

## Canterbury City Council

## Policy and Resources Committee Council

4 October 2017  
19 October 2017

**Dover District Council**

## Cabinet

**2 October 2017**

## Thanet District Council

## Cabinet

3 October 2017

**East Kent Services Committee**      **To be advised (but following the last of the above meetings.**

**Subject: EK Services Strategic Service Delivery Options and Potential for Contracting out of certain functions**

**Director/Head of Service:** Director of Shared Services

**Decision Issues:** These matters are within the authority of the executive of each of the authorities of, Dover District and Thanet District and are within the authority of the Canterbury City Council.

Once agreed by the above authorities this matter falls within the authority of the East Kent Services Committee.

**Decision type:** Non-Key Decision

**Classification:** This report is open to the public with the exception of Annexes B and D of the attached Business Case which are confidential under Paragraph 3 of Schedule 12A of the Local Government Act 1972 - Information relating to the financial or business affairs of any particular person (including the authority holding that information)

## Summary:

This report outlines the current challenges to maintaining EK Services (EKS) viability; presents options for the future of EKS delivery of functions and gives a business case for the potential contracting out of certain functions.

This is based upon a case for change that would require Councils to either:

- increase current management fees (£2m growth over the next seven years) to ensure viability of the current operation to the detriment of other council services;
- reduce cost by a similar amount within EKS which would now require significant staff reduction (circa 67 posts over the same period) introducing major risk to service and requiring significant redundancies;
- consider the likelihood of delivering income of similar quantity through expansion or exploitation of shared services;
- Consider entering into a strategic partnership with a commercial provider for the delivery of Revenues, Benefits and Customer Services in order to significantly reduce operating costs, avoid redundancies (and in fact provide new jobs in the Canterbury, Dover and Thanet area through the establishment of a trading “hub” operating from the Councils’ existing premises) whilst also providing a revenue stream through a combination of profit share from the hub and rental of desk space within Council buildings.

It proposes amendments to the delegations made to the East Kent Services Committee, by the three authorities, in establishing revised governance arrangements for EKS and EK Human Resources (EKHR) in 2015, in order to give effect to the recommendations within the business case, if agreed.

## Recommendations:

**That the Cabinets of Dover District Council and Thanet District Council agree and approve:**

- (1) The councils are requested to accept the recommendation contained within the report of the Director of Shared Services to approve the business case for entering into a strategic partnership and contract for the delivery of the Revenues, Benefits and Customer Services functions and to request the East Kent Services Committee to give effect to the recommendation.

**That the Policy and Resources Committee of Canterbury City Council recommends to Full Council:**

- (2) To the extent that they are not already authorised to do so, the East Kent Services Committee be authorised to discharge the following functions and delegations on behalf of the Council:-

**That the Canterbury City Council agree and approve:**

- (a) Acting in consultation with the chief legal officer of the Council\*, to authorise entry into contracts with third parties in relation to the discharge of all or any of the Revenues, Benefits and Customer Services Functions, including the granting of interests in land.

(b) To exercise the powers and functions of the Council in relation to any contract entered into by the Council pursuant to (2)(a) above, (to include but not be limited to) making decisions on behalf of the Council in relation to:-

- (i) Contract management
- (ii) Renegotiation of the contract (acting in consultation with the chief legal officer of the Council)\*
- (iii) Variation of the contract (acting in consultation with the chief legal officer of the Council)\*
- (iv) Assignment of the contract (acting in consultation with the chief legal officer of the Council)\*
- (v) Novation of the contract (acting in consultation with the chief legal officer of the Council)\*
- (vi) Termination of the contract (acting in consultation with the chief legal officer of the Council)
- (vii) Renewal of the contract (acting in consultation with the chief legal officer of the Council)\*
- (viii) Enforcement of the contract including the making and settling of any claims arising under it (whether or not legal proceedings are actual or contemplated)

\*the contracts shall be entered into in accordance with each local authority's respective Contract Standing Orders.

(c) To authorise the doing of anything in relation to the exercise of the powers and functions of the Council under Part II of the Deregulation and Contracting Out Act 1994 and the orders and regulations made under it.

(d) Acting in consultation with the chief legal officer of the Council to authorise entry into contracts\* with third parties in relation to any functions of the Council which are not the Revenues, Benefits and Customer Service Functions but which can usefully be entered into in connection with or in order to facilitate contracts entered into, or to be entered into with regard to the Revenues, Benefits and Customer Service Functions.

\*the contracts shall be entered into in accordance with each local authority's respective Contract Standing Orders.

- (e) To authorise the doing of anything incidental to, conducive to or otherwise expedient in connection with (a) to (d) above.

**Next stage in process**

**The East Kent Services Committee (EKSC) to consider the existing delegations to each of the Director of Collaborative Services and the Director of Shared Services and amend, as felt appropriate, to enable the effective discharge of the authorities detailed above. Following any contract negotiations, a supplementary report will come back to EKSC for their consideration and approval of final contract terms and seek authority to enter into the contract and associated documentation.**

**Thanet District Council will be required to make determinations in relation to staff including any pension admission agreement.**

**SUPPORTING INFORMATION**

**1. Background**

As part of EK Services' ongoing operation, the Director of Shared Services and his Management Team have been examining options to reduce the cost of service delivery whilst maintaining the high quality of services that have been delivered since its inception. This options appraisal and supporting detailed research included visits to other Local Authorities and informal supplier engagement.

This work has now developed an alternative that ensures services can be maintained without loss of staff and provides savings. It also offers a new income stream for the partner Councils and new employment opportunities within the three East Kent districts. The proposed arrangement is based on a "core and hub" model contract with a commercial provider. The core comprises a contract for the continued provision of Revenues, Benefits and Customer Services to the three partners at a reduced cost. The trading hub would be located in CCC, TDC and DDC locations and service new commercial contracts with any profit being shared with CCC, DDC and TDC. This trading hub is expected to grow and increase staff, delivering jobs growth in the District(s).

The proposed strategic partnership will provide:

- Immediate savings via reduction in costs of EKS operation on day 1
- Safeguards existing jobs and prevents redundancy costs
- High likelihood of additional "one-off" savings in Year 1
- An income stream from a profit share arrangement with a "trading centre of excellence" providing services to the public sector from current District Council locations (SE hub)
- Jobs growth in East Kent as the South East hub expands (as proven elsewhere)
- Development of business cases for future savings / service improvement opportunities

## 2. Current Situation and the need for change

EK Services (EKS) was formed in 2011 as a Shared Service governed by a Joint Committee to provide a range of services including ICT managed services, Revenues & Benefits and Customer Services. It has been a success, delivering £6m savings back to the three Councils whilst improving performance and increasing resilience, without significant investment.

EKS is funded by a combination of Management Fees from its partner Councils as well as income from other, non-partner organisations. The Councils require EKS to operate within its own fixed budget which is agreed with the three Councils each year and EKS also has to absorb any inflationary pressure (including pay and contract inflation). This means that year-on-year savings between £300K and £500K are needed to maintain the status quo but historically the Councils have also expected EKS to deliver further savings on top of the absorbing of growth items.

In 2017/18, EKS has to achieve £832k of savings to ensure the 2017/18 budget is balanced at end of year. This is a challenging task as the economy of scale and benefits of Shared Services which have delivered major savings over the past six years mean that the delivery of further savings will now have greater service impact. In recent years, most savings have been delivered either via deletion of posts using natural staff churn to avoid redundancies or through reduction in operating costs from technology system rationalisation. However, further reduction in operating costs is no longer achievable to any great degree and, as the number of Full Time Equivalent posts has reduced (to 258 in Aug 2017, from 270 in Aug 2016), the potential for reducing posts without staff redundancies is now limited.

Further savings will require a significant staff reduction (an estimated 15 redundancies are required to deliver the anticipated budget savings for 2018/19<sup>1</sup>) which introduces a high degree of service risk as well as high exit costs and the economic impact of job losses in the local area and this staff reduction would then rise up to approximately 70 posts by 2024.

EKS is now at the point where cutting services in line with its partner Councils' affordability constraints will start to have a direct impact on service quality, raising the risk of service failure and performance degradation on Benefits (error bonus and payment time) and collection levels as well as Customer Services.

This reduction in staffing would be required in addition to any other losses that would be required as a consequence of external impacts, for example the reduction in DWP and DCLG grants for the administration of Housing Benefit and Council Tax Support as well as the likelihood of the introduction of Universal Credit creating further job losses.

A number of options have been explored, ranging from continuing the current direction of travel, through to a more fundamental reshaping of EK Services, including expansion through the on-boarding of additional services and the development of EK Services into a form that could provide services to the wider public-sector market.

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<sup>1</sup> This assumes that EKS continue to contain inflationary costs such as salary growth but does not include any further reduction in management fees, which would increase this loss of staff posts significantly.

All of these options have their strengths and weaknesses but fundamentally none can deliver the financial impacts required to adequately address the scenario outlined above.

Informal discussions with a private sector company (and due diligence with a number of other councils who have entered into contracts with them) have indicated that a strategic commercial venture with a private partner has the potential to protect and grow jobs and develop services whilst delivering significant savings, and this option appears to offer the most attractive service delivery model for this service. In outline, this provides:

- Financial savings from contract go-live date;
- Guaranteed performance levels and quality;
- Guaranteeing jobs for the duration of the contract;
- Avoidance of redundancy for transferring staff;
- Staff terms and conditions (including LGPS) protected;
- Ongoing investment in the service;
- Creation of an East Kent based business process trading hub to be operated on a profit sharing basis plus rent per desk space;
- Local new job creation.

Attached to this Report is a business case outlining the options that have been considered and recommending that entering to a commercial contract with a private sector company provides the three Councils with the best opportunity to achieve significant financial savings against current costs whilst guaranteeing jobs. It is also expected to generate new jobs in East Kent and provide additional income to Councils through the establishment and operation of a trading hub (based in current locations) delivering transactional, business process services to new customers.

In order for contract negotiation and final due diligence to proceed and to allow the East Kent Services Committee to:

- (a) consider the final business case position, post any contract negotiations;
- (b) to give final approval for any contract if agreed;
- (c) and to potentially enter into a contract for services, if applicable;

the changes to existing delegations detailed above are required.

Arising from the fact that EK Services are not a legal identity the recommendations still require each Council to be involved in the renegotiation, variation, assignment, novation, termination and renewal of the contract. This shall be in accordance with the provisions of each Council's Contract Standing Orders.

The recommendations as drafted will allow Thanet District Council, Dover District Council and Canterbury City Council to leave day to day matters to EK Services and provide the supplier with a single point of contact.

### 3. **Relevant Council Documents**

Report to Canterbury City Council, Dover District Council and Thanet District Council, July 2017, "Outsourcing of Revenues, Benefits, Debt Recovery and Customer Services Functions (Revision of Delegations to the East Kent Services Committee)."

### 4. **Consultation planned or undertaken**

If the recommendations are agreed, a Transfer of Undertakings and Protection of Employment (TUPE) consultation will be required between Thanet District Council (EKS staff employer) and their representative trade union, plus impacted staff, as part of any pre - contracting activity.

### 5. **Options available with reasons for suitability**

- (i) To approve the findings of the attached business case that recommends the entering into a commercial contract for the provision of revenues, benefits and customer service functions and request the EKSC to give effect to the recommendations contained therein. (**Recommended option**)
- (ii) Maintain EKS operations as currently provided. This option will require Councils to increase management fees at detriment to other council service funding or to deliver major staff reductions within EKS resulting in significant degradation of service and performance inducing risk to council income collection and benefits payments. It will also mean the opportunity for jobs growth and new income will be lost.
- (iii) Maintain EKS operations as currently provided whilst attempting to 'exploit or expand' existing services to generate new income from areas such as payroll, ICT service provision and providing resilience to other Local Authorities and potentially expand to onboard other services into EKS. This option will require significant investment into EKS to create capacity and capability to undertake such activity and will require a commercial risk approach. However, even if this was achievable the level of profit that can reasonably be expected will mean that either major staff reductions will still be required (reducing services and weakening performance and most likely weakening the commercial offer) or Councils will need to increase management fees to the detriment of other council service funding. This option is most unlikely to create sufficient new work to create jobs growth or significant income.

### 6. **Reasons for supporting option recommended, with risk assessment**

Option (i) is recommended, as it allows the East Kent Services Committee to agree the provision of Revenue, Benefits and Customer Services function via a commercial contract in order to deliver the benefits outlined in the Business Case. It allows the three Councils to rapidly deliver significant base budget revenue savings commencing in 2018/19 whilst protecting existing jobs and maintaining service standards. It will enable the development of a trading hub and centre of excellence located in the three Districts areas, that is expected to create new jobs and deliver new income to the Councils via profit share, rent and royalties.

The risk assessment is contained within the attached business case at Appendix 1 to Annex B.

## **7. Implications**

### **(a) Financial Implications**

Agreeing the recommendation will result in a significant reduction in the operating cost of EK Services and consequently reductions in Council management fees providing direct cashable savings to each Council. It also provides a high likelihood of income generation over the lifetime of the contract through a combination of profit share and rental income.

In addition, agreeing the recommendation would avoid an estimated £1.2m of redundancy costs over the next 7 years and/or the need to increase fees paid to EK Services of circa £2m over the same period.

It mitigates against the potential loss of DWP grant by maintaining the current levels of service quality.

It also indirectly provides a financial benefit to the three partner Councils through the generation of a large number of new jobs over the same contract period as well as helping to support the wider East Kent economy.

### **(b) Legal Implications**

The proposed amendments to the delegations to the East Kent Services Committee are in accordance with legislation and are considered to be lawful. All contracts and related documentation will continue to be executed on behalf of the relevant local authority. As the employing authority for the EK Services staff, Thanet District Council will need to enter into appropriate agreements with Kent County Council and the contractor in regard to the Local Government Pension Scheme.

## **8. Conclusions**

Entering into a contract with a commercial private company, using the available framework contract, allows the three Councils to maintain service provision, quality and performance standards whilst rapidly delivering significant base budget revenue savings commencing in 2018/19 whilst protecting existing jobs. It will enable the development of a trading hub and centre of excellence in East Kent that is expected to create new jobs and deliver new income to the Councils via profit share, rent and royalties.

The alternative is to maintain EKS current operations, whilst attempting to 'exploit' existing services to generate new income from areas such as payroll, ICT service provision and providing resilience to other Local Authorities and potentially expand to onboard other services into EKS. However, even if this was achievable, it will require investment, time, commercial risk appetite and the level of profit that can reasonably be expected will mean that either major staff reductions will be required (reducing services and weakening performance) or Councils will need to increase management fees to the detriment of other council service funding. It will also mean the opportunity for jobs growth and new income will be lost.

**Contact Officer: Dominic Whelan (EK Services), 01227 862073**