



## **South East Business Services Business Case**

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## **1. Executive Summary**

East Sussex and Surrey County Council aspire to deliver an ambitious step change in our business services and believe that we are uniquely positioned to be able to do this.

Our ambition is to create efficient, modern, agile and digitally enabled business services that will support our organisations and partner organisations through an unprecedented period of change and financial challenge in the public sector. We wish to build upon our successful partnership in procurement and shared services to create a fully integrated business services organisation called “South East Business Services” (SEBS) from April 2015.

Customer service and delivering public value will be at the core of what we do. Our public service values and ability to innovate and design services that are focused on improving the performance of our customers will set us apart from other support service organisations in both the public and private sectors. Through bringing together Surrey and East Sussex Business Services we will create sufficient scale that will allow us to recruit and retain the best staff, drive shared efficiencies and invest in new technology that might otherwise be prohibitively expensive for our organisations alone.

Our aim is to become the provider of choice for other public sector bodies and we expect the partnership to grow beyond the two county councils in the early stages of its development. We are actively engaged with other potential partners to that end. Business growth will in turn give us increased commercial leverage and will increase our volume of activity enabling SEBS to drive down the costs of service delivery, whilst increasing sustainability and resilience.

Savings achievable from the partnership are estimated to range between 10% and 15% of the gross salary spend based upon industry benchmarks. This would result in savings of £6m to £8m per annum by the end of the 4<sup>th</sup> year. Investment in technology will be required to achieve the savings and a project of this magnitude will incur significant implementation costs – these are expected to be from £6m to £10m.

We also intend to adopt a similar integration approach to the management of the legal services provided by the two councils and will do so under the same governance arrangements set out in this business case.

## **2. Purpose**

2.1. This document sets out the strategic business case for East Sussex and Surrey County Councils to work in partnership to develop “South East Business Services”, and sets out the options and recommendations to realise the ambitions and vision of the founding partners.

2.2. From here on in, we will refer to South East Business Services as ‘SEBS’. When the document refers to ‘we’ this should be read in the context of East Sussex and Surrey County Council working in partnership.

## **3. Background information**

3.1. East Sussex and Surrey County Councils are both forward thinking and innovative organisations with a relentless drive to improve efficiency and deliver good quality, affordable services for our residents and businesses. Both councils have a strong

track record of delivering through partnerships and have already developed an effective working relationship through sharing services.

- 3.2. The Business Services departments of both East Sussex and Surrey County Council provide a range of professional, advisory, transactional and operational services. We have a wide ranging remit that supports residents, elected councillors, and public-facing services, including schools and the fire services. The Business Services departments manage large operational budgets on behalf of each council, with a combined net revenue budget of £106m per annum.
- 3.3. East Sussex and Surrey County Councils have an established history of partnership working. In April 2013, we established a partnership for procurement. The joint procurement team use a best practice category management approach to procurement. Common technology solutions and processes have been adopted for e-tendering, e-contract management, project benefits tracking and document sharing, and these have enabled a well-founded programme of work to be delivered that is aligned with the councils' budget plans. The team is led across both authorities by a shared Senior Management Team under a shared lead officer, whose appointment was made jointly.
- 3.4. Also, in April 2013, Surrey County Council and East Sussex County Council entered into an arrangement which brought together transactional services from both organisations, including accounts payable, accounts receivable, payroll, expenses and pensions administration, along with the hosting of our core financial and HR systems (SAP), under the discrete brand of South East Shared Services (SESS). These transactional services had formerly been outsourced by East Sussex County Council to a private company. This project has led to a collaborative relationship between our Councils, with senior managers and operational managers working closely together to ensure successful and valued service to customers. Within the proposal of this Business Case, SESS is integrated within SEBS and becomes an operational service.
- 3.5. On 15 September 2014, East Sussex and Surrey County Council in partnership communicated their ambition to create SEBS; a shared business advisory, professional and transactional service supported through a shared business model.
- 3.6. We believe that SEBS will build on our existing relationship to deepen trust and co-operation between the organisations. The effect of this will be a rigorous evaluation of processes in both Councils, bringing in best practice from each other's best performing services, to create modern, resilient, agile and cost effective business services.
- 3.7. In 2013, the partnership successfully bid for funding from the government's Transformation Challenge Award fund to support the development of the shared services partnership and its wider public service partnership with the 'blue light' services (police and fire and rescue services). The £750,000 grant has helped to fund the cost of the work of the programme to date, including the work to assess the level of technology investment required to support the integrated service model, the communications and engagement process with our staff, the process design and improvement work in our transactional services and our engagement with wider partners.

## **4. Vision**

- 4.1. Our vision is to build a strong partnership of local authorities with values and principles aligned to the SEBS partnership. We will create a single organisation (SEBS) that will provide transactional and professional business services to their own authorities, the wider public sector and beyond – creating public value for residents.
- 4.2. Over the next four years, we will map out, target, define and consolidate a range of business services, ensuring that the emerging service framework will enable and fully support the SEBS business vision and strategy and begin to deliver significant improvements within the first year of the Partnership.
- 4.3. The services provided by SEBS will initially include transactional services, Finance, Human Resources, IT, Property and Procurement services. These services are illustrated in Appendix 1. The scope of SEBS will not be limited to delivering these core business services functions and may integrate the support services of other founding partners which are not currently carried out by East Sussex and Surrey County Council, for example Revenues and Benefits. Our respective Legal Services teams are working to develop a similar model to deliver professional legal support and with the introduction of new partners, we anticipate that other business services will be integrated into SEBS.
- 4.4. Innovation and continuous improvement will drive process simplification along with targeted systems automation. We also plan to evaluate and adopt, wherever beneficial, new and emerging technologies that will provide and support a modern agile approach to service management and delivery. This approach will further ensure that we can meet the financial challenges we face in the most resilient manner, by sharing professional and technical expertise. We will ensure that our new shared services are made accessible and ready to be offered to additional public service partners and customers as quickly as possible. This will offer additional economies of scale to further drive down the overall costs of service delivery. We also believe that the shift in focus to developing a compelling third-party service offer will also raise standards and quality of delivery across all participating partner organisations, increasing sustainability and resilience overall.
- 4.5. The development and evolution of SEBS will therefore take place in a series of structured and well planned stages that ensures service delivery for partner organisations is sustained. Key decisions on change will be taken by the partnership and through the partnership. This will enable the greatest efficiency gains to be delivered for customers, and ensures that organisational sovereignty is respected.
- 4.6. We intend to understand, and deploy where appropriate, best practice from all partners and the broader public and private sectors, in order to build on and improve service quality and provide customer excellence. In developing this business case we have undertaken research around the models in place in other shared services partnerships in the public sector. In particular, we have the benefit

of the learning and support that the LGSS and Onesource<sup>1</sup> have provided in sharing their approach to partnership.

- 4.7. While we expect SEBS to become a compelling alternative to private sector organisations, we also recognise that these service delivery changes must be undertaken and implemented without losing sight of our core mission, purpose and identity as local authorities. On that basis, we believe that SEBS will lead East Sussex County Council and Surrey County Council business services functions into a fully integrated operating model that will in turn significantly increase ongoing and long term public value for the council taxpayers and residents of both Surrey and East Sussex.
- 4.8. We believe that the creation of SEBS is the best option for our authorities to improve public value for our residents and businesses, and to ensure that our services to them are supported by an efficient and effective business service. SEBS will offer us the most flexible, affordable and adaptable model for change, ensuring that the arrangements support the transformation agenda of each council. It also offers us the best opportunity to sustain employment and enhance professional development for our staff. We expect SEBS to become a highly innovative environment that will attract and retain talented professionals who will share our aspirations to deliver high quality public services using a next-generation approach.
- 4.9. We recognise there are a number of operating models and design principles that could be adopted in the creation of SEBS. The vision of SEBS is not simply about joining two existing Business Services departments to create one joint internal department. It is about being creative and innovative so that, as well as achieving the efficiency savings needed for both organisations, it also creates an enterprise that can act as a catalyst to support the transformation of our wider organisations and the services provided to residents. It also supports our ambition for future growth, to include additional partners.
- 4.10. SEBS will consider a wide range of design models to make the best business decision for each service area and to develop a model that will provide the basis for new partners to join. In particular, we will design our new service model for SEBS to reflect how we can: add value to our customers; enhance the use of new digital technologies to improve customer service and increase efficiencies; develop the capacity to grow by bringing new partners on board; ensure we have the capabilities and capacity to continually innovate our service offer and business processes; reflect the needs of our customers to remain close to their businesses, while generating maximum economies through co-location in those services which are transactional and volume based. We will create an innovative service offer that others will want to join and which adds value to our customers and generates public value for our residents.

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<sup>1</sup> OneSource is a shared service arrangement between East London boroughs, Havering and Newham London Borough Councils. It shares support services including HR, ICT, finance, benefits, council tax and business rates. It was set up in 2013. Local Government Shared Services (LGSS) is a partnership between Northamptonshire and Cambridgeshire County Councils to provide support services back to the founding authorities. It was set up in 2010. Both arrangements operate under a Joint Committee governance structure.

## **5. Partnership Creation and Delivery Challenges**

- 5.1. The development of South East Business Services is an ambitious programme of change that will bring together two large business services functions to create a new integrated service with a common culture, based on public service values underpinned by efficient, modern, agile and digitally enabled business practices and thinking.
- 5.2. It will be a challenging programme of change that recognises the continued need to make significant financial savings whilst at the same time:
  - Investing in modern systems and working practices
  - Rethinking the business from a digital perspective
  - Maintaining our strong partnership ethos, building on the relationships we have developed and creating greater strength in our partnering capabilities
  - Retaining and developing our talented people and creating a profile as an employer of choice
- 5.3. Our focus on outcomes will at times test the strength of the partnership as we challenge how we work, the systems we use and the processes and policies we adopt in order to create the greatest opportunity for seamless and integrated business service delivery that best meets the requirements of our councils and partners.
- 5.4. We need to be open to new learning and recognise that by adopting the best parts of the Partners in the service we will be stronger and more resilient. We need to meet the challenge of behaving like a partnership and making speedy and decisive decisions like a single entity.
- 5.5. We have had experience of working together in business services since 2013 and this has given us the foundation to have confidence that we can meet the challenges of partnership working and enhancing the quality of the business services of our Councils.
- 5.6. We need to maximise the potential from this experience to date in order to continue to develop our services in a market in which we anticipate will become more competitive and diverse.

## **6. Options appraisal – identification and recommendation**

### **6.1. Overview of options**

- 6.1.1. A range of options has been considered by the SEBS Programme Board (see Appendix 2 for structure and responsibilities of this Board) for the form which the partnership could take. In doing so, the Board has considered those options currently operating for a range of services in other local authorities in England and Wales, as well as the wider public sector.
- 6.1.2. In considering the choice of delivery model for the partnership, the Programme Board was mindful of the wider ambitions of the partners to become the partners of choice for the wider public sector, the potential impact on the 1,400 full and part time workers currently employed by the two Counties Business Service Departments and the desire to ensure that the delivery vehicle retains a culture of public service delivery. A culture of ‘for the public sector, by the public sector’ and the need for it to continue to feel like an integral part of the partner councils, and not something separate or remote, was seen as a key factor in determining the optimum delivery model. Following consideration of all possible vehicles, the options shortlisted by the SEBS Programme Board are:
  - 6.1.2.1. Continue to provide the range of services as currently, through the separate management of the two councils (Do Nothing);
  - 6.1.2.2. Establish a Joint Committee of members from the partner councils to oversee delivery of the business services using powers delegated by the partner authorities;
  - 6.1.2.3. Deliver the range of “business services” through a company set up for the purpose and owned by the partners;
  - 6.1.2.4. Contract with a private sector partner to deliver the range of services currently managed by within the Business Service departments of the councils (Outsourcing); and
  - 6.1.2.5. Join an existing shared service partnership.
- 6.1.3. Key considerations in assessing the delivery models were; alignment of the end-state with the vision as described in Section 4, alignment with overall vision (described above), cost and quality, strength of governance arrangements; ability to meet future challenges and adapt to changes in demand from business service users; ability to provide services to other bodies; speed of delivering benefits; and impact on each council’s pension funds.



## **6.2. Options Identification**

### **6.2.1. Option 1 - maintain current arrangements**

- 6.2.1.1. This option would retain the current approach to the delivery of the services managed within the Business Services departments of the councils, with separate line management of the individual service functions. Some tactical sharing of services would continue, as with the existing sharing of a Head of Procurement, but these would be pursued on an individual case-by-case basis as the opportunities arise.
- 6.2.1.2. The ability to make efficiencies through economies of scale and to share learning and practice would be very limited. There would also be little scope to increase resilience or provide a wide range of services to other bodies.
- 6.2.1.3. This option is not consistent with the overall vision, and on its own would not enable the councils to respond to these challenges in the most ambitious, innovative and productive way. The relationship between the councils has matured and developed and this option would not exploit the greater potential the councils have, based on what has been achieved to date.

### **6.2.2. Option 2 - Joint Committee**

- 6.2.2.1. This option would involve the establishment of a Joint Committee of Members from the partner authorities with formal powers for strategic management of the range of services delegated to it.
- 6.2.2.2. Joint Committees are a well established vehicle for partnership working across the local government sector for the management of a range of different services, and are a robust governance model where two or more local authorities come together to share services. They have the assurance of democratic control and accountability by the partner authorities with Member direction at the heart of the partnership.
- 6.2.2.3. A joint committee can have its own identity and branding but it is not a legal entity separate from its constituent authorities. It cannot enter into a contract, own land or employ staff in its own right, so one or more of the authorities may need to take a “lead authority” role to undertake these activities under the control of and on behalf of the joint committee. This can make cultural change slower, but has the benefit of eliminating the need to TUPE staff to a new entity.
- 6.2.2.4. The use of a joint committee would align with the vision of the founding partners to work in partnership and provide services across the public sector and the objectives of the partnership. The model is flexible and can easily be expanded by admitting other local authorities to the partnership.

- 6.2.2.5. Joint committees are able to provide services to a range of other local authorities and public bodies but cannot trade with the private sector for profit, although establishing a separate company within the partnership to trade would resolve this issue.
- 6.2.2.6. This option would not be complex or costly to establish and it enables flexibility in terms of the phasing of the implementation, and also service delivery. This model would be sufficiently flexible to cope with changes in demand from legislative change and from business service users, and so would not inhibit the ability of those users to make the structural changes or adaptations they consider necessary to provide their frontline services.
- 6.2.2.7. Control would continue to rest with the partner authorities who could dictate the pace and scope, allowing the partnership to establish itself and grow. A joint committee would also enable the partners to retain the flexibility to contract with other private or public bodies and charge for particular services should that be considered advantageous.

### **6.2.3. Option 3 - Set up a separate company**

- 6.2.3.1. This option would see the creation of a company wholly owned by the partner councils. The benefits in such an approach include the ability to create a separate 'corporate' identity around the delivery of business services. This provides the potential benefit of a specific focus on the range of services in scope and a platform for creating a new commercial culture associated with service delivery, but at the same time could lead to a sense of being remote from the partner organisations.
- 6.2.3.2. The new company would be a legal entity in its own right, separate and distinct from its owning authorities, with its own branding and identity. It could own property and enter into contracts. The directors of the company would be duty bound to act solely in the interests of the company which could lead to a divergence of ethos from the public sector it is supporting.
- 6.2.3.3. This is a recognised model and there are some good examples of wholly owned public sector companies which have been established to trade with their owning public authorities. A company would have strong governance arrangements in place, and would be governed by its articles of association and a shareholders' agreement which would be determined by the councils. A Board of Directors would run the company and the participating authorities could retain the right to appoint to it. If appropriate the Board could include independent non-executive board members. Arrangements would have to be put in place to safeguard against conflicts of interest that may arise in relation to Local Authority Members or officers acting as Directors of the Company.

- 6.2.3.4. The ability to participate in the model could be extended to local authorities and other public sector bodies, who could become shareholders of the company in future, if they wished to join the Partnership.
- 6.2.3.5. The award of a contract to the company by the controlling authorities would not trigger the EU/UK procurement rules where more than 80% of the activities carried out by the company were with the controlling authorities. This rule could, however, inhibit the ability to provide services to other public bodies. Should the level of activity exceed the threshold, the company would need to compete for the work that it provides to its parent councils. In turn this would increase bureaucracy and cost to partner councils.
- 6.2.3.6. In order to commence operation under this model, the partner authorities would need to enter into contracts with the company to purchase services from it and staff would subsequently be TUPEd over to become employees of the company. This would increase the implementation time required for the new arrangements and may, depending upon the arrangements decided, have a detrimental impact on each authority's pension fund. The company would also be required to comply with company law, prepare its own statutory accounts and have these audited in compliance with the Companies Acts. It would be liable to corporation tax on any profits generated.
- 6.2.3.7. The partner authorities would have to be mindful of State Aid rules and competition law in relation to the assistance given to a company. Support given to the company, such as access to services and accommodation would need to be properly recharged and so require further contractual arrangements. Loans and other funding would need to be on a basis on which a prudent investor would likely invest in such a company.

#### **6.2.4. Option 4 - Contract with a private sector partner**

- 6.2.4.1. This option would see processes and job functions that are currently carried out by the Business Services departments contracted out to outside suppliers.
- 6.2.4.2. External contracting for the full range of services currently managed by the two Business Service departments is not currently considered as an optimal solution for the future delivery of support services for the partner councils. This approach does not align with the vision of the partners to retain public value within the public sector, and would limit the ambition of the partners to generate further efficiencies through the expansion of the partnership to other public sector partners.

- 6.2.4.3. This option would take longer to implement, requiring the packaging of the services, a competitive tendering process, evaluation and then implementation, and it is anticipated that this process would take at least 12 months. This option would require the transfer of staff to the private sector contractor and could, depending upon the arrangements, have consequences for the sustainability of the authority's pension funds. Although once implemented, early savings could be achieved through outsourcing, it is considered that this type of arrangement may restrict the ability to deliver further efficiencies. This is particularly the case if the economic environment changes significantly again in the future, or the approach to the delivery of other services within the constituent authorities undergoes other structural changes. Entering into a contract with a for profit organisation for such a range of services is likely to lock the councils into medium to long term financial commitments and so is less flexible than some of the other options. Changes in scope can be expensive and it would limit the ability of the service users to make changes where they impact on the contract.
- 6.2.4.4. While the wholesale outsourcing of these services is not considered as the optimal solution at this stage, the partnership will retain the flexibility to contract for services within its overall scope, thus ensuring maximum flexibility in service delivery; the ability to secure greater value in external contracting by taking a partnership approach and thus ensuring greater economies of scale; and securing external skills capability and capacity where these are best delivered through external contracting.

#### **6.2.5. Option 5 – Join another shared service**

- 6.2.5.1. This option would involve the councils joining an existing, established, shared services partnership. On the assumption that we entered on equal terms with existing partners, the benefits as regards governance arrangements would be similar to those of establishing our own joint committee. Although there would be potential benefits of speed in set-up, it is considered that these would be marginal, as there would be significant challenges in securing cultural change with staff buy in.
- 6.2.5.2. We have investigated existing shared service partnerships and have been grateful for the time and learning that those partnerships have shared with us. We believe that there are significant opportunities for the future sharing of service delivery and wider partnership with other shared service partnerships and would wish to explore those options with them in the future.
- 6.2.5.3. We therefore see the collaboration with established shared services partnerships as complementary to the establishment of our own partnership and believe that we can achieve the best of both worlds through establishing a body that can become the partner of choice in the South East, while collaborating with and learning from other shared service partners to the mutual benefit of all partners.

### **6.3. Recommended option for delivery**

- 6.3.1. On the basis of the evaluation process, we recommend Option 2 and that our respective Cabinets establish a Joint Committee in order to support the integration of business services across the partner organisations.
- 6.3.2. This approach would not require a TUPE transfer of staff, would enable the implementation of the partnership in a stable and controlled way, minimising risk to service users; maintain flexibility to react to the needs of service users; have strong governance arrangements in place; and have direct Member oversight. It would also enable the partners to pursue their vision of developing the ability to provide services to other local authorities and public bodies.

## **7. Joint Committee**

- 7.1. All of the shared professional and business service functions identified in this report are executive functions, enabling the authorities' Cabinets to agree joint arrangements to discharge those functions through the establishment of a Joint Committee.
- 7.2. Each Council would empower the Joint Committee by delegating responsibility for discharging the relevant functions to it and by financing it through an agreed budget. Regulations permit the relevant Cabinets to then determine the membership of the Committee. This will need to comprise Members of the Cabinet of each council.
- 7.3. The Joint Committee's authority would be limited to the professional and transactional business services delegated to it and strategically significant powers would be retained by the parent authority. So for example, whilst the Joint Committee would have oversight of the councils' facilities management arrangements, decisions relating to the acquisition, retention and disposal of properties within the estate would be a matter for the relevant Cabinet. Similarly, whilst the Joint Committee will have oversight of the Finance function, each Cabinet will continue to consider its own Medium Term Financial Plans and associated financial strategies as now.
- 7.4. The Business Service functions delivered to each council through the Joint Committee will be scrutinised by its Members through existing scrutiny arrangements.
- 7.5. A Joint Committee is not a separate legal entity. Officers will therefore remain employed and assets will be owned, by a parent authority. Any contract with a third party would have to be entered into by one of the parent authorities.
- 7.6. We have acknowledged that this venture is underpinned by mutual trust and cooperation, consequently an overriding principle is that the authorities will share the costs, expenses and savings involved in sharing of services fairly, transparently and on an agreed share basis. It is however advisable and usual practice for a specific agreement to be drawn up to underpin the arrangements. This would include the various rights and responsibilities of the parties and the precise nature of the joint

working relationship, including how any disagreements would be resolved. It is envisaged that the agreement will commit the parties on an indefinite basis however there will need to be provisions within the arrangement for a party to terminate due to exceptional circumstances. The principles underpinning the governance and financial arrangements in relation to both entry and exit from the partnership will be further developed and reported to each council's Cabinet in a more detailed Business Plan for the partnership in July 2015.

## **8. Financial benefits and implementation costs**

8.1. Both Surrey County Council and East Sussex County Council, as with other public sector bodies, are faced with delivering services to the public in the context of reduced funding and increasing demands for core services. SEBS will deliver benefits to both councils by combining resources to deliver economies of scale and build resilience. Staffing spend can be reduced by removing duplication, streamlining management structures and from improving processes. By working together, investment in technology to deliver step-change and continual improvement becomes a more affordable and compelling proposition than if one party were to undertake the investment alone.

Saving per annum by Year 4	£6m to £8m
Investment and Implementation costs (one-off)	£6m to £10m

8.2. We expect the partnership will grow over time, with this taking place in two ways:

8.2.1. Another Local Authority may wish to join the partnership and form part of the Joint Committee. This will deliver further economies of scale and financial savings to the parties involved; and

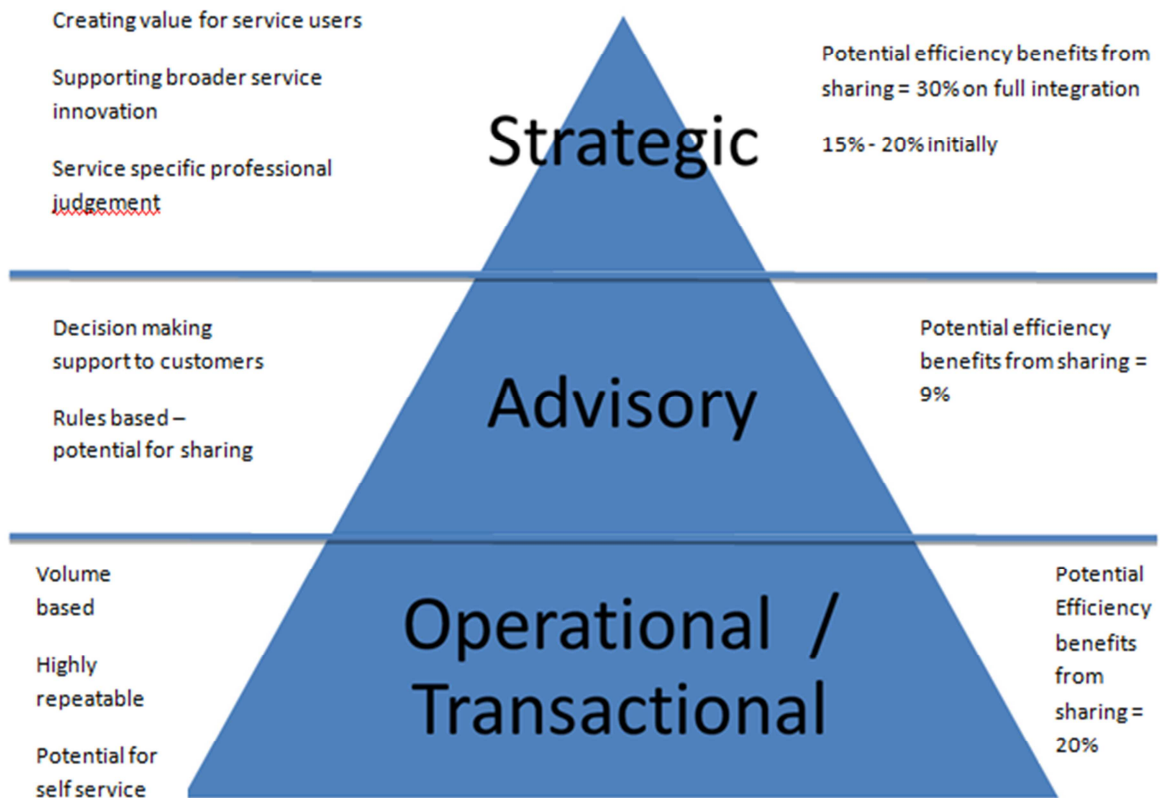
8.2.2. The partnership will additionally pursue opportunities to enhance income, by providing services to other public sector clients on a contractual basis or by means of specific delegation of function.

8.3. A number of Local Authorities have entered into shared services arrangements with like-minded partners, to deliver savings and enhance value for money. Some of these arrangements are described in research undertaken by the Local Government Association and the Chartered Institute of Public Finance and Accountancy (CIPFA)<sup>2</sup>. Figure 1 below illustrates this approach. These research documents have provided a valuable starting point and benchmarks for consideration of the achievable benefits from the proposed partnership. Senior managers of the two councils have also undertaken a site visit to LGSS, a similarly sized partnership created by Cambridgeshire County Council and Northamptonshire County Council.

8.4. We have considered this research and recognised that both authorities (East Sussex County Council and Surrey County Council) have, on an individual basis, already delivered significant savings to their councils in recent years from

<sup>2</sup> LGA "Services Shared: Services Spared?" 2012 & CIPFA "Sharing the Gain-Collaborating for Cost Effectiveness" 2010

centralisation, streamlining of processes and investment in technology. We can however, achieve further savings together as a partnership. These savings are achievable from the benefits of scale, from adopting and sharing best practice, the removal of duplication and streamlining of management. This collaborative approach will ensure the requirement to deliver savings and affordable back-office services does not compromise quality and the ability to support the transformational agenda of the participating councils.



*Fig 1.* Based on the strategic, Advisory and operational split in the target operating model and research by CIPFA's Shared Service Architects on the benefits derived from sharing services in a shared services partnership between two or more organisations.

- 8.5. The partnership will be the mechanism to deliver and potentially exceed the existing target savings included within the Medium Term Financial Plans of both councils in the activities that will be managed by the Joint Committee. We estimate that the savings achievable from the proposed partnership will be between 10% to 15% net of the relevant operational budget of the Joint Committee over a four year period. In terms of the partnership staffing spend, this means gross savings of between £6m and £8m per annum by the end of the four year period. As some staff costs are recharged to the capital budgets and pension fund of each authority or supported by income, the savings attributable to the revenue budgets of the two authorities will be between £5m to £7.5m per annum.
- 8.6. Achieving savings of this scale will require investment. Delivery of the savings will be dependent upon the use of common technology and processes and seamless connectivity between the councils. In particular, there will be a requirement to

undertake significant investment in our back-office support systems which provide the functionality to deliver general ledger and transactional capability for Finance, Human Resources and Procurement/purchasing activities.

- 8.7. Additional resources will be required to manage the programme, support organisational change and the costs of change, develop new ways of working and to deliver the technology improvements required. We estimate that the total implementation costs, will be between £6m to £10m.
- 8.8. This investment, however, includes technology improvements that would have been undertaken regardless of the partnership. The adoption of more intuitive user driven digital applications requiring minimal intervention and available on mobile devices, such as employee expenses processes, and the adoption of dashboard style management information to give two examples, will deliver wider organisational business benefits for each council impacting upon the whole budget and not just that of business services activities.
- 8.9. The proposal to establish the SEBS partnership is not dependent on this investment. The partnership will be able to create a greater benefit from a range of investments that would need to be considered by partners in response to meeting savings and efficiency challenges. In addition, investment made through SEBS as the delivery vehicle would be lower than if partners made these investments independent of each other.
- 8.10. Further work is required to identify appropriate solutions and to refine these estimates. Therefore, a more comprehensive Business Plan, confirming the savings achievable and the investment required will be provided for each Cabinet's consideration by July 2015. In the interim, the additional resources required to develop the programme, including the work completed to date, have been funded from the Transformation Award grant of £750,000 secured by the partnership in 2013.

## **Financial arrangements**

### **8.11. Principles**

- 8.11.1. The financial arrangements of the partnership, such as decisions required in relation to the sharing of investment and cost apportionment, will be determined upon the basis of balance between risk and reward, and the proportionate size of each founding partner. The activities of the partnership will be responsive to each council's strategies and priorities, and to structural changes, including those driven by legislative change. Therefore, the financial arrangements will recognise that the sharing of costs will be subject to similar considerations.
- 8.11.2. Professional, advisory, transactional and operational services undertake a number of activities on behalf of each council, including the management of non-staffing costs on behalf of the whole organisation. For example, the Property Service of each council manages the budget set aside to pay for rents, rates, utilities and other associated running costs for all council buildings. Decisions in relation to these property assets, for example a decision to relocate a library, will continue to be taken by each council's



respective Cabinet or Executive function and therefore will not form part of the decision-making delegated to the Joint Committee. It will be the case, therefore, that the Joint Committee will be responsible for two types of budgets: budgets that are managed on behalf of each council on an individual basis; and budgets related to the delivery of joint activities for which the Joint Committee will be fully accountable.

- 8.11.3. We will distinguish between these two responsibilities by using the term “Operational Budget”. The Operational Budget of the partnership will be the amount agreed by each authority as being the appropriate budget to deliver the agreed delegated functions of the Joint Committee.
- 8.11.4. Expenditure related to activities and decision-making that are not delegated to the Joint Committee, but retained for decision-making by each council and / or its Cabinet on an individual basis, will not form part of the operational budget of the partnership but may be managed on their behalf. Officers working within the partnership will continue to advise Members and Chief Officers on these matters, including appropriate budget implications for inclusion within each council’s medium term planning process.
- 8.11.5. The Joint Committee will prepare and update the Operational Budget requirement on an annual basis, and seek approval from each council as part of the medium term planning process of each council. The Joint Committee will recommend the appropriate budget contribution from each council, taking into account, where relevant, any material changes in activity. The proportionate contribution from each partner may therefore change over time in accordance with changes in priorities or in light of structural changes within each council.
- 8.11.6. Once approved by each council, the Joint Committee will be accountable for the delivering the delegated functions in accordance with the agreed operational budget.
- 8.11.7. The methodology adopted to determine the appropriate apportionment of costs will be developed further and reported as part of the more detailed business plan for the partnership. In principle however, both parties recognise that this methodology will need to be fair and transparent, take into account changes in demand and will require the development of management information to support the mechanism.
- 8.11.8. The cost of investment and implementation will be shared in accordance with the cost-sharing methodology, and therefore in accordance with the savings attributable from the investment. We recognise that there may be exceptions to this principle, particularly if one party has already invested in technology which has delivered benefits and therefore savings have been recognised already in appropriate budgets.
- 8.11.9. The broad principles underpinning the financial arrangements have been agreed by the partners; a proportionate balance between risk and reward and a transparent approach to the sharing of costs and investment required. These principles will additionally apply to other founding partners. Where services are provided to other public sector clients on a contractual basis or by means of specific delegation of functions, then the resulting net income, after having taken account of the cost of delivery, will be shared in

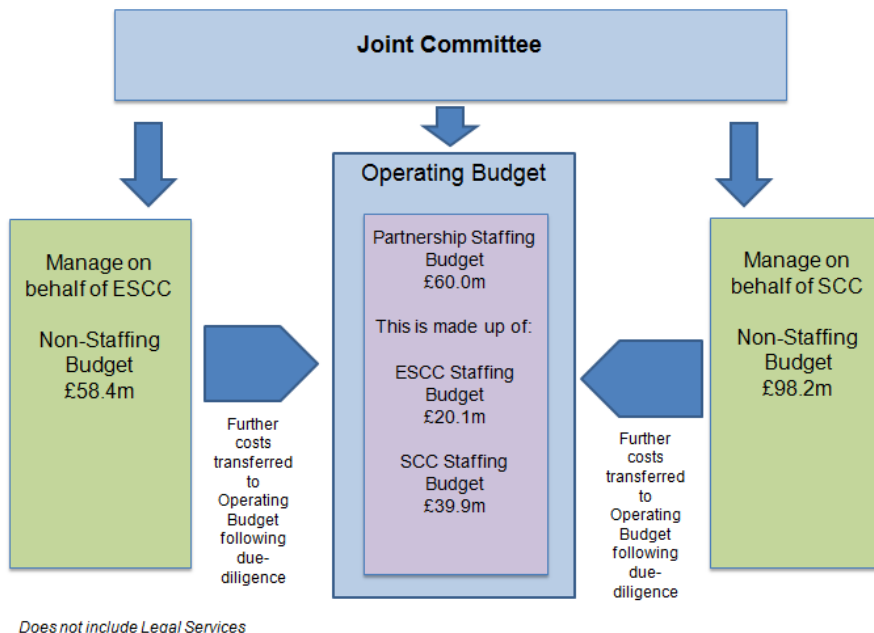
accordance with these broad principles. The broad principles will be further developed in the more detailed governance arrangements in the business plan report. Further details will also be provided regarding the more practical arrangements and implications of the partnership, including the frequency of financial monitoring reporting to each council and treatment of in-year variances and so forth.

**8.12. Financial implications**

8.12.1. The Joint Committee will be accountable for the agreed Operating Budget that accords with the delegated functions. Officers have completed preliminary baseline analysis, using 2014/15 budgets, to determine this operating budget and those costs and budgets that are not delegated, but which will be managed on behalf of each council.

8.12.2. We have determined that there are some differences in activity between the parties and where this is the case, we have recognised that whilst these activities will form part of the partnership, they have not been included within the baseline for estimating potential savings as the activities are not shared.

8.12.3. At this stage, we have primarily focused our baseline analysis on staffing costs and can be reasonably confident with the analysis completed to date on staffing budgets and spend, and therefore the budget that will be delegated to the Joint Committee. Further analysis is required to differentiate between the two types of budget however, particularly in relation to non-staffing costs.



8.12.4. All analysis completed to date is subject to a period of further due-diligence prior to the completion of the detailed business plan in July 2015. Further work is also needed to develop a more detailed cost analysis of legal services, which will be incorporated into the Operating Budget. At this stage the 2015/16 base budget will be used.

8.12.5. The provisional Operating Budget of the Joint Committee based upon the 2014/15 baseline staffing budgets of East Sussex County Council and Surrey County Council, prior to the completion of due-diligence and the detailed business plan, will therefore be £60.0m. This provisional budget includes a small number of activities that are undertaken by one council only, and adjusting for this creates a budget in relation to joint shared activities of £56.7m per annum. This results in an indicative initial cost, investment and benefit sharing proportion of 66% Surrey County Council and 34% East Sussex County Council. As noted, there may be exceptions to this in relation to specific investment proposals and these proportions will change over time as a result of changes in demand, including those created by structural change in each council.

## **9. Equality implications**

9.1. At this point there are no identified equality implications in terms of setting up the Joint Committee. There may, however, be equality implications around the decisions that the Joint Committee may take in the future. We recognise that there will need to be a Pay and Workforce Strategy to underpin the proposed arrangements, which will also consider potential issues around pay differentials between the founding partners. A full Equality Impact Assessment on the SEBS Programme will be undertaken for July 2015. Equality and Diversity principles will be fed into the design of SEBS based on the evidence that we have.

## **10. Risk Assessment**

10.1. The council's anticipate that the arrangements will remain in place on an indefinite basis. There is a risk therefore that during this time there may be significant changes to each council which impacts upon the services that are required to be delivered by the Joint Committee. The principles underpinning the governance and financial arrangements recognise that this may be the case. The Joint Committee will provide an effective governance structure to ensure that the joint service continues to meet the needs of both partners and that the key broad principles of transparency and equity continue to apply.

10.2. Establishing the partnership and implementing the organisational, process and technology changes required to deliver the target savings may impact on the provision of services to each council – both in terms of supporting “Business as Usual” activities and providing strategic advisory support for wider transformational change within each council. The partnership will, as part of the more detailed business plan, articulate the additional implementation and programme management resources required to mitigate against this and will work with each council to develop a high-level timetable of change to minimise any adverse impact.

10.3. There is a risk that the partnership does not deliver the full extent of the savings articulated in this business case. The transformational change proposed by the partnership will require significant investment which will require that the partners commit to a long-term relationship. Whilst there will be some quick wins, the majority of the savings rely upon a programme of investment and change that will deliver a net benefit over a longer term. The investment will only be proposed upon

the basis of a robust business case which articulates the resources required and realistic timeframes for delivery.

- 10.4. The ambition to extend the arrangement to other founding partners may have an adverse impact upon the pace of change and on the delivery of services. The partnership recognises that the first year of operation will be a “start-up” phase and that careful consideration will need to be given to growth. The Joint Committee will not have the authority to amend the agreement to take on new partners without recourse to each council’s Cabinet. This will help to ensure that the business case for a new partner is comprehensive and takes into account any negative impact on agreed savings targets and service delivery.
- 10.5. The organisational, process and technology changes required, together with fears in relation to a reduction in jobs, as duplication is removed and changes to management are made, may have an adverse impact on staff. Staff may feel a reduced resilience to change leading to capacity issues, low morale and increased turnover. The partnership will ensure that communication, consultation and engagement remain a priority for the programme. Staff will be involved in developing the organisational design which will help to emphasise that the partnership will lead to enhanced opportunities for staff and a strengthening of internal skills.

**Appendix 1**

**Delegated Functions - Scope of Functions included in South East Business Services**

Surrey County Council	East Sussex County Council
<p><b>Property Services:</b></p> <ul style="list-style-type: none"> <li>• Facilities Management</li> <li>• Maintenance - helpdesk</li> <li>• Maintenance - contract management</li> <li>• Maintenance - delivery</li> <li>• Asset Strategy / Relationship Management</li> <li>• Estate Management</li> <li>• Energy Management</li> <li>• Project Delivery / Project Management</li> <li>• Other contract management</li> <li>• Data Management, Administration</li> <li>• Asset Planning / Investment Commercial</li> <li>• Performance - including financial management.</li> </ul>	<p><b>Property Services:</b></p> <ul style="list-style-type: none"> <li>• Facilities Management</li> <li>• Maintenance - helpdesk</li> <li>• Maintenance - delivery</li> <li>• Asset Strategy / Relationship Management</li> <li>• Estate Management</li> <li>• Energy Management</li> <li>• Project Delivery / Project Management</li> <li>• Other contract management incl. Services to schools</li> <li>• Data Management, Administration</li> </ul>
<p><b>IMT:</b></p> <ul style="list-style-type: none"> <li>• SAP Support / Development</li> <li>• IT Helpdesk</li> <li>• Desktop / Infrastructure Support</li> <li>• Data Centre Management</li> <li>• Network Contract Management / Support</li> <li>• Application Development and Support</li> <li>• Project delivery / management</li> </ul>	<p><b>ICT:</b></p> <ul style="list-style-type: none"> <li>• SAP Support / Development</li> <li>• IT Helpdesk</li> <li>• Desktop / Infrastructure Support</li> <li>• Data Centre Management</li> <li>• Network Contract Management / Support</li> <li>• Application Development and Support</li> <li>• Project delivery / management</li> <li>• Print services</li> <li>• ICT Services to schools</li> </ul>
<p><b>Human Resources:</b></p> <ul style="list-style-type: none"> <li>• Training Delivery &amp; Support</li> <li>• Organisational / Workforce Development</li> <li>• Case Management / Relationship Management</li> <li>• Policy &amp; Reward</li> </ul>	<p><b>Personnel and Training:</b></p> <ul style="list-style-type: none"> <li>• Occupational Health</li> <li>• Training Delivery &amp; Support</li> <li>• Organisational / Workforce Development</li> <li>• Case Management / Relationship Management</li> <li>• Recruitment</li> <li>• Personnel Support Unit</li> </ul>

Surrey County Council	East Sussex County Council
<p><b>Finance:</b></p> <ul style="list-style-type: none"> <li>• Treasury Management</li> <li>• Pension Fund Management</li> <li>• Financial Accounting</li> <li>• Service Support Teams / Management accounting</li> <li>• Schools Support Services</li> <li>• Project Support</li> <li>• VAT</li> <li>• Financial Strategy &amp; Funding</li> <li>• Insurance</li> </ul>	<p><b>Finance:</b></p> <ul style="list-style-type: none"> <li>• Treasury Management</li> <li>• Pension Fund Management</li> <li>• Financial Accounting</li> <li>• Service Support Teams / Management accounting</li> <li>• Schools Support Services</li> <li>• Project Support</li> <li>• VAT</li> <li>• Financial Strategy &amp; Funding</li> <li>• Insurance</li>   <li>• Internal Audit</li> <li>• Accounts Payable</li> <li>• Accounts Receivable</li> <li>• Purchase Order Processing</li> </ul>
<p><b>Procurement:</b></p> <ul style="list-style-type: none"> <li>• Category Management: Adult Social Care</li> <li>• Category Management: Children's Services</li> <li>• Category Management: Other Services (including Corporate, Property, Highways and Environment)</li> <li>• Commercial Insight Analysts / Performance &amp; Programme Office</li> <li>• Supplier Relationship Management</li> <li>• Procurement Improvement</li> </ul>	<p><b>Procurement:</b></p> <ul style="list-style-type: none"> <li>• Category Management: Children's Services</li> <li>• Category Management: Other Services (including Corporate, Property, Highways and Environment)</li> <li>• SAP P2P Workstream owner</li> <li>• Projects, systems &amp; process development</li> </ul>
<p><b>Transactional Services</b> – currently known as <b>SE Shared Service</b></p> <ul style="list-style-type: none"> <li>• Pension Administration</li> <li>• Payroll</li> <li>• Employee Services</li> <li>• OM / Workforce Information</li> <li>• Recruitment Administration</li> <li>• Training Administration</li> <li>• Accounts Payable</li> <li>• Accounts Receivable &amp; Income collection</li> <li>• Purchasing</li> <li>• Helpdesk Projects / Process / Programme Management</li> </ul>	

<b>Surrey County Council</b>	<b>East Sussex County Council</b>
<b>Legal services</b>	<b>Legal services</b>

## Appendix 2

### Roles and Responsibilities: Programme Governance of the SEBS Programme

#### Programme Board

Chair: Julie Fisher and Kevin Foster

Members: Ann Charlton (monitoring officer SCC)  
Philip Baker (monitoring officer ESCC)  
Senior customer: Ian Boast (SCC)  
Senior customer: Fiona Wright (ESCC)

Direct reports: Tony Summers

Board functions: The SEBS Programme board is responsible for delivering the vision and the objectives of the partnership. It will be chaired by the Programme Directors, who will be responsible for ensuring that the programme is adequately resourced and managed and that regular reporting to the Partnership Oversight Board and to the Chief Executives. The Programme Manager will report progress to the board and will highlight any concerns in terms of progress or resources against the timeline.

Regularity of meeting: Once a month