for service delivery. There is significant variation in performance across functions within the participating Councils, with best practice spread across different Councils for different functions. The business case prudently assumes that by the end of the first five years, all of the functions within the Shared Service will be operating levels of productivity currently achieved by the most efficient in the Clyde Valley at present.

From year five onwards, the continuous improvement culture created within the organisation will drive annual efficiency improvements in line with that achieved by other successful Shared Service operations in the public and private sector.

**Diagram 2 – Annual Savings Profiles**




While Councils' own internal improvement plans may enable them to achieve a proportion of these savings, the Shared Service must allow them to go further than can be achieved individually by:-

- collaboratively developing and implementing best practice and lean processes;
- investing in shared skills and expertise;
- removing the duplication inherent in seven separate operations of the same service;
- pooled investment in implementing world class technology to automate and simplify manual activity and introduce self service;
- creating a unique organisation with an empowered workforce focused on meeting their customer needs in the most efficient way possible.

The business case assumes that all seven Councils participate in the Shared Service and it should be noted that both the savings and costs above would be impacted if some Councils chose not to participate. Sensitivity modelling has been done and the business case remains robust across a range of different Council combinations.

However a particular strength of the Clyde Valley proposals is the scale of savings that can be achieved collectively and the ability of Councils of very different sizes to come together and gain equitably from their involvement in the Shared Service.

### Investment requirement

The delivery of the business case identifies an investment requirement of up to £31 million over the first five years, which is split approximately £16m capital (for systems and infrastructure) and £15m revenue (primarily for change programme and staff release costs) as shown in Table 2 below. The majority of the early investment relates to capital spend on systems and infrastructure and work will continue to identify the most appropriate means of funding this to achieve a balance between the cost and savings profiles to ensure early net savings can be delivered.

**Table 2 – Summary of Investment and Savings forecasts**

| Scenario | Total Investment | Annual saving by end Yr 5 | Annual saving by end Yr 10 |
|---|---|---|---|
| Scenario 1 | £27.8m | £18.6m | £32.4m |
| Scenario 2 | £31.2m | £30.1m | £34.3m |

It is also recognised that some Councils will have elements within their budgeted capital programmes for spending on ICT which will not be required if they participate in the Shared Service. Equally, some Councils have also budgeted for significant staff release costs over the next two years, and participating in the Shared Service would simply provide a mechanism by which some of those budgeted staffing reductions would be achieved. While this position varies across the different Councils, the result is that overall net additional investment across the participating Councils will be less than the £31m identified above.

## 1.6 The Right Delivery Vehicle

A major part of this second phase of the project was to identify the most appropriate vehicle for delivering the Clyde Valley Shared Services vision. A detailed comparison was made between the following options:

- a lead Council;
- a joint board;
- a company wholly owned by the participating Councils;
- a company jointly owned by the participating Councils and a Private Sector partner.

This assessment was further informed by a significant market sounding exercise involving a wide range of Private Sector suppliers. This valuable exercise helped to both confirm the soundness of the Shared Service proposals and, highlighted the different ways in which necessary Private Sector expertise and innovation could be drawn in to support successful implementation.

Creating a public-public arms length organisation was assessed on balance as the best option for taking the Shared Service forward on the basis that it would be:

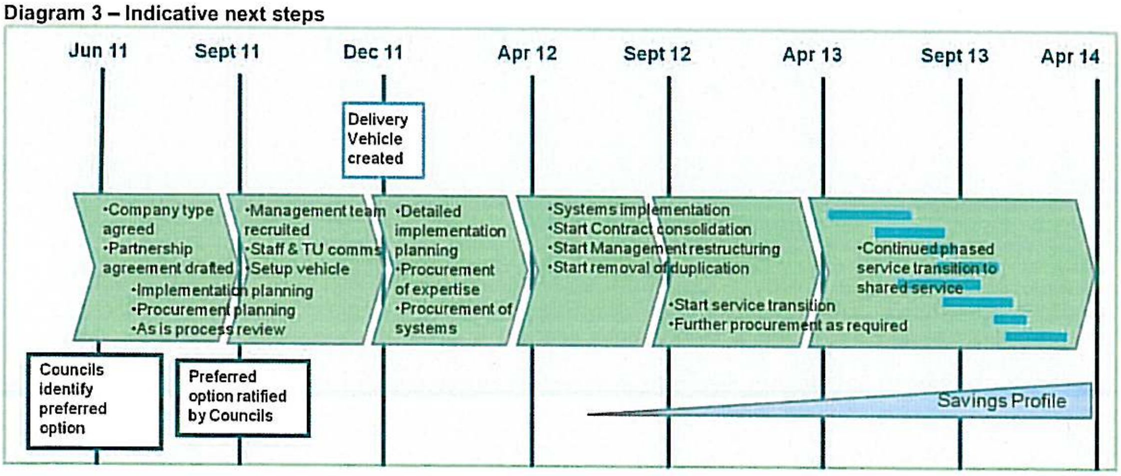
- much quicker to set up and create early momentum and savings;
- more flexible and adaptable within a changing Public Sector environment;
- able to contract with Private Sector to bring in necessary skills and expertise;
- more attractive for staff and trade unions.

## 1.7 Making it happen

### Next steps

On the assumption that Councils will agree to seek a formal decision later in the summer to participate in the Shared Service implementation, it will be important that momentum is maintained in the intervening period. This will help ensure that the Councils are in a position to rapidly establish the Shared Service vehicle and appoint a management team, following final Council approval in September. Diagram 3 below outlines key next steps but it should be noted that this timescale is highly ambitious and will require significant commitment from all Councils to achieve it.

**Diagram 3 – Indicative next steps**




### Phased implementation

The business case assumes that there is a phased transfer of services from Councils to the Shared Service, and that this process would run over a period of time as determined by Council service readiness and the implementation planning undertaken by the Shared Service management team. This provides flexibility in relation to the timing of transfer of services from partner Councils to ensure a best match between service readiness and Council preferences and priorities.

The business case financial model has assumed that services would be transferred to the Shared Service on a function by function basis, with Councils being transitioned into the Shared Service on a phased basis. This will allow for learning to be accumulated within the programme change team, and accelerate the process of transitioning in Councils over time. The final implementation approach will be determined by the CVSSS management team in consultation with the participating Councils.

**Empowering the workforce**

The success of the CVSSS will largely be determined by the work and commitment of the staff transferred to it. The setting up of the CVSSS presents a unique opportunity to create a culture that is fully focused on meeting customer needs in the most efficient way possible and a workforce that is empowered to achieve that. This will be supported by the adoption of a lean system thinking methodology for service redesign and continuous improvement.

**Bringing in new skills and expertise**

Developing and training existing staff will be a key feature of the CVSSS, but it is recognised that during the implementation phase, significant skills and expertise in Shared Services and large scale change management will be required. While the participating Councils do have staff skilled and experienced in change management, these are in short supply and very heavily utilised within existing change and transformation programmes across Council service areas. If the risks associated with the programme are to be effectively managed and the anticipated benefits secured, it is crucial that the existing resources are augmented with the best available from external sources.

## 1.8 Managing the Risks

As highlighted in the Outline Business Case, undertaking change of this scale and complexity brings with it a number of risks. The detailed business case process has sought to further highlight these and identify how they can be managed. The Councils will be breaking new ground in creating a Shared Service arrangement of this size and this will be challenging at both a partnership level and internal to each Council. Table 3 below highlights the key strategic risks and approach to mitigation.

**Table 3 – Strategic Risks**

| Key strategic risk area | Mitigation approach |
|---|---|
| Trust and Commitment between Partner Councils. | Partnership Agreement document will create contractual framework for long term commitment and understanding between partner Councils, and resolution of problems. |
| Joint strategic management of Shared Service. | Clear, simple and transparent Governance arrangements created, together with detailed scheme of delegation identifying responsibilities to be held at different governance levels. |
| Shared Service managerial autonomy. | Clear scheme of delegation drawn up giving appropriate operational autonomy to Shared Service management team. |
| Skills and expertise to deliver change and manage Shared Service operation. | Shared Service organisation empowered to identify skills gaps and recruit/contract external support as necessary to deliver Shared Service vision. |
| Adoption of new ways of working within partners Councils. | Partnership Agreement between partner Councils will create contractual obligations for each Council to adopt the necessary internal changes.<br><br>Steady state transactional based charging mechanism will encourage adoption of internal new ways of working. |
| Impact on service quality and performance. | Implementation planning and phasing of transition will seek to minimise impact on service quality and performance (although some initial reductions may take place during the initial transition phases). Increased use of self serve solutions may lead to perception that service levels have decreased, requiring effective internal communications to explain changes and training in use of new ways of working. |
| Impact of Shared Service on existing Council transformation programmes. | Implementation planning and phasing of transition will take account of service readiness and internal change programmes to minimise disruption. This will be supported by strategic Client arrangements will provide an effective interface between Councils and the Shared Service.<br><br>The CVSSS has included some capacity to support joint re-design of customer access processes which may feature within some Council transformation plans. |

| Key strategic risk area | Mitigation approach |
|---|---|
| Standardisation of relevant policies and any necessary harmonisation of Shared Services staff terms and conditions (and associated cost impact). | Business case does not assume changes to staff terms and conditions to achieve savings and CVSSS will seek to use organisational structure and role design to mitigate differences amongst transferring staff.<br><br>Partnership Agreement will create framework within which agreement on adoption of common policies, where required, can be reached.<br><br>Best practice staff consultation and dialogue processes will be adopted within Shared Service to support any required harmonisation. |
| Existing ICT third party contracts or joint venture arrangements. | Detailed analysis and assessment of options undertaken to establish the best practical economic option for the CVSSS and relevant Councils and to reduce the risk of challenge. |
| Workforce Risk - arising from loss of skilled and experienced staff and resistance to move to Shared Service and associated new ways of working. | Adoption of best practice approaches to staff and trade union engagement and consultation once final Council decisions taken on participation.<br><br>Adoption of lean systems thinking approach to service redesign and continuous improvement to ensure staff participation and empowerment within the CVSSS. |
| Inconsistency in baseline data provided leading to errors in forecast savings, productivity measures and benefits sharing. | Further review of baseline when Council participation is finalised and adjustment of model and targets as required. |
| Timescales not met for the implementation and delivery of benefits – with negative impact on individual Council budget positions. | Further detailed implementation planning will be undertaken when Council participation is finalised and robustness testing by the CVSSS management team.<br><br>Implementation of a robust benefits realisation process within the CVSSS, with regular reporting to the established governance arrangements. |
| Information Security. | An information security and privacy risk assessment of each strategy will be carried out, so the findings can be considered as part of the decision making process and recommendations can be built into implementation strategy. |
| Equality Impact. | An equality impact assessment will be undertaken once Council participation has been finalised and an action plan produced to address any identified issues. |

Councils also recognise that their own internal change programmes are not without significant risk. Participation in the Shared Service programme has the benefit of enabling pooled access to substantial expertise and change resources which will help mitigate some of these risks and challenges.

## 1.9 Guiding Principles

If Councils wish to progress to formal ratification of the proposed Shared Service, a more detailed Partnership Agreement will require to be prepared over the summer period, covering the governance arrangements and operation of the Shared Service. This will be based on the following guiding principles. Councils will:

- work in a way that encourages mutual respect, openness and trust;
- commit to the successful achievement of the shared support services;
- operate in a transparent and clearly accountable manner;
- share investment costs and benefits gained proportionate to their scale of service;
- work constructively together to manage key strategic risks;
- adopt the necessary internal changes to enable them to work effectively with the new Shared Service organisation;
- undertake to resolve any conflicts through appropriate governance arrangements with a view maintaining strong relationships;
- develop a full memorandum of understanding that will form the basis of clear, binding contractual arrangements between partner Councils, the Shared Service organisation and its customers and suppliers and, develop a framework for service charging, service levels and customer compliance.

## 1.10 Conclusion and Recommendations

### Conclusion

The detailed business case work has further strengthened the business case for a shared support service for the Clyde Valley and demonstrated the commitment within the participating Councils to take bold and progressive steps to address the unprecedented financial challenges faced by the Public Sector.

The implementation of the Shared Service as described in the business case provides a unique opportunity for the Clyde Valley Councils to take a strong leadership position on Public Sector reform, and set a precedent for others across the UK.

### Recommendation

Councils are asked to agree to:

1. Seek approval by September to:
   - participate in establishing a Public-Public company vehicle for shared support services;
   - commit to a phased approach to sharing key support services including a firm commitment for Phase 1 services ( IT, Revenues and Benefits, transactional HR and transactional Finance) to be shared ideally within two years as a minimum;
   - determine each Councils planned commitment and timescales to implement phase 2 services;
   - commit to provide their share of the investment required to establish the Shared Service as set out in the detailed business case.
2. Agree to the guiding principles set out in Section 1.9 above, which will form the basis of the Partnership Agreement which will be drawn up between the participating Councils,
3. Agree to continue with the current joint working arrangements over the summer period to oversee and co-ordinate:
   - preparatory legal work for the establishment of the Shared Service entity;
   - the development of the Partnership Agreement;
   - the development of an approach to be used for the appointment of the management team for the Shared Service;
   - further detailed implementation planning activity.

Inverclyde council

**Appendix 2a**

**CVSSS**
**High Level Financial Analysis**
**Phase 1 v Not Signing Up**

| **Recurring** | Sign Up to Phase 1 £000 | Do not Sign Up to CVSSS £000 | |
|---|---|---|---|
| 1/ Projected Share of Savings (2016/17) | (666) | - | See Note A |
| 2/ Alternative Savings | - | (292) | |
| 3/ Accountancy Savings (By 2015/16) | (176) | - | |
| 4/ Team Leader Savings (By 2015/16) | (134) | (82) | See Note B |
| 5/ Client Function | 100 | - | See Note F |
| | (876) | (374) | |
| **One-Off** | | | |
| 1/ Share of Investment - - Implementation | 1,740 | - | See Note C |
| - Early Release | 710 | 246 | See Note D |
| 2/ Enhancements to Existing Data Centre | - | 330 | |
| 3/ Council CVSSS Implementation - Staffing | - | - | See Note G |
| 4/ Council Systems Investment (Allowance) | - | 100 | See Note H |
| 5/ Temporary Reduction in Council Tax collection during chang | 430 | - | See Note E |
| | 2,880 | 676 | |

Note A
Based on 20% reduction in costs/employees rather than 25% in Business Case.
Note B
Assumes, will only be able to reduce by 0.6 Principal Accountant without move to a better Finance System.
Note C
Investment figure prudently uplifts Business Case figures by 33% to allow for increased costs/share of costs.
Note D
Have increased VST costs by 100% from Detailed Business Case on the basis that some releases will be more expensive and turnover at Services/Professional levels will be less. In addition have added an allowance for 25% VST on Council Savings. Not signing up figure assumes 25% VST at £78k/FTE.
Note E
On basis of reduction to 96.0% budgeted collection in 2013/14 & 2014/15.
Note F
This is a notional allowance for all Councils in the Detailed Business Case. Actual costs will differ & form part of the overall Management Structure proposals which will be submitted to the next Committee cycle.
Note G
Assumes that management of implementation of Shared Services will be prioritised & hence contained in existing resources.
Note H
This investment reflects minor core system investment over the next 3 years.
Note I
No adjustments made for reductions in DWP Administration grant due to uncertainty over value & timing.
Common issue to all options.

AP/CF
08/09/2011

Inverclyde council

**Appendix 2b**

**CVSSS**
**High Level Financial Analysis**
**Phase 2 v Not Signing Up**

| **Recurring** | Sign Up to Phase 2 £000 | Do not Sign Up to CVSSS £000 | |
|---|---|---|---|
| 1/ Projected Share of Savings (2016/17) | (1,142) | - | See Note A |
| 2/ Alternative Savings | - | (292) | |
| 3/ Team Leader Savings (By 2015/16) | - | (82) | See Note B |
| 4/ Client Function | 200 | - | See Note F |
| | (942) | (374) | |

| **One-Off** | | | |
|---|---|---|---|
| 1/ Share of Investment - - Implementation | 1,740 | - | See Note C |
| - Early Release | 880 | 246 | See Note D |
| 2/ Enhancements to Existing Data Centre | - | 330 | |
| 3/ Council CVSSS Implementation - Staffing | - | - | See Note G |
| 4/ Council Systems Investment (Allowance) | - | 100 | See Note H |
| 5/ Temporary Reduction in Council Tax collection during chang | 430 | - | See Note E |
| | 3,050 | 676 | |

Note A
The Accountancy saving of £683k included in the Detailed Business Case has been reduced by 50% to £342k.
Other savings reduced to 20% from 25%.

Note B
Assumes, will be able to reduce by 0.6 Principal Accountant & 1x HR Team Leader

Note C
Investment figure prudently uplifts Business Case figures by 33% to allow for increased costs/share of costs

Note D
Have increased VST costs by 100% from Detailed Business Case on the basis that some releases will be more expensive and turnover at Services/Professional levels will be less. Not signing up figure assumes 25% VST at £78k/FTE

Note E
On basis of reduction to 96.0% budgeted collection in 2013/14 & 2014/15.

Note F
This is a notional allowance for all Councils in the Detailed Business Case. Actual costs will differ & form part of the overall Management Structure proposals which will be submitted to the next Committee cycle.

Note G
Assumes that management of implementation of Shared Services will be prioritised & hence contained in existing resources.

Note H
This investment reflects minor core system investment over the next 3 years.

Note I
No adjustments made for reductions in DWP Administration grant due to uncertainty over value & timing.
Common issue to all options.

AP/CF
08/09/2011

## CVSSS - Cashflow - Phase 1

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|---|---|---|---|---|---|
| Share of Annual Saving | 55 | 271 | 568 | 775 | 845 | 666 |
| less: | | | | | | |
| Share of Investment Costs | 827 | 523 | 473 | -40 | -45 | - |
| Share of VST Costs | 43 | 212 | 233 | 162 | 62 | - |
| Client Costs | - | 100 | 100 | 100 | 100 | 100 |
| Temporary Reduction - Council Tax Collection | - | 215 | 215 | - | - | - |
| add: | | | | | | |
| Other Council Savings - Accountancy | - | - | 105 | 176 | 176 | 176 |
| - Team Leaders | - | - | 42 | 134 | 134 | 134 |
| | -815 | -779 | -306 | 863 | 1038 | 876 |

Overall Total Saving 2012/13 - 2021/22 4382

Inverclyde council

Appendix 3b

## CVSSS - Cashflow - Phase 2

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|---|---|---|---|---|---|
| Share of Annual Saving | 89 | 441 | 923 | 1259 | 1373 | 1142 |
| less: | | | | | | |
| Share of Investment Costs | 827 | 525 | 473 | -40 | -45 | - |
| Share of VST Costs | 54 | 263 | 289 | 201 | 74 | - |
| Client Costs | - | 200 | 200 | 200 | 200 | 200 |
| Temporary Reduction - Council Tax Collection | - | 215 | 215 | - | - | - |
| | -792 | -762 | -254 | 898 | 1144 | 942 |

Overall Total Saving 2012/13 - 2021/22 4945

Inverclyde council

Appendix 3c

## CVSSS - Cashflow - Do Not Sign Up

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 | 2016/17 £000 | 2017/18 £000 |
|---|---|---|---|---|---|---|
| Alternative Savings Core | 46 | 283 | 283 | 292 | 292 | 292 |
| Alternative Savings - Team Leader | - | - | 15 | 82 | 82 | 82 |
| less: | | | | | | |
| VST Costs | 37 | 62 | 123 | 25 | - | - |
| Enhance Existing Data Centre | 100 | 230 | - | - | - | - |
| Council Systems Investment | 25 | 25 | 25 | 25 | - | - |
| | -116 | -34 | 150 | 324 | 374 | 374 |

Overall Total Saving 2012/13 - 2021/22 2569

Appendix 4

## Overall HR Impacts

| | Sign Up to Phase 1* | Sign Up to Phase 2 | Do not Sign Up to CVSSS |
|---|---|---|---|
| **HR** | | | |
| Transactional HR | 1.7 | 1.7 | 2.0 |
| Professional HR | 0.8 | - | 1.0 |
| Training | - | 1.6 | - |
| | 2.5 | 3.3 | 3.0 |
| **Finance** | | | |
| Transactional | 2.2 | 2.2 | 2.0 |
| Service Accountancy | 6.5 | 9.1 | # |
| Specialist Accountancy | 0.6 | 1.0 | 0.6 |
| Internal Audit | - | 1.0 | - |
| | 9.3 | 13.3 | 2.6 |
| **Revenues & Benefits** | | | |
| Council Tax/Debt Recovery | - | - | 2.0 |
| NDR | 0.2 | 0.2 | - |
| Benefits | 3.2 | 3.2 | 4.0 |
| Management | 1.5 | 1.50 | 1.0 |
| | 4.9 | 4.9 | 7.0 |
| **ICT** | | | |
| Management & Delivery | 5.0 | 5.0 | - |
| Solutions Development | 1.0 | 1.0 | 1.0 |
| | 6 | 6 | 1.0 |
| **CSC** | - | 0.4 | - |
| TOTAL | 22.7 | 27.9 | 13.6 |

* Includes relevant alternative savings but abates numbers per assumptions in Appendix 2

# Proposals have been advanced for a 5.5 reduction if Council does not sign up to CVSSS but these would have an impact on service delivery so have been excluded.

AP/CM
8/9/11

UNISON
Inverclyde Branch

# Clyde Valley Shared Support Services
# Unison response to the Detailed Business Case & It's impact within Inverclyde

## Introduction

The proposal for shared support services across seven of the eight councils engaged in the Clyde Valley Partnership would not deliver more efficient services in Inverclyde. That is Unison's considered view, the reasons for which are set out in this submission. The claim by the Clyde Valley Partners that this initiative represents a 'challenging and innovative approach to modernised services' is based on a business case which is both flawed and unbalanced.

The business case purports to build on the recommendations made by Sir John Arbuthnott in his report on shared services which was published in November 2009. However it is evident from the Arbuthnott report that he believed 'back office' functions should not provide the focus for a cost effective shared services project.

However despite this the Clyde Valley Partners have selected 'back office' functions as the main cornerstone for shared services. In our view this is because these services are viewed as being more politically expendable than many of the other front line services which were included in the Arbuthnott report. Local Government elections are, after all, only a matter of months away.

## Proposal

The Clyde Valley Shared Support Services (CVSSS) proposal falls into two or possibly three distinct parts. Phase 1 consists of all ICT services, all Revenues & Benefits services, transactional HR/Payroll services and transactional Finance services. It is proposed that these services will transfer to the new Company in September 2012 (this was originally to be April 2012) and will be fully transitioned in over two years. Phase 2 consists of professional HR/Payroll services, professional Finance services, Internal Audit and Social Work training and other training services. It is proposed that these services could either transfer from year 5 onwards (described in the business case as scenario 1), or alternatively they could be fully transitioned into the new company within the first three years along with the phase 1 services (described in the business case as scenario 2). There is an additional option regarding customer access and councils can choose whether or not to incorporate these services into phase 2.

It is suggested in the business case that scenario 1 presents as a low risk option with total annual savings projected to be £18.6m by the end of year 5 with an initial investment of £27.8m. Scenario 2 on the other hand presents as a high risk option with total annual savings projected to be £30.1m by the end of year 5 with an initial investment of £31.2m.

According to the business case's financial analysis Inverclyde's share of the £18.6m in scenario 1 would be £1.05m by 2016/17 with an initial investment contribution of £1.56m. The same analysis carried out for scenario 2 would see the projected saving rise to £1.68m by 2016/17 with the initial investment estimated to be £1.75m.

**Trade Union Engagement**

There has been a lack of any proper or meaningful engagement with the Trade Unions at a central level. The detailed business case was only formally released to Unison on the 9th August and to date only one meeting has been convened involving the Clyde Valley Chief Executives and the Trade Unions which was held on the 24th August. Given that councils will be required to reach a decision on this proposal by no later than the end of September it is surprising that the Clyde Valley partners have opted not to seek views from the Trade Unions or indeed the employees affected.

Admittedly Trade Union engagement within Inverclyde has been much more constructive. The first meeting held between the Council and Unison was on the 13th June. The following day all affected staff were invited to a briefing at which presentations were given by both the Chief Executive and Unison. Further staff briefings were held by management throughout June and Unison met with affected members both on the 14th July and the 26th August. Further staff briefings were held on the 11th and 15th August at which again separate presentations were made by the Chief Executive and Unison. Throughout June, July and August there have been a number of discussions between the Trade Unions and members of the CMT at both Joint Budget group meetings and meetings of the Transformation Board. There has also been a regular exchange of information across the seven affected Unison Branches and meetings of the branches were held on the 28th June and the 18th August.

**Unison Comments on the Detailed Business Case**

**1. Financial Analysis**

As well as delivering a 'challenging and innovative approach to modernised services', the Clyde Valley partners also claim to have established a 'compelling financial case' to support their proposal. Based on their assumptions – notably that Inverclyde could save £1.05m each year for an initial outlay of £1.56m – then this is perhaps an understandable claim. However, Inverclyde Council have carried out its own sensitivity analysis of these projections. In part because that is what all of the seven councils were required to do but also in part, we suspect, because it's best to be mindful of the old adage about some things in life 'being too good to be true'.

The sensitivity analysis is effectively a comparison of the financial assumptions in the detailed business case with the more realistic financial projections locally. The outcome of this exercise shows the two sets of data to be somewhat incongruous. Firstly the recurring saving of £1.05m has now been re-projected to £666,000 and secondly the initial investment contribution of £1.56m has been re-projected to £2.9m. This means that the projected saving to Inverclyde Council set out in the detailed business case has in a matter of weeks been reduced by 37%. The projected cost has over the same period risen by 47%. On this basis it will take Inverclyde Council over four years to begin to make any savings based on the initial outlay – compelling indeed!

Within the sensitivity analysis the Council have prudently uplifted the non-staff related implementation costs by 33% and increased projected voluntary severance costs by 100%. The sensitivity analysis also takes into account a probable reduction in council tax collection (estimated to be £430,000 which has been included in the £2.9m figure) during the transition period (2013/14 & 2014/15). However it is widely known that any drop in council tax collection can be difficult to retrieve. At present Inverclyde has a relatively high collection rate – 95.22% in 2010/11 compared to Glasgow City Council who collected 92.3% over the same period. If the collection rates suffered beyond the transition period then the recurring saving of £666,000 could reduce further. Even a 0.5% reduction in collection could result in anything up to a £160,000 drop in income. It may well be the case that should a scenario like this arise it will be down to the new company to deal with. There is no doubt that council tax collection rates will be one of many performance targets agreed between the new company and the seven councils.

However the business case fails to ask or answer the very obvious question. What happens if the new company fails to meet agreed targets? Unlike other external contracts financial sanctions or penalties are completely unsuitable in this type of arrangement.

Apart from anything else this raises serious questions over the accuracy and reliability of the information contained in the detailed business case. If something as critical as the expected savings and costs can be so disparate what conclusions should we draw about all of the other assumptions.

## 2. Staffing

The business case identifies 3357 employees as being in scope for both phases 1 and 2 of this proposal. Within the local context this means 106 FTE employees are included in phase 1 with a further 61 FTE employees in phase 2. The business case assumes that the new company can reduce the workforce by 25% over time. The actual projected reductions vary from one function to the next, but taking phase 1 as a starting point the impact on staff will include: 29% reduction in HR and Payroll employees, 23% reduction in Finance employees and 25.6% reduction in ICT employees. The reduction amongst Revenues staff is higher still with no proposals at this stage to reduce Housing Benefits staff due to uncertainties over the introduction of the Universal Credit.

The measures which the Clyde Valley partners wish to put in place to manage this level of downsizing are inadequate, the underlying assumptions completely understated with the overall thinking lacking any sense of balance or clarity. As part of the business case in relation to phase 1 staff releases, £4.6m will be set aside to fund redundancy costs. This is based on an average cost of £39,000 per employee. In total this would allow 117 employees to be released using this fund. However there are approximately 2000 staff in scope for phase 1 and with an estimated reduction of 25% this will mean 500 employees can expect to no longer have a job at some stage after their transfer to the new company. In an attempt to address this point the Clyde Valley partners resort to what they do very well - assume. The first assumption is that staff turnover levels will be 4% annually, despite all of the evidence pointing to a slowing down of staff turnover due to the uncertainties in the wider jobs market and the impact of recession. The second assumption is that displaced staff will be redeployed into other posts in the company, conveniently forgetting to address the very obvious point about where the jobs will come from. Even if further redundancies were required after the initial pot of £4.6m was spent, what would the company's financial capacity be to deliver this as in all likelihood they would have no source of reserves.

### 3. Equality

If the Council do decide to sign up to this proposal then staff will transfer to the new company and will be covered by the Transfer of Undertakings (Protection of Employment) Regulations 2006. This may give transferring employees a degree of re-assurance that their terms and conditions would be protected probably for the foreseeable future. The same principle of course apples to the remaining six councils whose staff will also transfer under TUPE. The new company then has the unenviable task of deciding what to do with a workforce comprising of employees covered by seven different single status agreements. This will mean seven different sets of terms and conditions and seven different pay and grading structures, to varying degrees. Given this background it is perhaps understandable that the Clyde Valley partners view their statutory equality duties as something of an inconvenience. Nonetheless statutory duties they remain and will require to be addressed sooner rather than later.

The business case is not so much scarce in its references to equality but almost silent. Given the scale of what is being proposed the very least the Clyde Valley partners could have done was acknowledge the problem. Respecting the rights of employees who are covered by TUPE and at the same time delivering equality will prove to be a huge, potentially insurmountable challenge.

### 3. Work Locations

Perhaps the single biggest concern for Inverclyde employees affected by these proposals is the issue of future work locations. Any shared services venture is built around the principle of economies of scale and CVSSS is no different. It is now generally accepted amongst the staff group that continuing to work in this area is not sustainable for logistic and operational reasons.

Putting this issue into context, in this council over 70% of affected staff live within Inverclyde – 55% stay within 5km of their place of work. For many staff this is not just about working in the area but choosing to be part of the Community along with their families. Many staff members have children who attend local schools and nurseries and who are part of a wider family network living in Inverclyde. In short, Inverclyde has become the area of choice.

The Council has a duty not only to look after their staff but also to keep jobs in the local area. The detailed business case guarantees neither of these. It does however attempt to appease staff by suggesting that work locations may not be centralised but could be part of a distributed model. There is no definition of what this means other than to suggest that different council areas could, on a service specific basis, act as a work location. This is open to many interpretations but our view, based on how this section of the business case is presented, is that Inverclyde staff will be scattered across a number of different areas rather than located to one central location. Some staff may remain here but most wouldn't. Many staff have already indicated that moving to work in a different area could prove to be cost prohibitive as well as difficult in terms of managing child care or other caring commitments. These are after all primarily low paid workers.

Looking closely at the seven councils and taking their current headquarters as a focal point, staff moving to Paisley would require to travel an average 34 miles each day or 170 miles each week. Dumbarton would be 40miles (200 miles weekly), East Renfrew 48 miles (240miles weekly), Glasgow 52 miles (260 miles weekly), Kirkintilloch 66 miles (330miles weekly) and Motherwell 80 miles (400 miles weekly). This is broadly illustrative but gives a clear indication as to how low paid staff in particular but all staff generally would experience difficulty if the design of the distributed model transpired to be what we expect.

What is perhaps more concerning is that Inverclyde Council is being asked to commit to this proposal with this issue still very much at the embryonic stage. There appears to be no evidence that any audit of suitable properties or assets on a council by council basis has been carried out. No evidence that the new systems will be resilient enough to deal with a distributed model approach. No evidence that the model will be compatible with the new company's operational and strategic infrastructure.

## 4. Other Issues

The business case also fails to provide satisfactory evidence that it has considered to any acceptable level a number of other key issues:

*Universal Credit* – The Government has decided to roll out the new Universal Credit during 2013/14. As this new benefit will replace all existing means-tested benefits and will be administered by the DWP, there will no longer be a role for Councils to administer housing benefit. Likewise the Government have also announced that Council tax benefit will be replaced with a new system being devolved to Councils. This is already creating concerns and anxieties amongst Benefits staff as there is uncertainty as to what will happen to their jobs when the Universal Credit is introduced. A transfer under TUPE to CVSSS with a further transfer under TUPE to the DWP is one possibility. However there is no confirmation as yet that Benefits staff will transfer to the DWP. If that were the case what would the new company then do. At least there is more scope within Councils to explore redeployment opportunities.

*ICT Services* – Glasgow City Council's ICT services are currently delivered in partnership with SERCO as part of their 'Access' programme. North Lanarkshire's ICT services are partly outsourced to Northgate – a contract which mainly covers services to users. These are both long term contracts and in both cases no where near an end point. Glasgow City Council have already stated that they have no intention of changing this arrangement and, as it seems, would expect other councils to fall into line with them rather than the other way around. This opens up the real possibility that all ICT services would be subject to a tendering exercise with SERCO in a strong position to win the contract. Not only does this introduce the prospect of service delivery through a third party but a fourth party as well.

*Pensions* - There is an assumption made in the report that the new company will be able to apply to the Strathclyde Pension Scheme for admitted body status which would allow transferring staff to remain in the pension scheme. On the face of it this would be fine however the new company is not a Local Authority and a guarantor may be required. This would normally be an existing scheme employer and probably in this case one of the seven councils. This would become a huge undertaking for one council and it is not clear whether each of the seven councils could collectively take this on board.

**Conclusions**

Unison has and will continue to work with the Council in an attempt to identify alternative savings. There is an acknowledgement on both sides that the next budget cycle in 2013/2015 will require further savings and it may make more sense to begin to address this now. We do not believe, for the reasons explained, that the current CVSSS proposal will deliver value for money along the lines set out in the detailed business case. We believe that the level of disruption to services, staff and the council should the CVSSS approach be adopted would be disproportionate set against the level of savings which could realistically be achieved.

The de-localisation of jobs and services may prove to be a disablement to service improvement. Currently the services in scope for CVSSS are all highly regarded and perform to a high standard and unfortunately the business case provides no basis or evidence that this will continue in a shared services arena. If the Council were to seriously consider this option then at the very least seek clarity on a range of important areas such as financial savings, staffing issues and how services will be designed.

However Unison remains open-minded and will continue to discuss with the Council options to avoid compulsory redundancies amongst the work force, including alternative shared service models. It may be that a more effective shared services proposal could be developed in future with more meaningful Trade Union engagement, as we move closer to the next round of difficult budget decisions from 2013.

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