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East Kent Services Committee

The Guildhall
Westgate
Canterbury

Wednesday, 1 November 2017

Summons and Agenda

Nadeem Aziz
Chief Executive

CANTERBURY CITY COUNCIL
DOVER DISTRICT COUNCIL
THANET DISTRICT COUNCIL

Agenda

East Kent Services Committee

Wednesday
1 November 2017
at 10.30 am

The Guildhall
Westgate
Canterbury

Membership of the East Kent Services Committee

Councillors

Councillor S Cook
Councillor M Conolly
Councillor L Fairbrass
Councillor Todd
Councillor C Wells (Chairman)
Councillor K Morris (Vice Chairman)

Quorum: One councillor from each council.

NOTES

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2. The venue for the meeting is wheelchair accessible and has an induction loop to help people who are hearing impaired.

3. The information contained within this agenda is available in other formats, including Braille, large print, audio cassettes and other languages.

4. If you have any queries regarding items on this agenda, please contact Matthew Archer on 01227 862 175 or email matthew.archer@canterbury.gov.uk or write to the address below.

   Canterbury City Council, Military Road, Canterbury CT1 1YW

AGENDA

1 **APOLOGIES FOR ABSENCE**

To receive any apologies for absence.

2 **SUBSTITUTE MEMBERS**

The Chairman to report any notifications received prior to this meeting regarding the attendance of substitutes for the named Members of this committee.

3 **VICE-CHAIRMAN FOR MUNICIPAL YEAR 2017/18**

Following the appointment in October of Councillor Morris as the new Leader of Dover District Council he will replace former Councillor Watkins as the Vice-Chairman of this Committee.

4 **DECLARATION OF ANY INTERESTS**

To receive any declarations of interest.

5 **EAST KENT SERVICES STRATEGIC SERVICE DELIVERY OPTIONS AND POTENTIAL FOR CONTRACTING OUT OF CERTAIN FUNCTIONS** (Pages 5 - 37)

TO CONSIDER the report of the Director of Shared Services (East Kent Services)

Note that the business case and its annexes are included in the agenda for information (annexes B, B1 and D are included at part two of the agenda).

6 **ANY OTHER URGENT BUSINESS TO BE DEALT WITH IN PUBLIC**

7 **EAST KENT SERVICES STRATEGIC SERVICE DELIVERY OPTIONS AND POTENTIAL FOR CONTRACTING OUT OF CERTAIN FUNCTIONS - ANNEX EXEMPT FROM PUBLICATION** (Pages 38 - 53)

TO NOTE annexes B, B1 and D of the business case.

(The annex contains information the disclosure of which is likely to prejudice the commercial interest of both the Council and other bodies (s. 43 Freedom of Information Act 2000). The Council considers that at present the public interest in maintaining the exemption outweighs the public interest in disclosing it. Paragraph 3 of schedule 12A of the Local Government Act 1972 also applies.)

8 **ANY OTHER BUSINESS WHICH FALLS UNDER THE EXEMPT PROVISIONS OF THE LOCAL GOVERNMENT ACT 1972 OR THE FREEDOM OF INFORMATION ACT 2000 OR BOTH**

It may be necessary to exclude the press or public for this item.

East Kent Services Committee		**1st November 2017.**
	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 East Kent Services Committee.
	Decision type:	Executive – Key (for Dover District Council and Thanet District Council)
	Classification:	This report is open to the public with the exception of Annexes B and D of the attached Business Case which are not for publication by virtue of 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:	The partner councils in East Kent Services, Canterbury City Council, Dover District Council and Thanet District Council, have agreed the business case for entering into a strategic partnership and contract for the delivery of the Revenues, Benefits and Customer Services functions, and have delegated authority to the East Kent Services Committee to exercise the powers and functions of the Councils in respect of such strategic partnership. This report requests the Committee to approve the onward delegation to the Director of Shared Services and Director of Collaborative Services of the powers & functions listed in this report, in order to enable contract negotiation to proceed and to authorise the presentation of a subsequent report to EKSC for their consideration and approval of final contract terms which will then seek authority if appropriate to enter into the contract and associated documentation.
	That the Committee resolves:	(1) To note that the attached report has been considered and approved by each of the Cabinets of Thanet District Council and Dover District Council, and both the Policy and Resources Committee and the Canterbury City Council (2) To accept the requests of the above Cabinets and Council that the East Kent Services Committee should discharge the powers and functions of the Councils to: (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.

(3) To approve the use of the Kingston-upon-Hull City Council's existing OJEU-tendered Framework Agreement and to authorise the Director of Shared Services to enter into an access agreement with Kingston for the use of such framework.

(4) To agree that Civica UK Ltd is the Preferred Bidder for this contract under the framework agreement listed in (3) above.

(5) To amend the existing delegations to the Director of Shared Services and Director of Collaborative Services to discharge the functions and delegations listed in (2)(b)(i)-(vi) and (2)(b)(viii) above on behalf of the Committee.

(6) To task each of the Director of Collaborative Services and the Director of Shared Services responsibility for the negotiation of a contract for the delivery of the Revenues, Benefits and Customer Services Functions and request that a report come back to EKSC for their consideration and approval of final contract terms and, if appropriate, their authorisation of entry into the contract and associated documentation.

Note: In relation to 2(d) above, Canterbury City Council specifically included the following within their resolution:- *"for completeness this is in relation to contracts that may be required to facilitate Revs & Bens or CS, for instance: enabling systems"*

Next stage in process	**Following contract negotiations, a further report will be submitted to EKSC for 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 for pension admission agreement which will be subject to report to Thanet District Council's General Purposes Committee in due course.**

SUPPORTING INFORMATION

1. Background

The revised governance structures for the delivery of the shared services by CCC DDC and TDC were approved on the report of Head of Legal Services (Canterbury), the Director of Governance (Dover), the Solicitor to the Council (Dover) and the Interim Legal Services Manager (Thanet) ("the Original Report") by the respective Cabinets Council at the end of 2014 and the early 2015 and finally, by the East Kent Services Committee on 11 February 2015. They were subject to minor amendments in July 2016 and subsequently in July 2017.

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 means of delivering the Revenues, Benefits and Customer Services functions 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).

Following the publication of an OJEU notice in September 2014, Kingston-upon-Hull City Council undertook a competitive dialogue process to tender a framework agreement for the provision of (inter alia) Revenue & Benefits and ancillary services. Civica UK Limited were the successful bidder and are the preferred supplier for this proposed contracting out of functions. The partner councils are able to contract with Civica UK Limited under the framework agreement.

2. Current Situation

The councils have authorised the EKSC to discharge the following functions and delegations on behalf of the Councils:

(1) To note that the attached report has been considered and approved by each of the Cabinets of Thanet District Council and Dover District Council, and both the Policy and Resources Committee and the Canterbury City Council

(2) To accept the requests of the above Cabinets and Council that the East Kent Services Committee should discharge the powers and functions of the Councils to:

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)*
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(iv) Assignment of the contract (acting in consultation with the chief legal officer of the Council)*
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(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.

Note: In relation to 2(d) above, Canterbury City Council specifically included the following within their resolution:- *"for completeness this is in relation to contracts that may be required to facilitate Revs & Bens or CS, for instance: enabling systems"*

The rationale for the above inclusion was to ensure that the East Kent Services Committee was authorised to enter into contracts that directly supported the Revenues, Benefits and Customer Services Functions but was not authorised to enter into contracts with third parties for the provision of services beyond this scope.

It is proposed to utilise the Kingston-upon-Hull City Council Framework agreement to procure this contract, in order to expedite the process and avoid the delays and costs that would accrue if the councils were to undertake their own, OJEU-compliant tendering process. Certain specific amendments will be made to the Agreement to reflect changes in legislation that have occurred since the original contract letting and to ensure that the Framework is usable and provides suitable protection for all three Councils.

The Chief Legal Officers of each of the three Councils will ensure that the amendments are not deemed substantial, thereby ensuring that the Councils will have the comfort and protection of the already procured Framework.

The East Kent Services Committee is therefore asked to note the preferred supplier status of Civica UK Ltd and to agree and authorise the use of the Kingston-upon-Hull City Council Framework agreement (subject to the amendments referred to above). If such authorisation is given, the councils will formally enter into the agreement with Kingston-upon-Hull City Council and make payment to Kingston-upon-Hull City Council for the use of that agreement.

The East Kent Services Committee is asked to consider amending the current delegations that exist to the Director of Shared Services and Director of Collaborative Services as provided for in the "Original Report" to additionally discharge the functions and delegations listed in (2)(b)(i)-(vi) and (2)(b)(viii) above on behalf of the Committee.

Following the contract negotiations, a further report detailing the terms and conditions agreed will be presented to the East Kent Services Committee for consideration. The intention would then be for the East Kent Services Committee (acting on behalf of each of the councils) to authorise entry into such a contract. Each Council would then formally execute the contract.

3. Relevant Council Documents

Report to Councils in September 2017 and accompanying business case.
The Original Report (and Schedule 5 thereto)

4. Consultation planned or undertaken

The business case has been informed by consultation with Chief Executives, S.151 officers and Monitoring Officers/chief legal officers. Consultation with potentially affected staff is planned, as mandated by The Transfer of Undertakings (Protection of Employment) Regulations 2006.

5. Options available with reasons for suitability

(i) To accept the delegation from Councils and approve the proposed delegation to the Director of Shared Services and Director of Collaborative Services

(ii) Not to accept the delegation from Councils and approve the proposed delegation to the Director of Shared Services and Director of Collaborative Services

6. Reasons for supporting option recommended, with risk assessment

Option (i) is recommended, as it allows the negotiation of detailed terms and conditions and their presentation to EKSC for approval and authorisation to proceed to contract.

7. **Implications**

(a) Financial Implications

Agreeing the recommendation will (subject to contract) result in a significant reduction in the operating cost of EK Services and consequently reductions in the contributions made to EK Services operating costs by each of the partner councils 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 the contributions paid by the partner councils to meet the operating costs of 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 Civica UK Limited, 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 (as detailed in the accompanying business case). It will additionally 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.

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

EK Services

Alternative Delivery Options

Business Case

Version Control

Version	Description	Date
0.1	Initial draft	
0.2-0.5	Internal drafts	
0.6	Updated with additional comments from DW	27 Aug 17
0.7	Additions to Recommended Option from RN	30 Aug 17
0.8	Incorporating feedback from S.151 officers	31 Aug 17
0.9	Savings rebased from 2018-	5 Sep 17
0.10-0.11	Updated following comments from EKSB	6 Sep 17
0.12	Updated following CMT meetings	14 Sep 17
0.13	Updated Risk log and budget base	15 Sep 17
1.0	Final version for release	21 Sep 17

Distribution List

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Table of contents

Executive Summary

It is no longer possible for EK Services to operate within its own fixed budget whilst maintaining the quality of services delivered.

The partner Councils could choose to either increase the funding available to EKS by approximately £400,000 in 2018/19) (£2m over the next seven years) or choose to reduce costs by cutting staff by at least 67 posts over the same period.

Expanding the existing shared service, selling services to other public sector bodies or a traditional outsourcing contract will not generate the combination of savings and income required.

One of the options offers 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 East Kent locations (South-East 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

Background

EK Services (EKS) was formed in 2011 to provide a range of services including ICT managed services, Revenues & Benefits and Customer Services. It has been a success, delivering approximately £6m savings back to its three partner Councils whilst improving performance and increasing resilience – without significant investment.

EKS is governed under a Joint Committee arrangement and is funded by its three partner Councils via management fees as well receiving a smaller amount of 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[1], the potential for post reduction without staff redundancies is now limited. Because employee costs form the bulk of EKS' cost base (81%), maintaining the current approach is no longer sustainable in the longer term without a significant impact on staffing and consequential impact on services. Even for this current financial year, it is expected that further deletion of posts will be required, possibly with some staff reduction, to achieve a balanced budget in 2017/18.

Beyond this current year, further savings will require a significant staff reduction (an estimated 15 redundancies are required to deliver the anticipated budget savings for 2018/19) 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. In addition, the redundancy costs themselves will create further budget pressures.

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 in Benefits where the time to make payments and accuracy levels are likely to fall and Council Tax and Business Rates collection levels as well as Customer Services performance.

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.

[1] *Current EKS FTE as at Aug 2017 = 258.85; equivalent as at Aug 2016 was 270.25.*

A number of options have been explored, ranging from continuing the current direction of travel, through to more fundamental reshaping of EK Services. These can be broadly categorised as:

- "maintain" – either increase funding year on year or continue to make savings in order to keep EK Services running "as is". This equates to an additional funding requirement of £400,000[2] for 2018/19 (meaning that by Year 7, EKS would require an additional £2m per annum over current costs) or a reduction in staffing of 67 posts over the same period.
- "exploit" – continue to manage savings required and generate income through offering services. This would require staff reductions in the current areas of activity but also investment in business development, certification and the like, for a relatively small (and uncertain) return and take time to build a potential pipeline of work.
- "enhance" – leverage the EK Services brand and governance to share additional services between the three councils. However, as costs have already been taken out of the partner councils, it is highly likely that this would only generate resiliency and other, non-cashable benefits.
- "expand" – bring another partner into EK Services to gain further economies of scale. Again, as likely partners would already have undertaken their own cost-reduction measures, the return is not likely to be large enough to avoid further large-scale staff reductions. It is more likely that non-cashable benefits, such as improved resilience, will accrue.
- "partner" – enter into a contract with a commercial operator for the provision of services and the generation of income. This has the potential to safeguard employment (with the accompanying economic benefits) as well as deliver immediate cashable savings to the council plus generate income.

These options are explored in more detail in the Options Appraisal, shown at Annex A to this business case.

[2] *For 2018/19, 2019/20 and 2020/21. After this, increased funding is still required year on year, but at a slightly lower level of up to £200,000 per annum*

Current Situation

EK Services and EK Human Resources (EKHR) total operating costs for 2016/17 were £12.36m. For 2017/18 a further reduction in funding has seen the operating costs fall to £11.7m. This reflects a substantial reduction in the costs that were born by the three partner councils before the shared services were brought into being.

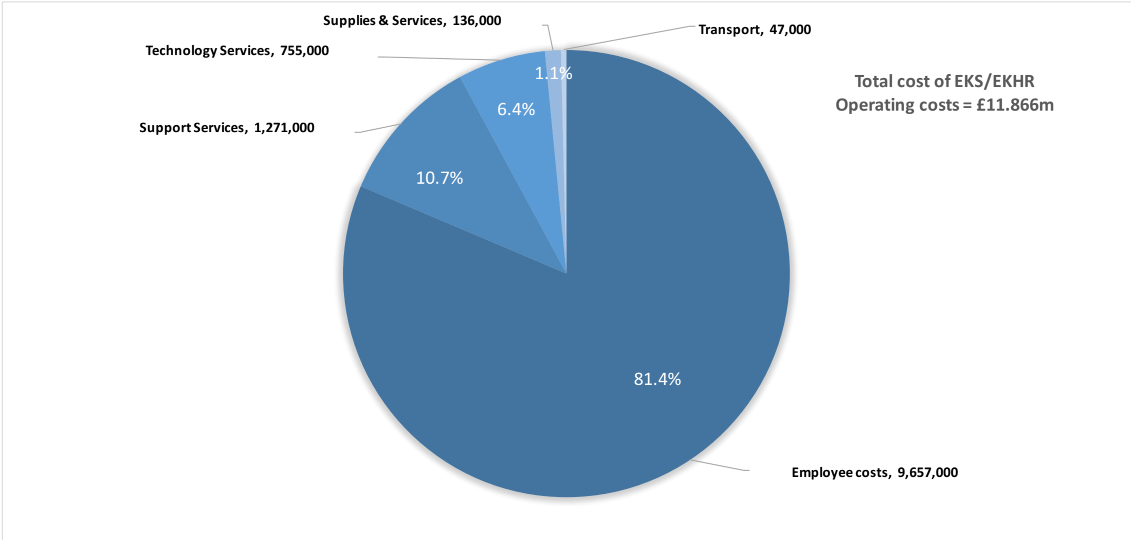

Figure 1 - EKS Operating Costs

Figure 1 outlines the current breakdown of EK Services operating costs. As would be expected, the majority of costs are staff related, with approximately £755,000 of technology and other 3rd party contract costs and £1.27m of support charges (which flow back to the councils providing those services).

In 2017/18, EKS has to achieve £832k of savings to ensure the 2017/18 budget is balanced at end of year.

On the whole, the scope for reductions in contract costs is negligible, meaning that the majority of the savings required to "stand still" need to be met from within the EKS staff budget. Whilst a move towards more "digital" delivery of services can help to compensate for staff reductions by encouraging "self-help" amongst that part of the customer base that is able, willing and using a service that lends itself to this type of delivery, this is not a universal solution and staff reductions of the scale required to deliver this amount of annual savings will inevitably start to adversely impact service quality.

Although there is some limited scope to make EK Services more resilient to such pressures (for example, by on-boarding additional services or selling services to third parties) the likely savings or income from such activities would not, on its own, be sufficient to bridge this affordability gap and maintain the current levels of service quality.

Annex A to this report gives a detailed appraisal of options available to enable EKS to continue delivering the current range of services.

Recommended Option

Maintaining the status quo with EKS containing all inflationary cost pressure and continuing to deliver savings back to their clients is not sustainable in the longer term. There is also unlikely to be an appetite for the partner councils to increase funding to EKS by the amount required to maintain a level of staffing required to deliver existing services to the current standards. Therefore, EKS in its current form, is not sustainable in the medium to long term.

Expanding the EKS offer (either by introducing additional 3-way shared services, adding an additional partner or by selling transactional services into the public sector market) are also highly unlikely to deliver the savings that are required. There would be some benefits in terms of heightened resilience, and some limited management cost reductions, but not sufficient to address the underlying affordability issues.

Unlike a traditional outsourcing arrangement, where a third-party supplier delivers services under contract for a defined price, usually extracting costs through staff reduction and redundancy, it is felt that a strategic commercial venture with a private partner has the potential to protect and grow jobs and develop services whilst delivering savings and generate additional income, and considering the pros and cons of the options detailed above, appears to be the most attractive delivery model for this service moving forward.

This preferred option offers an alternative that ensures services can be maintained without loss of staff and provides savings. It also offers a new income stream for Councils and new employment opportunities within Canterbury District, as well as across East Kent. 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. The trading hub would be located in CCC, TDC and DDC locations and service new commercial contracts with any profit being shared with the CCC, DDC and TDC. This trading hub is expected to grow and increase staff, delivering jobs growth in the District(s).

It is therefore recommended that EK Services enters into a strategic partnership contract with a commercial provider for the delivery of Revenues, Benefits, Debt Recovery and Customer Services. The residual services provided by EK Services should continue as part of a slimmed-down “EKS-lite” in order to provide continuity of governance and contract management capacity, with an intention to review this after 12-18 months of the strategic partnership coming into effect.

Financial case

This proposal has the potential to deliver significant reductions in annual operating expenditure when compared with existing spend. It also provides a way of avoiding the necessity for the councils to either commit to an increase in funding for EK Services (with compensatory savings needing to be delivered elsewhere in the organisations) or implement a large scale reduction in headcount and accept the associated impact in terms of reduced services and additional exit costs. Details are given in Annexes A and B to this report.

This option also provides a high likelihood of additional income for the councils as a result of business flowing into the proposed trading hub. This income is delivered as both a profit share from the hub operations and also desk rental as the headcount in the hub increases to service new business. There is also the option to generate additional income from EKS offering to undertake the client function to customers of the trading hub. This has proven itself elsewhere and would provide both an additional income stream pus the opportunity to build resilience and capability into the client function retained on behalf of the three Councils.

Economic case

Future funding of local government will be increasingly dependent on economic performance, with a reliance on local taxation (council tax, business rates) and New Homes Bonus or similar to support operating expenditure. This option assists by supporting and protecting the existing workforce as well as aiding the location of a growing and profitable business in the East Kent area. Specifically, the commercial venture outlined in the options appraisal gives a high likelihood of jobs growth across the three council areas over the lifetime of the contract, as well as avoiding both the costs of redundancy and the consequential impacts of job losses on the local economies of Canterbury, Dover and Thanet.

The business growth for the trading hub, in the first couple of years of operation, is estimated to deliver between 40 – 100 additional jobs generated across the three Districts, dependent of course on the progression of commercial opportunities that would be pursued.

That fact that the three councils are willing to enter into an innovative service delivery and development partnership sends a strong message that the area is "open for business" and that the local authorities are serious about working together to improve the economic outlook for the entire area through a co-ordinated East Kent- wide approach rather than through competition between districts.

Operational case

The fact that this option does not require large scale reductions in staffing means that the quality of EKS' services can be maintained. Whilst EKS has an outstanding track record of successfully introducing digital solutions to encourage self-service, driving down costly face-to-face or phone contact (and thereby enabling help to be targeted at those who need the most assistance), there is a practical limit on what can be achieved in the short term and the cost:benefit ratio for additional investment gradually starts to erode.

The commercial venture enables staffing to be maintained at levels that preserves the ability of EKS to effectively serve its customer base, whilst providing flexibility to better align capacity to peaks and troughs in demand. It also provides for the ongoing development of business cases to identify opportunities that may bring about further improvements in service delivery, reduced costs or both, which will provide for the continued development of services to meet the changing demands of EKS' (and the Councils') clients. It also recognises the "direction of travel" that the Councils have towards the modernisation and increasing digitisation of services and seeks to continue to develop this work, not constrain it.

A financial analysis of the likely savings that would accrue and other commercial information is at the confidential Annex B to this report.

Control and Governance

The proposed operating model and partnership approach with a commercial provider is well established in other parts of the country and feedback from other local authorities who have entered into similar arrangements is very positive.

The proposed contractual arrangement maintains similar governance to the existing EKS model with oversight via the East Kent Services Board (EKSB) and East Kent Services Committee (EKSC) being maintained and with the opportunity to design a robust joint 'client side' structure. The delivery of Income & Payments services in particular is mostly statutory (and very transactional) work that is delivered in line with central government direction, which will remain. Where Councils have the ability to set policy (e.g. determining levels of Council Tax, the details of Council Tax Support schemes, etc.) this will remain. Similarly, external audit and internal audit managed by East Kent Audit Partnership (EKAP) will remain in place to provide assurance.

Services will continue to be branded as Council services to the public and customer service advisors will also continue to answer calls or present themselves in accordance with council requirements. Support and specialist advice to Council officers will continue to be provided by the existing EKS subject matter experts, albeit as contracted personnel.

The current client arrangements for EKS include monthly and quarterly performance reports, written by EKS, presented to each Council client officer. This is supplemented by the Director of Shared Service providing regular contact on a one to one basis with each senior client officer (S151s) and reporting to chief officers at East Kent Services Board. Additional engagement and reporting takes place at various council committees as required. The expectation for any alternative service delivery will be to maintain similar reporting and contact via the residual EKS joint client structure, if this model is agreed. Any contract for services will include appropriate performance reporting requirements and support to client and council meetings as required. The vision, is to maintain the governance and reporting arrangements as close to the existing arrangements and to minimise impact on the three Councils as much as possible. There is scope to develop these client arrangements and offer these services to hub customers, providing an additional income stream.

A separate issue is the future of the "residual" parts of EKS, should the Revenues, Benefits, Customer Services and debt recovery functions be moved into this form of strategic partnership. A separate report will outline the options for the residual EKS, but this should be decoupled from the immediate decision about entering into a strategic partnership.

Procurement Route

Following the publication of an OJEU notice in September 2014, Hull City Council undertook a competitive dialogue process to tender a framework agreement for the provision of (inter alia) Revenue & Benefits and ancillary services. This Framework agreement is open for other local authorities to use and this is the recommended procurement route for reasons of both speed and cost. The alternative (of undertaking a full OJEU compliant procurement process), whilst an option, is not recommended because of the likely time frame to complete (in excess of 12 months) and subsequent delay in realising both savings and income, plus the associated staffing, legal and procurement team costs that this would incur.

Residual Services

If the decision is taken to enter into a strategic partnership contract, the future structure and operation of those EKS services not "in-scope" needs to be considered. There are four main options:

- Continue to share services between the three councils but move to a "lead authority" model for the residual services (ICT and HR), removing the EKS management overhead but establish a joint client to manage any third part contract
- Continue the operation of a slimmed-down EK Services ("EKS-lite") in order to provide continuity of governance and contract management capacity
- Revert to individual stand-alone services for each Council (in house arrangements for ICT and HR) but establish a joint client to manage any third party contract
- Outsource the residual parts of EK Services and create a larger client structure for the management of the separate functions (ICT, HR and the partnership contract)

Details of these options are provided in a separate report, "EK Services – Residual Structure Options" which will be presented in due course following further work. In summary, the recommendation is to maintain an "EKS-lite" in order to provide transition and contract management capacity, along with an opportunity for each council to take stock and consider what appetite (if any) there is for the future development of an expanded shared services and / or exploit some of the residual services such as selling payroll or ICT consultancy. "EKS-Lite" should then be reviewed after 12-18 months by which time savings and income from the strategic partnership should be realised and the management arrangements running smoothly.

Benefits, risks and opportunities

This option delivers a number of quantifiable benefits and financial, economic and operational opportunities to the councils, for example:

- Financial savings from contract go-live date
- Guaranteed performance levels and quality (to be agreed as part of detailed contract negotiation)
- Avoidance of redundancy for transferring staff (and the cost for EKS)
- Staff job security for the contract duration
- Staff terms and conditions (including LGPS) protected
- Creation of a partnership style of operation where added value from service growth is shared
- New job creation across the 3 Council areas
- Provides flexibility for the Councils to consider additional development (or otherwise) of their shared services activity
- Risk of impacts from new burdens (for example, the introduction of apprenticeship levy, increased employee costs) is reduced

The risks associated with this proposal are considered manageable. A Risk Log is provided at Annex B to this report.

Some points that should be noted (and managed either as part of a formal risk management process, or through more informal engagement) are:

- Contract management capacity either within a residual EK Services or as a shared function on behalf of the client councils would need to be strengthened
- Potential complexity of aligning client-side functions in a 4-way contract unless this function remains with a residual EK Services
- Long term budget commitment (albeit at a reduced level) required from contracting Councils
- Impact of bringing staff back into the Councils at contract end is not quantifiable at present but should be reviewed in good time before end of contract or any other break-points
- Staff concerns around a transfer to a private sector employer
- Potential for inflation-linked contract price growth (can be mitigated through contract negotiation and expected contract review points to review pricing)
- Flexibility for EKS to be used to deliver further budget savings in the future is reduced, unless a decision is made to either maintain or build as required an appropriate management and governance structure

ANNEX A
to Business Case

Options Appraisal

Option 1 – “Maintain”

Summary:

Refine and implement the new operating model for EK Services, exploit the existing digital ambitions as far as possible and seek further funding from councils or, alternatively, reduce costs through staff reduction

Strengths	Weaknesses
Currently very competitive costs	Risk to service, collection levels, error bonus
Mature, stable service offering	Realistic limitation on savings
Nationally recognised, award winning service with a high reputation across the sector	Costs of exit via redundancy
Track record of achieving more for less	Impact on local employment
Good relationship with the 3 councils with a high level of trust	Universal Credit looming so greater redundancies or redeployments ahead. Reducing Admin Grants likely to add further budget pressure
Highly responsive to council requirements	Large increase in charges to Councils if they desire to maintain the current levels of staffing and service quality. This would probably be to the detriment of other council services

Analysis:

As detailed above, the participating Councils have hitherto required EKS to operate within its own fixed budget and therefore inflationary pressure (including pay and contract inflation) means that year-on-year savings between £300K and £500K have historically been needed to maintain the status quo. This will remain and, with a potentially deteriorating fiscal climate, increasing inflationary pressure may add further budget pressure.

If the councils wished to maintain EKS in "steady state" with no further fundamental changes, and based on the assumptions for growth shown below), additional funding of c. £400,000 per year (leading to in an increased expenditure of £2.0m per annum by year 7) would be required, assuming

- employee related inflation of 2% per annum
- other operating cost inflation of 4%[1] per annum

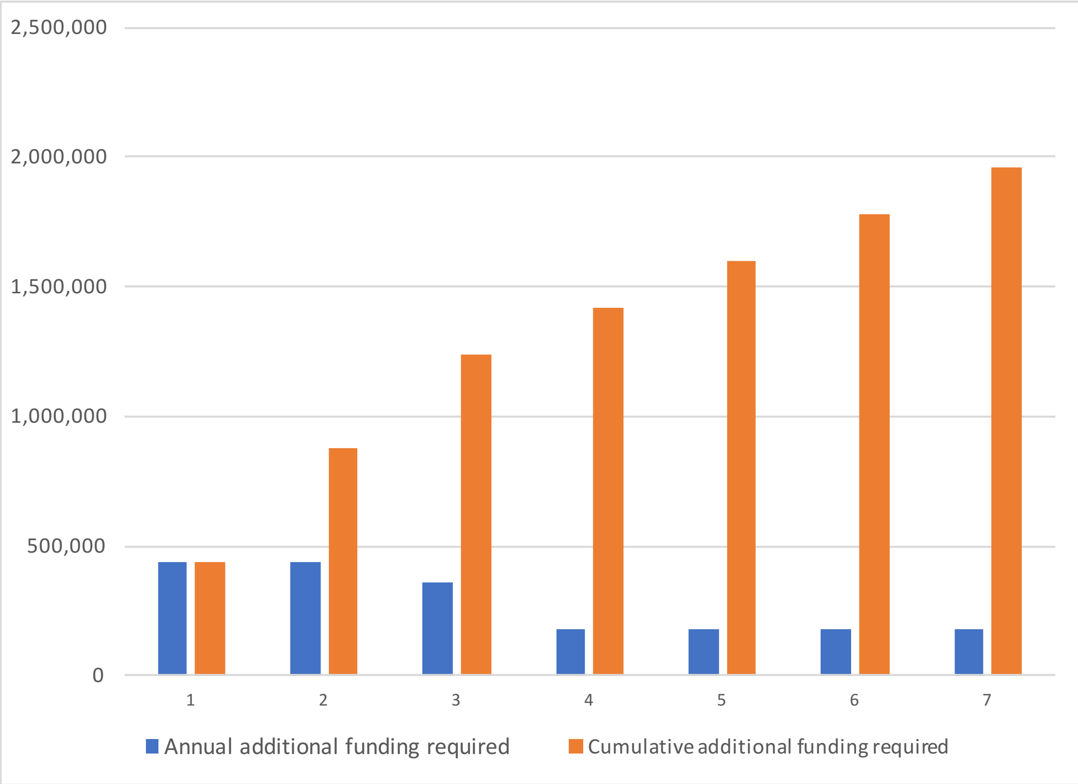

Figure 1 - Additional Council funding requirements to maintain status quo[2]

In reality, the programme of digital work in place within EK Services to move high volume transactional services online (for example the introduction of the IEG4 Digital Benefits product) will result in some modest staff reductions (as these form part of the business case for the adoption of IEG4) but these savings are largely used to offset the increased licensing, support and maintenance costs of the new product suite and should more accurately be viewed as a cost avoidance measure.

Should this increase in funding not be acceptable to the three Councils, EKS would be required to achieve ongoing savings of an equal amount.

[1] *This figure is based on the assumption that support contracts will be indexed against RPI or UK IT industry salary inflation. It also assumes that a percentage of support contracts are priced in USD and therefore subject to exchange rate fluctuation*

[2] *The growth requirement reduces after years 2& 3 due to an expectation of staff reductions as a result of normal efficiency activities and the anticipated changes to Universal Credit delivery*

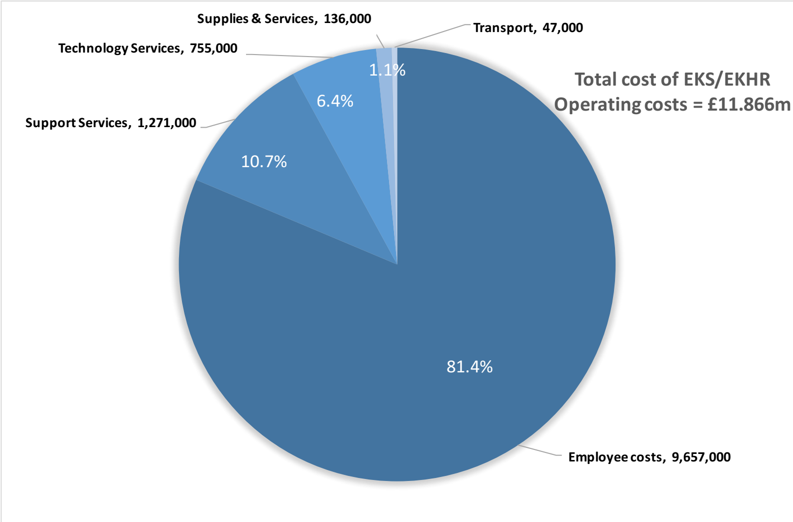

Figure 2 - EKS Operating Costs

Figure 2 outlines the current breakdown of EK Services operating costs. As would be expected, the majority of costs are staff related, with approximately £800,000 of technology and other 3rd party contract costs and £1.2m of support charges (which flow back to the councils providing those services).

On the whole, the scope for compensatory reductions in contract costs is negligible, meaning that the majority of the savings required to "stand still" need to be met from within the EKS staff budget. Assuming:

- the Councils are happy to maintain the current level of funding to EKS
- employee related inflation of 2% per annum
- overall contract inflation of 4% per annum

Savings of around 4% of budget are required year on year. Over a 7-year period, this equates to a 21% reduction in EKS staff - circa 67 posts by 2024/25 (Year 7), profiled as:

- 15 FTE in 2018/19
- A further 52 FTE posts removed over the remaining period to balance budget

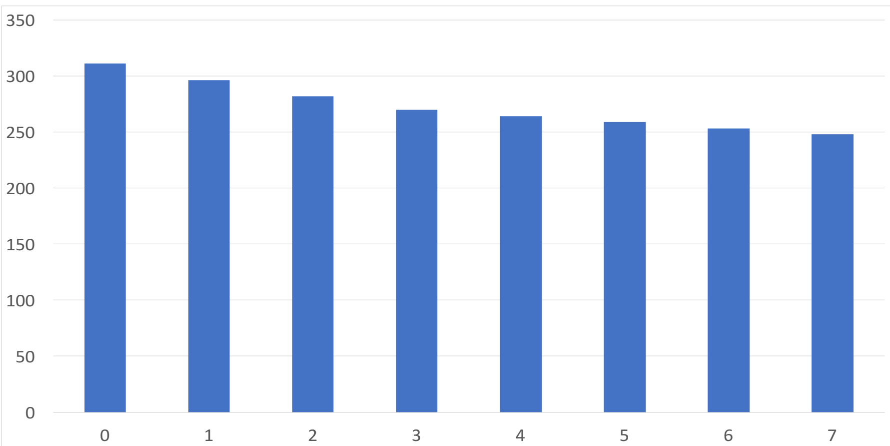

Figure 3-Headcount reduction required for "Maintain"

A reduction in staff of this scale has significant impacts, both on the organisation and the wider local economy. CIPD studies indicate the average cost of making a redundancy is £16,375 – before the cost to the treasury of paying benefits and lost tax revenues, the cost to the economy of lost spending, and the personal trauma. The impact on the residual organisation should not be underestimated – research undertaken by Bain revealed that nearly half of UK organizations have made redundancies and the move proved to be the most damaging kind of workplace change as it undermines morale, confidence, trust and comfort of staff.

Without having precise details of staff involved in any redundancy scenario, it is not possible to give totally accurate figures for the redundancy costs or actuarial strain costs to the pension scheme. However, assuming that:

- 40% of redundancies are Grade F staff, 50% Grade G and 10% Grade I
- Redundant posts are paid at the top of the grade
- The average length of service and age for each grade is:

Grade	Average age	Average length of service
F	43	10
G	46	17
I	46	17

then the costs of redundancy for 67 staff (excluding pension strain impact) could be in the region of £1,200,000.

If the Councils wish to reduce the charges (management fees) paid to operate EKS, as has been the norm over the past six years, further savings would be required above those listed above.

Assuming:

- a continued annual reduction in charges of £390,000 per year[3]
- employee related inflation of 2% per annum
- overall contract inflation of 4% per annum

a 48% reduction in headcount would be required over the same 7-year period to remain within budget (154 FTE members of staff) profiled as:

- 28 FTE in 2018/19
- 27 FTE in 2019/20
- Further 99 FTE posts removed over the remaining period to balance budget

[3] *Apportioned as: CCC: £133k DDC £102k TDC £148k, based on 2017/18 management fees*

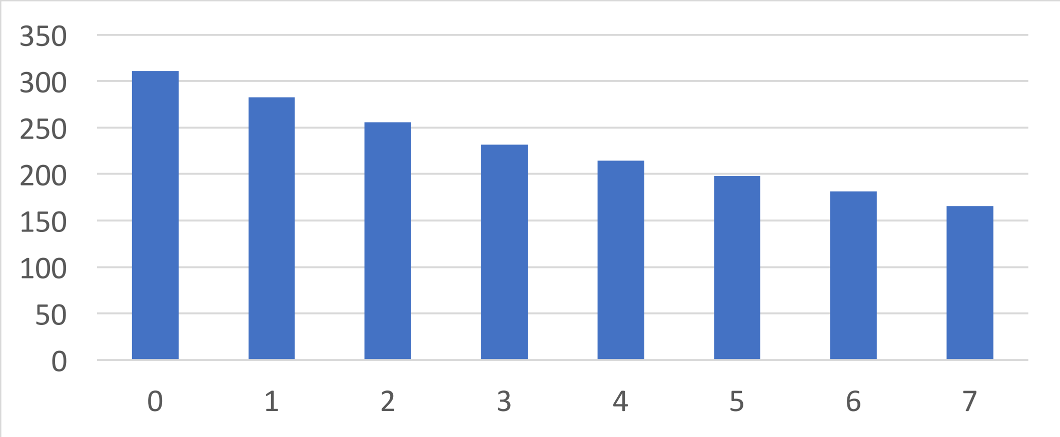

Figure 4 - EKS staff count over time including management charge reductions

With the same assumptions and caveats as per the previous scenario, the costs of redundancy on this scale could be in the region of £2,250,000.

Any downsizing of operations on this scale brings with it some difficult decisions – including which services to allow to degrade, which to maintain and which to cease entirely.

Inevitably, discretionary services would need to be reduced first, in order to safeguard as far as possible, the delivery of statutory services. These discretionary services (for example, welfare support, digital engagement, business rates analysis) are highly valued by EKS' clients but are exposed to the greatest risk of degradation or cessation.

Such an option is highly likely to be untenable, creating a situation which will result in a failure of service at a major scale.

Option 2 - “Exploit”

Summary:

As per the maintain option plus manage the need to contain inflation growth and deliver savings via income from new business.

Strengths	Weaknesses
Currently very competitive costs	Not structured so will require investment in areas such as business development, certification etc, starting from zero baseline
Mature, stable service offering	Need realism over quantity and speed of pipeline / delivery (4 & 5 figure sums more likely, not 6 figure)
Existing corporate layer and governance structures provide a sound foundation for expansion	Competing against other players offering solutions at scale and competitive pricing
Nationally recognised, award winning service with a high reputation across the sector	Will not prevent job losses from areas such as Benefits
Track record of achieving more for less	Lack of flexibility in the current workforce to deliver income generating services out of EK Services’ current geographical area
	To be effective would need to seek business beyond public bodies and therefore establishment of a Teckal compliant company (increasing set up costs and risk)

Analysis:

This option explores the potential for selling current services to third parties.

The opportunities this option presents are limited to the type of transactional services already provided to the partner councils by EK Services. Examples would include payroll, Revenues & Benefits resilience (offering overflow processing services), training and miscellaneous consultancy services. Informal market testing and spend analysis indicates that the profit from such activities is likely to be low, with typical profit margins of 5-10%. The development of a marketing and commercial strategy and the time required to develop a pipeline of potential opportunities means that any income is likely to be very low for the first few years and even beyond that, limited to “five figure” profits.

Councils would need to be prepared to take a commercial approach to risk and, in order to create the decision-making tempo required for a Company to operate successfully in a commercial environment, the establishment of a separate legal entity (a Teckal compliant company[4]) is likely.

This can be done but would require financial and resource investment to set up and growth in operating costs would be required.

The time required to establish such a model and the time needed to develop the commercial pipeline means that EKS would still require the initial few years of investment as outlined within Option 1 (Maintain) or reduce staffing levels by circa 40 staff. There is a risk that such staffing reduction would create service failure that in turn would impact on the ability for EKS to win any commercial contracts. A superficial survey of set-up costs for other, similar public sector based companies providing similar services suggests that initial investment of upwards of £200,000 would be required – mainly to set up a realistic business development function but also to gain the levels of professional, corporate and quality certifications that the market would reasonably expect from a supplier.

[4] *The local authority must control all of the shares in the company and must also exercise effective day-to-day control over its affairs; in other words, the same as the relationship between the council and one of its internal directorates. This can be achieved through the governance structure. The company must be "inwardly and not outwardly focused". The directive requires that at least 80% of the activity of the Teckal company – that is, over 80% of its turnover – must be for its public sector owners*

Option 3 – “Enhance”

Summary:

Look to bring other (transactional) council services into EK Services

Strengths	Weaknesses
Leverages the existing EKS corporate layer and governance	Streamline and improves value via process improvement through scale and resilience rather than deliver significant savings
Greater resilience and helps with specialist areas where recruitment / retaining is challenging	Job losses remain in areas such as Benefits through UC and Customer Services via Digital
Proven expertise in running shared services and sound governance reduces risk	Helps councils deliver savings but existing EKS staff (300+) still require inflationary pressure to be absorbed
Proven ability to both transform and deliver services	Main driver would be added resilience and not cost reduction as most clients would already have stripped out excess costs

Analysis:

Again, the services that could lend themselves to being offer by a shared service arrangement are those that are largely transactional and non-contentious. Examples could be procurement, legal services and transactional finance (with strategic finance, such as financial planning, treasury management etc.) being considered as more likely to be out of scope and maintained in house.

Experience of shared service implementation has demonstrated that some financial savings are possible. As a benchmark, staff cost reductions in the region of 13% will typically accrue along with approximately an 8% reduction on external spend as support, maintenance and other contracts are re-negotiated.

However, it is important to note that most, if not all local authority services have already removed significant operating costs over the last few years and in most cases any significant staff reductions would need to be balanced against the acceptability of declining service quality standards. It is therefore more likely that the benefits of on-boarding additional shared services into EKS would be improved resilience and the ability to maintain current levels of performance, rather than the delivery of worthwhile, cashable savings.

Option 4 - "Expand"

Summary:

Bring additional local authorities into the existing EK Services provision

Strengths	Weaknesses
Leverages the corporate layer and governance	Level of savings not likely to be as large as one may expect, other LAs already on a journey of staff reduction so economies limited
Greater resilience and helps with specialist areas where recruitment / retaining is challenging	Universal Credit looming so greater redundancies ahead
Complements any other work within East Kent that may seek to assess opportunities for closer working	Shared Service partnerships greater than four become very challenging; usually only achievable via a contractual style relationship rather than partner approach
Should generate further savings through sharing fixed costs, subject to specific individual service business cases	Extended time frame for delivery of savings and significant effort required
Proven expertise in running shared services and sound governance reduces risk	Need for investment for infrastructure alignment and potential systems migration
Proven ability to both transform and deliver services	Could face significant cultural and/or political differences
	Lack of flexibility in the current workforce to manage services out of EK Services' current geographical area

Analysis:

This option does offer scope for the delivery of savings and income from on-boarding services from other local authorities. The attractiveness of this option is however, diminishing over time as most councils are already undertaking aggressive programmes of cost reduction and service modernisation.

Taking as an example, the provision of Revenues & Benefits and Customer Services provision to another district council, savings are achievable (mainly through staff reduction) although significant up-front costs for systems migration are incurred. The table overleaf shows a possible indication of total costs and savings (to be split between all participating councils) for such an onboarding over four years. This includes growth for platform migration and increased running costs for EKS against the potential savings in software, ICT infrastructure and staffing:

Item	Year 1	Year 2	Year 3	Year 4
Software licencing & support		(42,300.00)	(42,300.00)	(42,300.00)
General ICT/Infrastructure costs		(10,000.00)	(10,000.00)	(10,000.00)
Staff reductions - management	(60,000.00)	(80,000.00)	(80,000.00)	(80,000.00)
Staff reductions - support staff	(30,000.00)	(60,000.00)	(60,000.00)	(60,000.00)
Staff reduction - processing staff		(60,000.00)	(90,000.00)	(90,000.00)
Additional capacity contract reduction		(30,000.00)	(30,000.00)	(30,000.00)
Platform migration costs	150,000.00	50,000.00		
Increased EKS costs estimate	30,000.00	30,000.00	30,000.00	30,000.00
Total Cost/(Saving) for four Councils combined	90,000.00	(202,300.00)	(282,300.00)	(282,300.00)

For simplicity, assuming an even distribution of savings, EKS could expect to achieve a saving in the region of £211,000 (75% of the anticipated savings) from the third year of operation.

Option 5 - "Strategic Partnership"

Summary:

Use the existing service as a basis for the development of a locally-based processing hub run by a commercial organisation but sharing growth opportunities through profit share arrangements.

Strengths	Weaknesses
Financial savings from contract go-live date	Contract management capacity either with a residual EK Services of the client councils would need to be strengthened
Guaranteed performance levels and quality	Potential complexity of aligning client-side functions in a 4-way contract unless this function remains with a residual EK Services
Avoidance of redundancy for transferring staff	Long term budget commitment (albeit at a reduced level) required from contracting Councils
Staff job security for the contract duration	Impact of bringing staff back into the Councils at contract end is not quantifiable at present
Staff terms and conditions (including LGPS) protected	Staff concerns around a transfer to a private sector employer
Indexation increases likely to be less than maintaining status quo	Potential for inflation-linked contract price growth
Creation of a partnership style of operation where added value from service growth is shared	Flexibility for EKS to be used to deliver further budget savings in the future is reduced
Local new job creation	
Provides flexibility for the Councils to consider parallel "maintain" or "enhance" options	
Risk of impacts from new burdens (eg introduction of apprenticeship levy, increased employee costs) is reduced	

Analysis:

Unlike a traditional outsourcing arrangement, where a third-party supplier delivers services under contract for a defined price, usually extracting costs through staff reduction and redundancy, the proposed strategic partnership model with a supplier offers more benefits over and above a simple reduction in operating costs. These typically include a mixture of: direct cost reductions, profit share from new business generation and economic development benefits from delivering jobs growth and accompanying spend into the local economy.

This is a relatively well-established business model, with several councils across the country having entered into similar arrangements over the past few years. At the same time, the market for business process outsourcing (BPO) activities in both public and private sector has increased as a result of organisations needing to deliver reductions in operating costs as well as providing some certainly around future expenditure and the “cost of doing business.”

As part of their expansion plans in the Business Process Outsourcing (BPO) market, Civica are proposing to establish a trading hub and centre of excellence (CoE) in the south east to complement their existing locations (Hull, South Worcester, Denbighshire and Gloucester). EK Services have been exploring the possibility of a commercial contract with a partnership approach, with Civica. This would seek to provide a core contract delivering existing Income, Payments and Customer Services functions to a defined level of performance and quality, along with a “Centre of Excellence” (termed “the Hub”), based within the Councils' existing premises (and generating a rental income), providing additional capacity to Civica's existing on-demand services that are marketed nationally and internationally as well as providing a platform to provide other transactional contracts to new business opportunities.

In practice, this means that staff would transfer (under TUPE regulation) to the chosen supplier and continue to deliver services for EKS as before, from the same locations, with no visible change to the councils or customers. As the new provider streamlines service delivery, staff can be moved from providing services to EKS under the “core contract” into a team within the Hub that provides services to third parties, reinforced with existing or newly recruited Civica staff. This results in income to the councils (as a result of a profit share arrangement for revenue generated by the Hub plus rental for any additional desk space that is required within the existing EKS locations as a result of staffing growth.)

This provides a number of expected benefits to EK Services and its partner Councils:

- Financial savings from day 1;
- Guaranteed performance levels and quality;
- Guaranteeing approx. 220 jobs for the duration of the contract (i.e. up to 7 to 10 years);
- Avoidance of imminent redundancy for up to 30 FTE;
- Staff terms and conditions (including LGPS) protected;
- Ongoing investment in the service;
- Creation of an East Kent based processing hub (“Centre of Excellence”) to be operated on a profit sharing basis plus rent per desk space generating new income to the Councils;
- Local new job creation;

The trading hub will have exclusivity for new work from new business across Kent, Sussex, Surrey, SE London and Essex. It is also used to provide resilience to the core contract if needed, which de-risks the chance of performance slide due to staff erosion as other contracts often find.

A financial analysis of the likely savings that would accrue is detailed in the confidential Annex B to this report, although it is anticipated that the formal contract negotiation process would result in additional savings being identified.

A summary of how this type of partnership has worked in parts of the country, along with an explanation of the business development activity proposed, is given in Annex D.

At contract end, the trading hub operation is expected to operate from their existing locations, providing a continued rental income to the councils. The “core contract” (delivery of the councils Revenues, Benefits and Customer Services functions) could be re-procured (aiming for the market to produce an equivalent or better commercial offer than the original contract) or alternatively choose to move this provision back in-house, whilst complying with the TUPE regulations in force at that time.

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