PROGRAMME ATHENA

'State of Readiness' Guide

for Local Authorities

June 2013

Supporting Document 14 (of 14) –

Cambridge and Northants' Reports & Business Case

(as appendix to February 2010 report)

Capital Ambition is part of LONDON COUNCILS

Prepared by

Rita Greenwood, Athena Programme Director &

Nadira Hussain, Athena Programme Manager

Agenda Item No: 18

SHARED SERVICES PROGRAMME UPDATE

To:	**Cabinet**		
Date:	**26th February, 2008**		
From:	**Deputy Chief Executive (Corporate Services)**		
Electoral division(s):	**All**		
Forward Plan ref:	***Not applicable***	*Key decision:*	**No**
Purpose:	**To update Cabinet on progress with the Council's Shared Services Programme and outline the steps proposed to take the programme forward.**		
Recommendation:	**That Cabinet reviews the progress made to date and confirms support for the proposal to conduct further market-testing activity to help inform the development of the Programme Business Case**		

	Officer contact:		***Member contact:***
Name:	Stephen Moir	Name:	Councillor John Reynolds
Post:	Director of People and Policy	Portfolio:	Cabinet Member for Corporate Services
Email:	stephen.moir@cambridgeshire.gov.uk	Email:	John.Reynolds@cambridgeshire.gov.uk
Tel:	(01223) 699235	Tel:	07720 379699

1 INTRODUCTION

1.1 At their meeting on 23rd January 2007 Cabinet approved a plan for the Shared Services Programme, which included collaborative working with Northamptonshire County Council (NCC) and preparing a business case for proceeding to a Joint Venture.

1.2 This paper updates Cabinet with progress on the Programme and sets out the proposed way forward for the further development of the business case.

2 BACKGROUND

2.1 The programme approved by Cabinet in January included the following stages:

- Cambridgeshire County Council (CCC) and Northamptonshire County Council (NCC) would form a collaborative partnership
- CCC would negotiate with NCC to reach agreement on the reuse of the Intellectual Property inherent in the configured e-business suite and also for any additional support NCC require to implement and use the suite and CCC would agree with NCC based on these negotiations a financial contribution for this
- The partnership would commission Fujitsu to move the e-business suite to a hardware platform sufficiently resilient to support both authorities and to upgrade the software to the latest version.
- As they implemented the suite NCC would work with CCC to improve business processes with Oracle and PriceWaterhouse Coopers advising on best practice.
- In parallel the two authorities would plan an improvement programme including sharing staff and building the business case for procuring a joint venture.

2.2 Following the Cabinet meeting, both Councils signed a Memorandum of Agreement, which described how they would work together towards their joint objectives, and project teams were put in place.

3 PROGRESS TO DATE

3.1 Work on improving the e-business suite platform and improvement of business processes based on the suite has progressed well. The first objective, to move CCC's e-business suite to a resilient hardware platform and upgrade it to the latest version of the software (version 11.5.10) has been completed and feedback from users indicates that the system is performing very well with much faster response times. The new hardware infrastructure, which is owned and managed by Fujitsu, also allows for much faster recovery in the event of a system failure.

3.2 CCC and NCC staff have been working together, both informally and via a number of facilitated workshops, to design business processes which make the most efficient use of the system and these have been agreed and documented. Both councils will be moving towards using these processes and have also agreed a series of developments for the future, which will increase efficiency savings, such as invoice scanning.

3.3 A shared version of the system has been built in a test environment, and initial testing of the shared processes has been successful. Further testing of the shared system is planned for February. The planned date for the shared system to "go live" is 1st April 2008.

3.4 Work is also underway to create a shared systems administration team to support the shared system.

3.5 As part of this phase of the programme CCC has agreed with Northamptonshire County Council the contribution they will pay in return for the use of our configured e-business suite and agreed a discount on the current e-business suite support contract with Fujitsu to reflect the economies of scale available when two councils share the same system.

3.6 CCC and NCC have also been working to negotiate the Tripartite/Governance Agreement between NCC, CCC and Fujitsu setting out how the shared system will be managed, and the Partnership Agreement between NCC and CCC. This work is targeted to be completed before the end of the February 2008.

4 THE NEXT PHASE OF THE PROGRAMME

4.1 In parallel with the work outlined above, CCC and NCC have been working on a business case, which considers the options for developing the shared service further. As requested by Cabinet, this has included investigating the possibility of working with a private sector partner, most likely through a joint venture, to set up a Local Government Shared Services Centre which could offer services to both CCC and NCC but also to other local authorities. In August, CCC and NCC agreed a joint vision statement which indicated that they are working towards:

The creation of a centre from which Local Government can easily source best practice corporate/back office services and solutions

4.2 It is envisaged that the local government shared services centre will support Cambridgeshire in its delivery of high quality, low cost corporate services in the short term, and also deliver sustainable income in the future as it establishes a growing local authority customer base. This Local Government Shared Services Centre will deliver a standard set of corporate and transactional services to Local Authorities and other public bodies, offering them a different option from a standard outsourcing. It will also be different from other Shared Service Centres emerging in the market place as it will be based upon a proven, local government, best practice platform, and local government would have a controlling stake.

4.3 In undertaking these investigations, the councils have sought advice from 4Ps, Local Government's Project Delivery Specialist, and from Sharpe Pritchard, who are one of the leading legal firms supporting similar projects.

4.4 In late 2007, NCC appointed a new Chief Executive. Upon taking up the post, she undertook a review of NCC's strategy. Following this review, NCC reconfirmed their support for the original strategy to share services with CCC, to create a local government shared services centre, and work to share the system and develop the business case has continued with a clear commitment to working together in the future.

5 THE INITIAL BUSINESS CASE

5.1 Work to date indicates that CCC will realise a number of benefits from moving forward with the development of a Local Government Shared Services Centre:

- Cost reduction by working with a private sector partner experienced in efficient business process delivery but also by economies of scale as new authorities take services from the centre.
- Income generation by being a shareholder of a commercial venture CCC would expect to receive dividends from any profits.
- Release of professional staff to concentrate on added value services
- Improved service to internal customers by moving to industry standard best practice
- Continued improvement in CPA scores in Use of Resources
- Improved profile as a leading innovator in the delivery of corporate services.

5.2 Under the current model, CCC and NCC would initially transfer transactional corporate services to the Local Government Shared Services Centre. This would include financial and human resources transactional processing activity as well as other services related to the eBusiness Suite, such as system infrastructure hosting and application management.

5.3 The financial modelling completed to date has been based on this scope and it projects costs, savings and income forward to 2018/19. It indicates that the creation of a local government shared services centre, with the help of a private sector partner, would generate income of around £5.5million, savings of around £11.8million, and incur costs of around £4million (both capital and revenue). The cumulative net income to 2018/19 is therefore currently estimated to be approximately £13.3million. Achieving this maximized longer-term gain will require some upfront investment and a consequent re-phasing of the original savings planned. This re-profiling has been reflected in the Integrated Planning Process and proposed Council budget for 2008/09. NB All these figures are estimates, to be refined as part of the 'soft' market test.

6 THE PROPOSED WAY FORWARD

6.1 The work undertaken to date indicates that the creation of a local government shared services centre, with the help of a private sector partner, would bring significant benefits to CCC. However, further work is needed before a final business case can be produced. The proposed way forward, outlined below, has been informed by discussions with 4Ps and external advisors, as well as input from Corporate Services Spokes and Corporate Services Scrutiny.

6.2 Advice from 4Ps, and the experience of other councils, is that a ‘soft’ market test, via a Prior Information Notice (PIN), would give the councils the opportunity to test the assumptions in the business case with the market, engage with potential suppliers, and invite them to suggest innovative ways of delivering the solution. It may also shorten any procurement process by helping the Council to consider the best future models before commencing a full procurement exercise.

6.3 The soft market test will also be a way of engaging with other local authorities that could be potential partners or customers of the venture. In addition to Northamptonshire, Northumberland County Council is particularly interested in the shared services programme and is seeking approval from its executive to join in the soft market test and share some of the cost.

6.4 Through this market-testing process we will continue to seek advice and challenge from the external experts working with us on the programme, including 4Ps and external legal and financial advisors, and we will continue to engage our external auditors to help provide assurance that the proposed way forward represents value for money.

6.5 The results of the soft market test should be available at the end of June and will inform a further decision about how to move forward with the programme. The decision about moving forward with any procurement will be made by Cabinet at this stage.

6.6 The table below indicates the timescales for taking this work forward:

April 2008	**Place Prior Information Notice**
May 2008	**Issue questionnaires to interested parties** **Hold open days for interested companies and interested customers**
June 2008	**Evaluate responses from companies** **Evaluate partner/customer interest** **Agree preferred shared service delivery models** **Refine business case** **Agree procurement strategy**
July 2008	**Report to Cabinet and decision about way forward**

7 FINANCIAL AND PERFORMANCE IMPLICATIONS

7.1 Underpinning the shared services strategy is a requirement both to improve performance and reduce costs.

7.2 Some of the financial implications are outlined in the Initial Business Case section. Costs for the soft market testing activity will be shared between CCC and NCC, and potentially Northumberland. Total cost to CCC is expected to be approximately £100,000.

7.3 Alongside the Chartered Institute for Public Finance and Accountancy (CIPFA) benchmarking exercises, CCC has been working with Oracle to benchmark our processes and compare the results with industry best practice and the results of this exercise will dictate the performance expectations of the shared services centre in the future.

8 RISK MANAGEMENT IMPLICATIONS

8.1 The strategic risks of this programme are currently identified as:

- Inability to broker a good deal because the proposal is unattractive to potential private sector partners. The soft market test is designed to mitigate this risk by engaging with potential private sector partners before committing to the procurement.

- Other Local Authorities who may be future partners or customers are not attracted to the proposition. Engagement with other local authorities during the soft market test will help us raise the profile of the programme and gauge potential interest in the future.

- The Council lacks the specific commercial expertise to develop a new organisation that can trade in the market. The business case allows for the appointment of a number of advisors to assist us in the programme, and 4Ps providing free support to the programme.

9 CLIMATE CHANGE IMPLICATIONS

9.1 The final location of the shared services centre will determine future travel patterns for the staff employed there. At this stage in the programme it is too early to identify these in any detail, but they will be considered during the programme.

Source Documents	Location
Reports to Cabinet 22nd January 2007 Corporate Services Scrutiny on 17th January	Room 114A Shire Hall

Agenda Item No: 9

LOCAL GOVERNMENT SHARED SERVICES

To:	**Cabinet**		
Date:	**15th December 2009**		
From:	**Corporate Director: Finance, Property and Performance**		
Electoral division(s):	**ALL**		
Forward Plan ref:	**2009 / 011**	*Key decision:*	**No**
Purpose:	**To provide the Cabinet with an update in respect of the Local Government Shared Services Programme and an overview of related initiatives and issues prior to formal consideration of the future direction for the Local Government Shared Services Programme in early 2010.**		
Recommendation:	**That Cabinet considers the progress made with the Local Government Shared Services Programme to date and notes the related activities that may influence or impact upon the future direction of this Programme.**		

	Officer contact:		***Member contact***
Name:	Nick Dawe	Name:	Councillor J. Reynolds
Post:	Corporate Director: Finance, Property and Performance	Portfolio:	Cabinet Member for Resources and Performance
Email:	nicholas.dawe@cambridgeshire.gov.uk	Email:	John.Reynolds@cambridgeshire.gov.uk
Tel:	01223 699236	Tel:	01223 699173

1.0 INTRODUCTION

1.1 Cambridgeshire County Council has previously committed itself to the development of Local Government Shared Services (LGSS) in partnership with Northamptonshire County Council and Slough Borough Council. This programme has previously received Cabinet approval to specifically focus upon transactional activities within the Corporate functions of the authority, such as invoice processing and payroll and associated activities that are delivered through the Oracle E-Business Suite.

1.2 Whilst the Local Government Shared Services Programme has made progress, the context within which the programme operates has been changing significantly, not least with the changes to the economic and financial position for public authorities, the recent publication by Government of 'Putting the Frontline First: Smarter Government" and, at a more local level, the potential implications and opportunities arising from the 'Making Cambridgeshire Count' Project.

2.0 BACKGROUND

2.1 Cambridgeshire County Council has been engaged with Northamptonshire County Council and more recently Slough Borough Council to progress the development of shared corporate support services and functions. This programme has been primarily focussed upon the sharing of transactional or process based activities that each Council needs to operate a range of 'back office' functions and activities, predominantly those which are delivered via the integrated Oracle E-Business Suite. To date, the programme has delivered benefits to Cambridgeshire County Council by enabling the authority to enhance and upgrade elements of the E-Business Suite, as well as generating savings in respect of the formal contractual arrangements with the external supplier of the technology concerned.

2.2 Since these initial achievements, the LGSS programme has been actively working to develop a formal target operating model which would enable the three authorities to further integrate these functions and activities to create greater efficiency gains and savings, whilst maximising the capacity to deliver these functions by bringing them into a single operating arrangement. The potential scope of LGSS has widened to include a number of professional support services. An Outline Business Case, developed by the three Councils working with Deloitte, is nearing completion and will underpin the consideration of the scope, future direction and ambition that the County Council has for developing the LGSS programme. This will form the basis of a report to Cabinet in early 2010.

3.0 PUTTING THE FRONTLINE FIRST: SMARTER GOVERNMENT

3.1 Launched on 7th December 2009, by the Prime Minister, the Putting the Frontline First: Smarter Government programme is specifically intended to focus upon the following three key actions:

- Strengthen the role of citizens and civic society
- Recast the relationship between the centre and the frontline.
- Streamline central government for sharper delivery.

3.2 A forward plan to make progress against these three action areas has been developed at a high level by the Government, but there may well be implications arising from this approach that would ultimately impact upon Local Government Shared Services. Additionally, some of the key commitments made within the launch of this programme have policy implications and considerations for the development of shared services, whether through the LGSS Programme or Making Cambridgeshire Count. The plans of the Government include the following actions, which Cabinet are advised to consider in view of the future direction for LGSS and any issues/recommendations arising from Making Cambridgeshire Count, as well as the County Council's future transformation activities, as articulated through the Integrated Planning Process:

- Streamlining the Senior Civil Service to save £100 million a year and putting in place radical reforms to senior pay across the wider public sector.
- Merging or abolishing arm's-length bodies, integrating back office functions and selling off government assets.
- Reducing spend on consultancy by 50% and marketing and communications by 25%, saving £650 million.
- Empowering citizens by the increasing use of online service delivery and by reducing face to face contact will result in over £600 million new savings. The Digital Britain Roadmap, to be produced by the end of 2010, will focus on transition plans for key services such as student loans, Jobseekers' Allowance and Child Tax Credits to go online. By Budget 2010 there will be a timetable for an online Child Benefit service.

- Rolling out nationally “Tell Us Once”, which will reduce the number of agencies citizens have to contact in the case of a birth from 2 to 1, and in the case of a death from 7 to 1.

- Harnessing the power of comparative data to improve standards, publishing public services performance data online by 2011, starting in 2010 with more detailed data on crime patterns, costs of hospital procedures and parts of the national pupil database.

- Reviewing anti-fraud work across government to ensure that data analysis techniques become embedded in standard processes.

- Reducing red tape on frontline services and improving flexibility, for example by reducing the number of ring-fenced budgets.

- Giving people guarantees over the standard of core public services and at the same time encouraging greater personal responsibility.

3.3 Given the issues and areas being planned in respect of central government efficiencies and savings, Cabinet is advised to give due consideration to these factors when considering the scope and scale of any proposed efficiencies arising from the LGSS programme.

4.0 MAKING CAMBRIDGESHIRE COUNT

4.1 As one of the key organisations involved in the Cambridgeshire Together Partnership, Cambridgeshire County Council has been actively involved in the shaping and delivery of the Making Cambridgeshire Count initiative. Given that Making Cambridgeshire Count is explicitly focussing upon opportunities to better utilise public resources in more efficient ways then Shared Services, particularly for ‘back office’ functions such as Finance, Human Resources (HR) and Internal Audit, and the sharing of services across the public agencies within the county is considered an area that could be progressed arising from this initiative.

4.2 Given the interdependencies between the potential outputs from the Making Cambridgeshire Count initiative and the LGSS programme, Cabinet is advised to consider the relative merits of these opportunities and the likelihood of securing efficiencies and savings through either route, accepting that the scope and scale for shared services within Cambridgeshire would need to deliver comparable benefits to the LGSS programme to make this a worthwhile option.

4.3 It should be noted that there are currently no firm shared services proposals within Making Cambridgeshire Count. Secondly, the LGSS proposal and the ideas investigated as part of Making Cambridgeshire Count are not necessarily mutually exclusive.

5.0 SHARED SERVICES PROGRAMME – FUTURE CONSIDERATIONS

5.1 It is clear from Government Policy, the development of Making Cambridgeshire Count and the LGSS Programme that shared 'back office' services does present Cambridgeshire County Council with the opportunity to rationalise and streamline its current support arrangements. Further, appreciating the financial challenges faced by all parts of the public sector, that shared services, in whatever form, will be an absolute requirement for the County Council in the future.

5.2 However, the ability to achieve major financial benefits for Cambridgeshire and the County Council hinges upon some key issues:

- Whether the County Council determines to share both professional/advisory corporate functions, as well as transactional/process based activities;
- Whether the opportunities presented by LGSS and Making Cambridgeshire Count in respect of 'back office' functional sharing can be delivered within the capacity available to the County Council;
- Whether LGSS and Making Cambridgeshire Count are mutually exclusive.

5.3 This report outlines these issues for Cabinet consideration and in recognition of changing economic circumstances and Government Policy.

6.0 RESOURCES AND PERFORMANCE

6.1 There are no formal resource and performance implications arising from the specific content of this report.

7.0 STATUTORY DUTIES & PARTNERSHIP WORKING

7.1 There is no direct legislation or legal requirements that need to be adhered to for this report. The partnership working elements are fully articulated in reference to Making Cambridgeshire Count and the LGSS Programme.

8.0 CLIMATE CHANGE

8.1 There are no direct climate change implications arising from this report.

9.0 ACCESS & INCLUSION

9.1 There are no significant issues arising from this report in relation to access & inclusion.

10.0 ENGAGEMENT & CONSULTATION

10.1 No public engagement or consultation is required for the purpose of this report.

Source Documents	Link
None	

Agenda Item No: 5

Local Government Shared Services

To:	**Cabinet**
Date:	**23rd February 2010**
From:	**Chief Executive and Corporate Director: Finance, Property and Performance (Senior Responsible Officer)**
Electoral division(s):	**All**
Forward Plan ref:	**2010/ 016** *Key decision:* **Yes**
Purpose:	**To report update Cabinet on recent developments and progress with the Local Government Shared Services (LGSS) Programme and to seek approval to take the steps necessary to establish LGSS Partnership, enabling the Council to deliver the corporate outcomes and well-being benefits to its community highlighted in this report.**

Recommendation:

a) That Cabinet endorses the principle of shared services and approves the County Council's, (CCC), participation in and the creation of a Local Government Shared Services (LGSS) partnering arrangement, (the LGSS Partnership), jointly with Northamptonshire County Council (NCC), (the Partner Authorities). It is envisaged that the LGSS Partnership will provide all front line, transactional, professional and strategic support and advice, (the LGSS Services), both to the Partner Authorities and other interested public sector bodies in the following functional areas:

- **Finance;**
- **Organisational Development and Human Resources;**
- **Human Resources;**
- **Procurement;**
- **Internal Audit;**
- **Legal Services.**

The LGSS Partnership will, initially, be established under the auspices of a Joint Committee, formed by the Partner Authorities.

Cabinet recommends that Full Council approve the establishment of a Joint Committee for the purpose of overseeing the LGSS Partnership.

In order to develop this arrangement and to take preparatory steps for the creation of a separate corporate entity it is further recommended that Cabinet approve the following:

b) That Cabinet:

1. **endorses the design principles under which the LGSS Partnership will operate as described in Appendix 1 and by which it is intended the LGSS Services will be provided to the Partner Authorities, their impact on the provision of those services within the Partner Authorities, including the principle of manager and employee self service, and any associated restructuring of staff and service provision within CCC.**

2. **authorises the commencement of the procurement and subsequent award of a contract to a private sector supplier, or suitable alternative, to provide the hosting of key LGSS Partnership systems, including the Oracle E-business Suite (EBS), also known as ERP, by the Council and the other Partner Authorities, and the procurement of such supplier by NCC on behalf of the Partner Authorities. The results of the contract award will be reported back to Cabinet.**

3. **endorses the principles regarding the costs and benefits of LGSS described in the Business Case, (management summary attached at Appendix 2), and the investments and transactions required to establish the LGSS Partnership and deliver the LGSS services.**

c) That Cabinet:

1. **resolves that CCC shall enter into an agreement or agreements with the Partner Authorities to establish a Joint Committee Partnership Arrangement or similar arrangement, that will deliver support services back to the Partner Authorities. Such arrangements shall include appropriate legal agreements regarding the following:**

    a. **the distribution of risk amongst the partner authorities through indemnities etc;**
    b. **the Governance framework for the Joint Committee Including delegations to the LGSS**

Partnership and between the Partner Authorities,

c. **iv) sharing of the costs, resources and benefits of LGSS; and**
d. **v) the manner in which the LGSS Services will be delivered,**

2. **delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to take such steps as may be necessary, in connection with item c)1 above, to:**

    a. **negotiate and agree the terms upon which such arrangements are established and**
    b. **to instruct the Head of Legal Services to prepare and complete the necessary documentation.**

3. **authorises such steps as may be necessary in order to facilitate or enable the transactions described in this Report, including for example, the transfer of staff and assets or leases, (subject to any Full Council approval should that be deemed necessary).**

4. **resolves that CCC shall enter into service level and other required agreements as between the Partner Authorities and between them and the LGSS Partnership, in regard to the LGSS Services. Cabinet further agrees to delegate authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:**

    a. **take such steps as are necessary and to agree the terms of any agreements as may be required in connection with the above, and**
    b. **instruct the Head of Legal Services to prepare and complete the necessary documentation.**

5. **authorises the expenditure of the approved investment in LGSS, as set out in the Business Case, required to establish LGSS arrangements. This shall include authority to enter into any associated contracts and agreements, and delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:**

    a. **authorise the expenditure described above and**
    b. **agree the terms of any such associated contracts and agreements and**
    c. **instruct the Head of Legal Services to prepare**

and complete the necessary documentation;

N.B. The above is subject to Council approval where it would alter the budget or policy framework.

6. agrees to extend the scope of LGSS Services to include additional support services, such as Strategic Asset Management or other functions, and delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:

    a. take such steps and agree the terms of any contracts and agreements as may be required in connection with the above and
    b. instruct the Head of Legal Services to prepare and complete the necessary documentation.

7. authorises the amendment, if necessary, of the existing partnership agreement between the Partner Authorities and delegates authority to the Chief Executive, in consultation with the Cabinet Member for Resources and Performance, to:

    a. agree the terms of such amendment and
    b. instruct the Head of Legal Services to prepare and complete the necessary documentation.

d) That Cabinet instructs the Chief Executive and the Section 151 Officer, in consultation with the Cabinet Member for Resources and Performance, to prepare and agree a detailed revision of the business case which confirms the assumptions in terms of the investment requirements and the rate of return for the Council, with a view to demonstrating whether the LGSS Partnership would represent value for money for each of the founding authorities.

e) Cabinet instructs the Chief Executive to return the detailed business case to Cabinet in June 2010, or as soon as it is available, and to draw to their attention any material issues that arise from the production of the detailed business case, e.g. a reduction in the return on investment, a change in the timing of benefits, extension of scope or new partners joining. Any such change may constitute a key decision.

f) That Cabinet confirms that any proposed change in the legal structure of the LGSS Partnership would be subject to cabinet approval.

g) That Cabinet delegates authority to the Chief Executive, in consultation with the Leader of the Council, acting in their capacity as members of the LGSS Strategic Stakeholder Board as described in the partnership agreements with the Partner Authorities:

> **i) To appoint the Managing Director of the LGSS Partnership, whose role is to oversee the establishment and operation of the LGSS.**
>
> **ii) To agree the terms of reference for the Joint Committee and the County Council's nominated officer and councillor membership of the Joint Committee.**

h) Cabinet reiterates the aspiration for the LGSS Partnership to become a separate corporate entity providing services for local government and the wider public sector. In furtherance of this vision, Cabinet instructs the Chief Executive to undertake further exploration of this model and preparatory work in readiness for the implementation of such a model if and when that becomes possible.

i) That Cabinet notes that all the above recommendations equally require approval by the Cabinet of our partner, Northamptonshire County Council at its meeting on the 9th March 2010.

	Officer contact:		***Member contact***
Name:	Nick Dawe	Name:	Councillor J. Reynolds
Post:	Corporate Director: Finance, Property and Performance	Portfolio:	Cabinet Member for Resources and Performance
Email:	Nicholas.Dawe@cambridgeshire.gov.uk	Email:	John.Reynolds@cambridgeshire.gov.uk
Tel:	01223 699236	Tel:	01223 699173

1. RELEVANT STRATEGIC OBJECTIVES AND SERVICE PRINCIPLES

1.1 The programme will impact on the following strategic objectives:

- Enabling people to thrive achieve their potential and improve their quality of life.
- Supporting and protecting vulnerable people.
- Managing and delivering the growth and development of sustainable communities.
- Promoting improved skill levels and economic prosperity across the county, helping people into jobs and encouraging enterprise.
- Meeting the challenges of climate change and enhancing the natural environment.

1.2 The programme is also in line with the following service delivery principles:

- Focus on delivering high-quality effective and efficient services.
- Listen and be responsive to the needs of Cambridgeshire communities.
- Working in partnership to achieve a shared vision for Cambridgeshire.

2. BACKGROUND

2.1 The Partner Authorities see the proposed LGSS Partnership as a transformational way of delivering support services, demonstrating our commitment to improving the economic and social well-being of our community, through delivering the best possible value and outcomes for our customers. The Partner Authorities have received national recognition for their innovative approach and are amongst the leaders in local government on pursuing the benefits from the shared service agenda. The creation of the LGSS Partnership is the next logical step to deliver further benefits, by adopting common ways of working based on best practice and by pooling our resources and expertise to improve performance and quality of service, whilst reducing cost.

2.2 The approximate total annual revenue value of support services that would be initially undertaken by the LGSS Partnership is £23.6m, of which £13m is from NCC. There is little opportunity on an individual basis to reduce costs further, without significantly impacting the effectiveness of the service delivered. By pooling our investment and exploiting our Oracle ERP system, such as by embracing a self service approach, the Partner Authorities will be able to improve the quality of services which they deliver and achieve a reduction in the cost of providing support services.

2.3 In January 2007, Cabinet approved the formation of a partnership with Northamptonshire County Council to support the delivery of support services, including the purchase of a shared Oracle ERP system.

2.4 At its meeting in February 2008, Cabinet was presented with a number of shared service delivery models that have been subsequently evaluated.

The options considered are summarised in the table below and discussed in detail in section 7 of this report:

Option 1	Maintain current level of collaboration on shared ERP platform (do nothing).
Option 2	Collaborative working (creation of a formal partnership to collaborate and share learning, e.g. a Joint Committee).
Option 3	The creation of a private sector controlled joint venture company.
Option 4	The creation of a public sector controlled joint venture company.
Option 5	The creation of a joint venture organisation with public sector only partners, e.g. a 'Teckal' company.

2.5 In the February 2008 report, an option of outsourcing support services to a third party was identified, although this was subsequently discounted by the authorities, as it would not meet our vision and offers least opportunity to deliver social and economic well-being benefits.

2.6 In April 2009, Cabinet agreed to create a LGSS joint venture company with Northamptonshire County Council (NCC), Slough Borough Council (SBC) and a private sector partner to deliver local government shared services to the Partner Authorities and other interested public sector bodies. Since then, the LGSS concept and wider operating environment has evolved significantly, therefore requiring a new business case to be developed. A Management Summary of the Business Case which sets out the costs and benefits of LGSS is attached at Appendix 2. Some of the key changes include:

- Recent legal precedents and advice from the Partner Authorities' external legal counsel mean that the original proposal of a majority public owned public-private joint venture company has needed to be reconsidered. The preferred model is now a 100% public sector-owned organisation. The private sector involvement is proposed purely as a contracted service provider to the LGSS organisation and consequently has no shareholding. However, due to changes in the law arising from an important case decided by the Court of Appeal, the use of the Well Being Power has been restricted and the effect of this restriction is particularly significant in the context of back office services which do not directly impact upon the well being of the community in the same way as frontline services. In accordance with advice received it is proposed to that we do not move to a separate legal entity at the first stage, but further develop our vision for shared services using one of the more established models for collaboration which carry less risk. It is envisaged that legislative developments will enable realisation of the separate entity in due course and in the meantime it is proposed to take preparatory steps towards that.
- The creation of LGSS will be in perpetuity, i.e. with no end date. However the Partner Authorities will enter into an agreement which will set out rights and responsibilities including appropriate exit clauses in the event of one of the Partner Authorities wishing to withdraw from the

arrangement.

- A recommendation to extend the scope, to include Legal Services, Internal Audit and potentially Strategic Asset Management, Research or other functions.

- More challenging financial conditions for local government and the wider public sector, putting greater pressure on the need for LGSS to demonstrate an even more effective return on investment against other potential projects, in order to justify the management effort and wider resources the programme is using.

2.7 Since April 2009, the Partner Authorities have been developing the LGSS vision and delivering the benefits previously identified. The County Council and NCC have been sharing the costs of System Administration for our shared Oracle ERP solution and realising the benefits of our shared investment in this new technology through improved control, processes and management information across our finance, human resources and procurement functions.

2.8 Slough Borough Council do not feel that they are in a position to pursue the LGSS agenda at this current time, given other pressures faced by the organisation. However, they are still considering the options which LGSS would offer them in the longer term.

2.9 The Partner Authorities remain open to the potential benefits of another organisation joining the LGSS Partnership. Any such consideration would be subject to business case and further Cabinet approval.

2.10 The vision of the Partner Authorities remains clear – delivering services designed by Local Government, for Local Government, and which will enable the Partner Authorities to exploit their investment in the Oracle ERP solution through developing common systems and processes. In developing this, a series of LGSS design principles have also been agreed, on which the new LGSS Partnership will be built and operate. These design principles will be at the core of everything that is designed and implemented by LGSS, to ensure it delivers the vision of the Partner Authorities. This set of seventeen design principles can be found in Appendix 1. The design principles for LGSS also confer implications on the Partner Authorities as to how they operate, such as employees and managers having to use Human Resources (HR) & Finance self service, as was the original intent when Oracle ERP was purchased.

2.11 Over recent months, relevant heads of service, managers and subject matter experts from across the Partner Authorities have been working together on business process design, defining the services which the LGSS Partnership will deliver and how they can achieve single, best practice processes designed specifically for local government. Further work in this area is required, particularly in respect of professional services as part of the completion of the detailed business case and further extensive dialogue with members and officers and possibly external customers is planned.

2.12 The following functions (transactional and professional) are proposed to be in scope for the LGSS Partnership. The inclusion of additional and professional services is driven by a desire to maximise savings, build critical mass, retain and further develop skills and expertise and reduce the "hand off" points between transactional and professional support:

- Finance;
- Organisational Development & Human Resources;
- Procurement;
- Internal Audit; and
- Legal Services.

2.13 When considering the scope of the LGSS Partnership, discussion regarding the appropriateness of including further services such as Estate Management and Research has taken place. Whilst no firm conclusions have been reached, the main justification for including these services is around the wider vision for LGSS, enabling the authorities to:

- Share best practice and service design models available from the partner authorities;
- Pool scarce or high cost expertise;
- Improve quality of services;
- Reduce transactional cost (such as the helpdesk); and
- Include services that are complementary.

2.14 It is clear that the inclusion of other services such as Research that are currently embedded within the Finance, Property and Performance Directorate will retain the benefits of collaborative and cross functional working that have built up over the past two years and provide possible future business benefit to LGSS partners and customers.

2.15 Before any final decision is made as to the inclusion of further services in LGSS, a detailed business case would be explored. This detailed business case will also update the forecast timescales for implementation of the LGSS Partnership and the associated phasing of costs and benefits.

3. BENEFITS AND BUSINESS CASE

3.1 The Business Case for LGSS has been produced for the Partner Authorities with the support of Deloitte, the partnership's external advisors. This was completed in December 2009.

3.2 Following SBC's decision not to continue with the programme at this time, Deloitte were asked to carry out a review of the business case to assess the impact on each of the components. A summary of their work is provided at Appendix 2. However, the original business case remains valid and the removal of SBC has made very little impact on the ratio of cost to benefits. The summary tables in sections 3.4 and 3.5 reflect this new position.

3.3 The business case incorporates the outputs from a number of key activities:

- Definition of scope and gap analysis – based on both the process analysis undertaken by the LGSS Programme Team with the Partner Authorities, and a series of stakeholder workshops led by Deloitte to bring together the analysis and highlight the salient points;
- Baseline analysis – undertaken by each authority, using a common template, with support from Deloitte;
- Benchmarking – using industry standard benchmarks or Deloitte comparators, where applicable;
- Organisation design – led by Northamptonshire County Council on behalf of the Partner Authorities, to create an outline management structure for LGSS based on the above scope and propose the potential impacts on the client-related management;
- ICT support infrastructure – undertaken by Deloitte in consultation with each Council; and
- Oracle E-business Suite – convergence and development plan, costings provided by Fujitsu Services Ltd, NCC and CCC's current Oracle provider.

3.4 Overall, the Business Case estimates that LGSS could enable the Partner Authorities to reduce the cost of in-scope services by more than £2m per annum (9%), with a 4.5 year payback period, starting to realise net cash inflows from 2012-13:

Project costs, £000s	2010-11	2011-12	2012-13	2013-14	2014-15	Totals (to 2020-21)
Capital	£2,595	£0	£0	£0	£0	£2,595
Revenue	£1,458	£1,694	£282	£0	£0	£3,434
Contingency @ 15%	£608	£254	£42	£0	£0	£904
Total project spend	**£4,660**	**£1,948**	**£325**	**£0**	**£0**	£6,933

Recurrent revenue impact						
Net impact	**£76**	**-£836**	**-£1,859**	**-£2,127**	**-£2,078**	**-£19,281**

Net cashflow						
Annual	*£4,736*	*£1,112*	*-£1,535*	*-£2,127*	*-£2,078*	**-£12,348**
Discounted	*£4,736*	*£1,074*	*-£1,433*	*-£1,918*	*-£1,810*	**-£8,992**
Cumulative NPV	**£4,736**	**£5,810**	**£4,337**	**£2,459**	**£648**	

Net revenue saving %	**-**	**-3.64%**	**-8.10%**	**-9.27%**	**-9.05%**

A prudent approach has been taken to the preparation of the business case and 9% is the expected minimum return. Areas of further benefit are discussed below and will be considered as part of developing the Detailed Business Case.

3.5 This investment appraisal has been undertaken jointly for the Partner Authorities. It has been agreed that the allocation of costs and savings to each authority would be undertaken as part of the development of a payment mechanism for the LGSS, but on a principle agreed by the Partner Authorities' Senior Responsible Officers (SROs), namely that investment and savings should be apportioned in a fair and equitable manner that incentivises both authorities. This apportionment between the councils should be based on:

(a) proportion of initial baseline operating costs & investments and

(b) equal split once savings target has been met, less a share for the development of the LGSS Partnership itself (to use as it sees fit, for example investment in LGSS).

Subject to this final agreement, as outlined in Recommendation c)1., the following example has been illustrated to show an investment appraisal, based on an equal share of benefits between the Partner Authorities:

Project costs, £000s	2010-11	2011-12	2012-13	2013-14	2014-15	Totals (to 2020-21)
Capital	£1,297	£0	£0	£0	£0	£1,297
Revenue	£729	£847	£141	£0	£0	£1,717
Contingency @ 15%	£304	£127	£21	£0	£0	£452
Total project spend	**£2,330**	**£974**	**£162**	**£0**	**£0**	£3,466
Recurrent revenue impact						
Net impact	**£38**	**-£418**	**-£930**	**-£1,063**	**-£1,039**	**-£9,640**
Net cashflow						
Annual	*£2,368*	*£566*	*-£767*	*-£1,063*	*-£1,039*	**-£6,174**
Discounted	*£2,368*	*£537*	*-£716*	*-£959*	*-£905*	**-£4,496**
Cumulative NPV	**£2,368**	**£2,905**	**£2,189**	**£1,229**	**£324**	
Net revenue saving %	**-**	**-3.64%**	**-8.10%**	**-9.27%**	**-9.05%**	

Note that the capital investment requirement is to ensure the formation and delivery of the business case shown. Further investments, where there is a prioritised business case, may be sought from Partner Authorities, subject to the necessary financial approval processes. The Council would be required to make capital investment in its system and processes, even if it were not part of LGSS Partnership.

3.6 The benefits of collaboration in the context of the wider professional services scope, such as Internal Audit, Legal Services and Procurement include:

- Expanding current best practice service delivery models that exist within perhaps one of the partner authorities.
- Pooling specialist resources and create additional capacity where resources within each individual organisation are scarce.
- Offering a comprehensive 'end to end' support service to the authorities, reducing potential conflicts between support services performed in LGSS and those retained by the Partner Authorities.
- Sourcing more cost effective services from 3rd party suppliers (where it is not appropriate for LGSS to recruit employees) through looking at a wider package

of support needs for both authorities, rather than just one.

- Savings from adopting common procurement strategies and sharing expertise – there may be opportunities to achieve further savings and could be particularly attractive in high cost and complex areas (for example, adult social care). There may be some benefits from procuring contracts together, although this can be limited by the diverse geography of the authorities and the fact that the Partner Authorities already benefit from local consortia contracts.

- Developing the commercial disciplines within LGSS and making explicit the costs of support services to the end users to help reduce non-essential spend within the Partner Authorities.

3.7 Further financial scenarios have been modelled building on the wider benefits described in 5.6 above. These would increase the net benefits of LGSS to the Partner Authorities and decrease the length of time taken to achieve a positive net present value (NPV). Further details can be found in sections 2.3.3 and 2.3.5 of the Business Case Management Summary at Appendix 2.

3.8 Beyond the financial benefits quantified in the Business Case, wider opportunities exist to support the LGSS, namely:

- Reducing the net cost of change for each authority – as transformation activity can be undertaken once and the outputs shared for each organisation, reducing the relative implementation costs;
- Supporting a change in the Partner Authorities' culture – promoting manager and employee self-help and reducing the reliance on support services. In-scope services will be managed and deployed on a common, more formalised basis, providing the tools and information necessary to enable manager and employee self-service. While internal support functions are often treated as 'sunk' costs, the LGSS Partnership will improve the transparency of support service costs and performance, and influence the behaviours of the commissioning organisations;

- Providing a vehicle to deliver services to other organisations – LGSS Partnership could use its capacity to deliver services to other organisations, such as our geographic District & Borough Councils, cost effectively supporting the wider local public service economy and supporting the emerging 'Total Place' agenda;

- Subject to meeting the necessary procurement legislation, providing the potential commercial offering of "by Local Government, for Local Government" support services as an effective alternative to outsourcing – the LGSS Partnership will be focused on the optimisation and efficiency of the services it provides, in a similar way to private sector outsourcing companies. While the LGSS model arguably may not deliver the same extent of capacity that could be achieved through working with an outsource provider, as a wholly-owned public sector venture, LGSS will not leak savings through profit margin which would be distributed to private sector shareholders; and

- Freeing-up management capacity within the Partner Authorities – to focus on their core business and transformation priorities, by enabling the LGSS

Partnership management team to focus on the optimisation and reconfiguration of in-scope services.

4. ORGANISATIONAL IMPLICATIONS

4.1 The LGSS design principles detailed in Appendix 1 must be adhered to as the founding Partner Authorities transfer services into the LGSS Organisation, to ensure the successful operation of LGSS.

4.2 As part of the move to the LGSS Partnership, the Council will need to restructure its senior management team to reflect the changes in responsibility and new ways of working. Because the LGSS is a wholly public sector arrangement, a 'thin client' model will be used – i.e. the County Council needs to retain only minimal resources in order to manage the services delivered by LGSS, on the basis that it directly co-manages the arrangements for the provision of services.

4.3 Significant cultural change within that part of the Partner Authorities that is retained will be required, in order to deliver the compliance required to deliver benefits in respect of:

- Common business processes across the LGSS support services delivered to both Partner Authorities.
- Centralisation of support service functions (as existing model).
- Manager and employee self-service.
- Not allowing pseudo-support service functions to be recreated within the retained organisation.

4.4 LGSS will need to be in alignment with other Council strategies and policies. The approach is in clear support of the corporate outcome of becoming a smaller, more enabling council focused on our customers and is a key part of our strategy map. There is also the possibility for 'trading', where the LGSS Partnership could undertake services for other organisations, for example our District and Borough Councils.

4.5 The LGSS Partnership will initially be a collaborative contractual arrangement governed by a Joint Committee. In due course it is envisaged that it will convert into a separate entity to the Partner Authorities and will have its own 'stand-alone' management and governance in place. However, the core direction and strategy of the LGSS Partnership will be the responsibility of the founding authorities, acting through its senior governance structures.

4.6 Transition of services to the LGSS Partnership is likely to involve, amongst other things, the transfer between authorities, of staff who currently undertake these functions. When the separate entity is established in due course it is likely that staff will transfer to that corporate body. Naturally, this will be carried out in accordance with TUPE regulations.

4.7 The programme is working on the basis that the LGSS Partnership, as a separate entity will gain admitted body status into one of the Local Government Pension Schemes of the Partner Authorities, to ensure that it's staff continue to be members of the LGPS. The cost implication of this will be carefully examined in the Detailed Business Case. Assumptions in the business case are based on informed conversations with our Pension Funds.

4.8 An Equality Impact Assessment Initial Screening Form has been completed for the LGS. It did not highlight any equality impacts and it is not considered that a full impact assessment is required.

4.9 The procurement of a private sector supplier to provide the hosting of key LGSS systems will need to commence at an early stage and before the LGSS Partnership exists as a separate legal entity. One of the Partner Authorities will carry out the procurement on behalf of both authorities, with a view to novating the contract to the LGSS Partnership, once it exists as a separate legal entity. This approach will require corresponding agreements between the Partner Authorities to cover any potential liabilities which might arise on the authority carrying out the procurement.

4.10 Depending on the decision to proceed, the implementation timescales (subject to review as part of Detailed Business Case) can be summarised as follows:

- Detailed Business Case – May 2010.
- Establishment of Joint Committee – June 2010
- Creation of Management Board – July 2010.
- Inauguration of LGSS Partnership – from July 2010.
- Transfer of services to LGSS – from October 2010.
- Private sector provider or alternative hosting services commence – April 2011.

5. CONSULTATION AND SCRUTINY

5.1 Joint governance arrangements (formally set out in our current Partnership Agreement) are in place between the Partner Authorities including the responsible Cabinet Members, Chief Executives and Senior Responsible Officers (CCC's Corporate Director for Finance, Property & Performance and NCC's Corporate Director for Customer & Community Services) who have met on a regular basis throughout the programme.

5.2 A joint LGSS Consultation Forum, which includes representatives from recognised Trade Unions have also received regular updates. Briefings have and are also due to be given to staff and staff representatives.

5.3 Corporate Services Scrutiny Committee has considered the LGSS proposals on 18 January 2007, 12 July 2007, 17 January 2008, 10 July 2008, 25 September 2008, 21 November 2008, 2 April 2009, 21 September 2009 and are due to review the subject subsequent to cabinet decision on the . 29th April 2010. It is also intended to have a joint scrutiny of the detail of the business case with the appropriate scrutiny group in Northamptonshire as soon as practical.

6. ALTERNATIVE OPTIONS CONSIDERED

6.1 Over the last 18 months, careful consideration has been given to a number of options regarding the best 'vehicle' to deliver the LGSS vision and design principles. The analysis of these options has been based on legal, financial and operational considerations and subject to a number of presentations and subsequent discussions at the programme's Joint Management Board, Strategic Stakeholder Board and even the Department for Communities and Local Government. The options considered are in line with the Cabinet decisions of October 2008 and April 2009, and have been developed with advice sought from our legal advisors Sharpe Pritchard, Mark Lowe QC and our business case advisors, Deloitte. The broad categorisation of the options is described in the table below, and the main reasoning behind the choice or dismissal of the options are discussed in summary.

Option	Description
Option 1	Maintain current level of collaboration on shared ERP platform (do nothing).
Option 2	Collaborative working (creation of a formal partnership to collaborate and share learning, e.g. a Joint Committee).
Option 3	The creation of a private sector controlled joint venture company.
Option 4	The creation of a public sector controlled joint venture company.
Option 5	The creation of a joint venture organisation with public sector only partners, e.g. a 'Teckal' company.

6.2 Option 1 maintains the current position, with Cambridgeshire and Northamptonshire County Councils continuing to share a third party hosted Oracle ERP system. External benchmarks demonstrate our already low cost of providing support services following the savings realised from our investment in the shared ERP application. This means that realising any further savings would require radical cost reduction programmes, resulting in a reduction in the quality of our services. Future investment in our ERP system would be shared, but realising the most significant benefits from this investment would require the full convergence of both systems and processes only realistically achievable through a shared service. This option is least likely to deliver benefits and enable the refocus of our resources to promote the economic and social well-being of our community. For these reasons, this option has been discounted.

6.3 Option 2 allows the in-scope support services to be shared between the Partner Authorities above and beyond existing levels, supported by a more formal partnership arrangement, for example through the creation of a Joint Committee. This is a well known and tested model used by various local authority partnerships and would support the LGSS vision of being designed by Local Government, for Local Government. However, experience of Joint Committees has not always positive, with the governance arrangements, in some cases, seen as weak, relying on decision making by agreement within the committee. However, appropriately constructed contractual arrangements and extensive delegations from the Joint Committee will largely address these concerns. The fact that staff would remain employees of one or more of the Partner Authorities, may make the cultural change required to deliver the benefits of LGSS harder to achieve. Our experience of working collaboratively on the shared Oracle ERP system has also shown that benefits maximisation can be restricted without a single line management structure and the ability to influence culture and behaviours. However, this risk could be mitigated by a strong partnership agreement providing clear leadership, single points of professional leadership where appropriate and an established culture of collaboration to achieve the benefits of the LGSS vision.

6.4 A Joint Committee arrangement would appear to offer a lower scope for financial benefit in the longer term for the Partner Authorities in terms of achieving target cost savings compared to option 5. This needs to be considered in the light of potentially lower start up costs particularly in relation to pensions. Future scalability and revenue generation would be possible in some circumstances, as services could be provided to other public sector customers such as local District Councils without the requirement for them to become members of the Joint Committee. On balance, this is not the preferred option in the long term. However, the Partner Authorities do recognise that the current legal position means that this option is the only current realistic option that would enable benefits to be delivered in the short term, whilst pursuing, as a longer term objective, the preferred option of creating the LGSS Partnership as a separate legal entity (Option 5).

6.5 Option 3 involves the creation of a new Joint Venture Company with the private sector. This model has been used in the past for similarly scoped ventures and would offer the benefit of the LGSS being managed by a single board focused on the interests of the company. This would make the change journey easier and enable the development of a new culture focusing on performance management. Private sector interest in this option was proved during the soft market testing carried out for LGSS and reported on in the cabinet paper of October 2008. However, the private sector controlling interest in the Joint Venture Company required for them to reflect the business risk, would mean a loss of control to the partner authorities effectively leading to the services being outsourced to the private sector partner. The required level of private sector return, estimated by advisors at being between 10 and 15%, would also mean less benefit accruing to the Partner Authorities, reducing their ability to promote economic and social well-being, and potentially make the business case unattractive to all parties. This is not in line with the partnership's overarching vision of a "By Local Government, for Local Government" business proposition and for these reasons, this option was discounted.

6.6 Option 4 builds on option 3, instead proposing a majority public sector owned Joint Venture Company, with a minority private sector partner. This is more in line with the LGSS vision, whilst maintaining the benefits of creating a new and focused company to deliver the shared service. However, this model is as yet untested in the UK and supplier feedback raised some concerns about the increased risk this would present to the private sector partner without a controlling stake in the joint venture. In addition to this, the model would face obstacles in current EU procurement directives, as highlighted in the recent Brent LAML case. Being majority public sector owned would subject any services provided the LGSS joint venture company to EU procurement regulation, including the offering of services even back to the partner authorities, introducing a risk that the LGSS would not successfully win the contract for support services from both councils. For these reasons, this option has been rejected.

6.7 Option 5 proposes the creation of a joint venture organisation wholly owned by the Partner Authorities – truly by Local Government, for Local Government. This still provides the benefits of a separate organisation to focus on delivering the LGSS vision, but removes the risks to the partner authorities in having a private sector shareholder in the organisation. A private sector provider would be contracted to provide services to the LGSS Partnership as appropriate. However, this is an area of emerging legal precedent and there are legislative constraints on the 'Teckal Company' model which would restrict the ability of the LGSS Partnership to trade and raise revenue from selling services to other organisations. In light of the decision in the Brent LAML case there has been a considerable shift in the understanding of the extent of the so called Well Being power under the Local Government Act 2000. The decision in this case imposes a more restrictive interpretation on the power and requires that, in order to fall within the well being powers, the proposed action should have as its object, some reasonably well defined outcome which will directly promote or improve the well being of its area. Leading Counsel has advised that the proposal to establish a company for the provision of support services, is unlikely to be regarded as meeting this test and therefore would be unlawful. As such, until the legal position is further developed or new legislation is enacted, this option is not currently available. However, in readiness for a change in the situation, we are advised that it is permissible to take preparatory steps short of establishing a company and it is proposed that such steps will be undertaken in parallel to the establishment of collaborative arrangements such as Option 2, a Joint Committee, that are within the permissible range of options.

6.8 For the above reasons, Option 2 is the recommended option with Option 5 remaining the longer term aspiration.

7. FINANCIAL IMPLICATIONS

	Current year	Forecast		
	2009-10	2010-11	2011-12	2012-13 & beyond
	£000	£000	£000	£000
Capital Investment				
Costs	0	1,297		
Funded by	Existing Excellence for our Customers Programme funding earmarked for ERP/Shared Services			
Revenue costs				
Costs –Project Costs (including contingency)		1,033	974	162
Recurrent revenue impact		38	-418	-930
Funded by	Invest to Save / existing Excellence for our Customers Programme funding earmarked for ERP/Shared Services			
Total Net Costs (capital & revenue)	**0**	**2,368**	**556**	**-768**

What benefits will the proposal deliver?	Please see section 5 of this report, supported by the Business Case Management Summary at Appendix 2.

8. RISK AND BUSINESS CONTINUITY MANAGEMENT

8.1 The Business Case provides a detailed analysis of key risks facing the programme. The joint programme team also maintain a full programme risk log, with high probability / impact risks being addressed on a monthly basis as part of the programme board meetings. A summary of the key risks / themes is provided below:

9. Risk(s) associated with the proposal

Risk	Mitigation	Residual Risk
Benefits anticipated in the business case may not be achieved. It has been assumed that the new HR and finance services will be based on a self-service model that promotes the accountability of council managers for performance, employee and financial management.	The role of LGSS will be to provide advice and support the authorities to mitigate their business risks by focusing on exceptions and enabling change. LGSS will be expected to reduce costs and will achieve this by empowering the workforce via self service, pushing responsibility and ownership out to staff and managers and reducing transaction volumes and effort on the shared service centres.	**A**
The basis of benefits derived from any Shared Service is the integration and consolidation of functions and processes. If the Partner Authorities cannot agree and stay fully committed to this standardisation and improve process compliance, the future viability of the model and associated benefits will be put into serious jeopardy.	The integration approach of LGSS requires the commitment of the Partner Authorities to a single vision and approach that is based on the standardisation and harmonisation of business processes. This risk is mitigated by the existing partnership agreements in place and the additional commitments being sought in this cabinet paper.	**A**
LGSS will introduce significant changes to some of the core functional areas of the Partner Authorities. Unless the deployment of new ways of working is genuinely embedded both within the LGSS itself and also within the Partner Authorities, the programme will fail to deliver expected benefits and there could be significant risk to fundamental 'business as usual' operations during the transition to LGSS.	Appropriate levels of change management and stakeholder engagement will need to be deployed at all levels across both authorities. This risk will be mitigated by the existing partnership agreements in place and the additional commitments being sought by this cabinet paper and it is anticipated that the rating of this risk will reduce to Amber.	**R**

(b) Risk(s) associated with not undertaking the proposal

Risk	Risk Rating
Target cost savings across support services in the Partner Authorities will not be met.	**R**
Target service improvements across support services in the Partner Authorities will not be met.	**R**
Reputational damage to the Partner Authorities as a result of the national interest in the LGSS programme which has been generated so far.	**R**
Well-being benefits identified may not be delivered to our communities.	**R**

9.0 RESOURCES AND PERFORMANCE

10.1 Already reported.

10. LEGAL IMPLICATIONS

10.1 The option to establish the LGSS Partnership as a separate legal entity in the form of a company, as set out in Option 5 above, is the preferred option. This would require that use of the so called 'Well Being' power under Section 2 of the Local Government Act 2000. However, as the result of recent developments in case law arising from the Brent LAML case which involved Local Authorities establishing a company for the purposes of mutual insurance, the scope of the Well Being power has been narrowed by the Court. In view of this uncertainty a Leading QC was instructed to provide advice in relation to this point and, following careful consideration of this project and its objectives, he concluded that there was a significant and unacceptable risk that the proposal to establish a company for the purposes envisaged in this report would not be a lawful exercise of this power.

10.2 The case law development in the Brent LAML case has proved controversial and gave rise to a considerable amount of adverse comment. The possibility that further legislative developments may be enacted in order to enable the type of activity proposed under Option 5, cannot be ruled out.

10.3 The alternative of a Joint Committee is based on a long established statutory power at Section 102 of the Local Government Act 1972. This enables authorities to establish joint committees which can be used for the purposes of overseeing shared services arrangements such as the LGSS Partnership. Such arrangements are established by Full Council and underpinned by a contractual agreement and governance arrangements setting out the delegations of authority. There are a number of examples of such arrangements in operation around the country and their legality has been confirmed by the Court of Appeal. As such they are considered to be a far less risky proposition in legal terms.

11 PARTNERSHIP WORKING

11.1 Already reported.

12 CLIMATE CHANGE

12.1 There are no direct climate change implications arising from this report.

13 ACCESS AND INCLUSION

13.1 There are no significant issues arising from this report in relation to access and inclusion.

13.2

14 ENGAGEMENT AND CONSULTATION

14.1 No public engagement or consultation is required for the purpose of this report.

Appendices:

Appendix 1: **Design Principles**

Appendix 2 (a): **Deloitte summary of impact on LGSS Business Case removing Slough Borough Council**

Appendix 2 (b): Management Summary from the Business Case for Local Government Shared Services – version 3.2, 7th December 2009.

Appendix 3: **Business Case for Local Government Shared Services (LGSS) Version 3.2, 7th December 2009 [Note this is a confidential document and is not for publication by virtue of it relating to paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.**

Source Documents	Contact
Deloitte summary of impact on LGSS Business Case removing SBC	Attached as Appendix 2 (a)
Management Summary from the Business Case for Local Government Shared Services – version 3.2, 7th December 2009.	Attached as Appendix 2 (b)
Business Case for Local Government Shared Services (LGSS) Version 3.2, 7th December 2009	**Not for publication by virtue of paragraphs 3 and 4 of Part 1 of Schedule 12A to the Local Government Act 1972.**

Defining LGSS – Design Principles

Workstreams	Level 1 Design Principles
Processes	1. Services will be designed with the customer in mind, but based on self help 2. Provide a high-performing service measured against industry best practice 3. Common policies and processes will be adopted providing value for money 4. Hand-offs/interfaces to retained client organisations will be optimised
Organisation (LGSS & customer authorities)	5. Designed by local government for local government 6. Customer focused organisation and culture 7. Organisational capability will be established to target and take on new customers 8. High performing teams – employer of choice
Information	9. Performance driven enabling continuous service improvement 10. Comprehensive and standard reporting framework will be available 11. Quality assured data management policy and process
Technology & Infrastructure	12. High quality accessible platform based on proven software and technology 13. Progressive multi-site infrastructure to support customers 14. Value added services will be developed and offered to customers
Location	15. LGSS will be responsible for location strategy 16. Some services require face-to-face contact and will be located on client sites 17. Some expert services will need to be peripatetic

5

Deloitte.

Appendix 2 (a)

Business case update.

Remodelling the LGSS business case, removing the financial benefits and implementation costs associated with Slough Borough Council

5 February 2010

Audit.Tax.Consulting.Corporate Finance.

Introduction

- The purpose of this document is to summarise the impact on the LGSS business case of removing Slough Borough Council (Slough) from the programme.

- The business case workings have been reviewed to identify each cost and saving component that would be affected by the removal of Slough. We have then made appropriate changes to each variable affected, based on:
  - The baseline position of the authorities;
  - The original benchmark targets; and
  - LGSS operating assumptions (regarding the target operating model).

- It is important to note that *none* of the underlying assumptions regarding the nature of savings or costs associated with the financial model have been changed.

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Revised financial model: summary of changes

The following summarises the main impacts on the financial business case when Slough Borough Council's costs and benefits are removed from the proposed programme:

Financial item	Original business case	Business case without Slough	% change
Capital project cost	£3.9m	£2.6m	33%
Total project cost	£10.9m	£6.9m	37%
Cumulative saving	£31.8m	£19.3m	39%
Recurrent annual saving	£3.5m	£2.1m	40%
Annual saving as % of baseline cost	10%	9%	10%
Payback period (NPV)	4.3 years	4.5 years	

From this analysis, it is apparent that the removal of Slough has made little impact on the ratio of cost to benefits. Nevertheless, due to Slough's relatively inefficient baseline position, their removal from the business case has reduced the savings by 39%, with only a 37% reduction in cost. (These figures assume a revised contingency of 15%.)

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Revised financial model: NPV summary

The following table represents the revised version of the summary table included within the executive summary of the business case:

Project costs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	Totals
Capital	£2,595	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£2,595
Revenue	£1,458	£1,694	£282	£0	£0	£0	£0	£0	£0	£0	£0	£3,434
Contingency @ 15%	£608	£254	£42	£0	£0	£0	£0	£0	£0	£0	£0	£904
Total project spend	**£4,660**	**£1,948**	**£325**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£6,933**
Recurrent revenue impact												
Net impact	**£76**	**-£836**	**-£1,859**	**-£2,127**	**-£2,078**	**-£2,076**	**-£2,076**	**-£2,076**	**-£2,076**	**-£2,076**	**-£2,076**	**-£19,281**
Net cashflow												
Annual	*£4,736*	*£1,112*	*-£1,535*	*-£2,127*	*-£2,078*	*-£2,076*	*-£2,076*	*-£2,076*	*-£2,076*	*-£2,076*	*-£2,076*	**-£12,348**
Discounted	*£4,736*	*£1,074*	*-£1,433*	*-£1,918*	*-£1,810*	*-£1,748*	*-£1,689*	*-£1,632*	*-£1,577*	*-£1,523*	*-£1,472*	**-£8,992**
Cumulative NPV	**£4,736**	**£5,810**	**£4,377**	**£2,459**	**£648**	**-£1,100**	**-£2,788**	**-£4,420**	**-£5,997**	**-£7,520**	**-£8,992**	
Net revenue saving %	**-**	**-3.64%**	**-8.10%**	**-9.27%**	**-9.05%**	**-9.04%**	**-9.04%**	**-9.04%**	**-9.04%**	**-9.04%**	**-9.04%**	

4

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Revised financial model: NPV summary by partner

The following table represents the revised version of the summary table showing the impact on a per partner basis. (This assumes an even split between CCC and NCC.)

Project costs	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**Totals**
Capital	£1,297	£0	£0	£0	£0	£0	£0	£0	£0	£0	£0	£1,297
Revenue	£729	£847	£141	£0	£0	£0	£0	£0	£0	£0	£0	£1,717
Contingency @ 15%	£304	£127	£21	£0	£0	£0	£0	£0	£0	£0	£0	£452
Total project spend	**£2,330**	**£974**	**£162**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£0**	**£3,466**

Recurrent revenue impact												
Net impact	**£38**	**-£418**	**-£930**	**-£1,063**	**-£1,039**	**-£1,038**	**-£1,038**	**-£1,038**	**-£1,038**	**-£1,038**	**-£1,038**	**-£9,640**

Net cashflow												
Annual	*£2,368*	*£556*	*-£767*	*-£1,063*	*-£1,039*	*-£1,038*	*-£1,038*	*-£1,038*	*-£1,038*	*-£1,038*	*-£1,038*	**-£6,174**
Discounted	*£2,368*	*£537*	*-£716*	*-£959*	*-£905*	*-£874*	*-£844*	*-£816*	*-£788*	*-£762*	*-£736*	**-£4,496**
Cumulative NPV	**£2,368**	**£2,905**	**£2,189**	**£1,229**	**£324**	**-£550**	**-£1,394**	**-£2,210**	**-£2,998**	**-£3,760**	**-£4,496**	

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Revised financial model: NPV detailed analysis

Project (Capital) Costs	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
External Advisory support	225	0	0	0	0	0	0	0	0	0	0
Technology Infrastructure	2,088	0	0	0	0	0	0	0	0	0	0
Software Costs	282	0	0	0	0	0	0	0	0	0	0
Total	**2,595**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Project (Revenue) Costs											
Staffing - project & programme roles	1,207	788	0	0	0	0	0	0	0	0	0
Staffing - service backfill roles	113	0	0	0	0	0	0	0	0	0	0
Training	119	121	0	0	0	0	0	0	0	0	0
People Transition	20	784	282	0	0	0	0	0	0	0	0
Total	**1,458**	**1,694**	**282**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Contingency (15% of total cost)	**608**	**254**	**42**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Net Recurrent Revenue Savings/Costs											
Staffing	-62	-210	-1,235	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503	-1,503
Other Professional Services	0	0	0	0	0	0	0	0	0	0	0
Technology Infrastructure Support	136	-627	-626	-625	-576	-574	-574	-574	-574	-574	-574
Software Maintenance	1	1	1	1	1	1	1	1	1	1	1
Total	**76**	**-836**	**-1,859**	**-2,127**	**-2,078**	**-2,076**	**-2,076**	**-2,076**	**-2,076**	**-2,076**	**-2,076**
Total Cash Flow	**4,736**	**1,112**	**-1,535**	**-2,127**	**-2,078**	**-2,076**	**-2,076**	**-2,076**	**-2,076**	**-2,076**	**-2,076**
NPV	**4,736**	**1,074**	**-1,433**	**-1,918**	**-1,810**	**-1,748**	**-1,689**	**-1,632**	**-1,577**	**-1,523**	**-1,472**
Cumulative NPV (cashable)	**4,736**	**5,810**	**4,377**	**2,459**	**648**	**-1,100**	**-2,788**	**-4,420**	**-5,997**	**-7,520**	**-8,992**
Discount Factor	3.50%										
Baseline expenditure	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**	**22,953**
% saving against the baseline	-	-3.64%	-8.10%	-9.27%	-9.05%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%	-9.04%

Revised financial model: other observations

- The original business case used benchmark figures to estimate the savings associated with both HR and finance functions. Through discussion with the LGSS partners, these targets were moderated to reflect the scale of business change would be required at Slough; reflecting the higher unit costs at Slough versus the other two partners. These benchmarks have not been changed. However, the other LGSS partner may feel less daunted by adopting more stretching benchmark targets.
- No savings were previously associated with professional services and none have been incorporated within this update.
- Although the some aspects of the transition effort and associated costs are reduced by a 1/3. There are a number of issues, such as the impact of existing customisations within the Cambridgeshire Oracle solution and the detailed design of the new operating model are not significantly affected by the removal of Slough. Consequently, some of technical implementation and advisory costs have been reduced by only 15%.
- The reduced number of post reductions has proportionately reduced redundancy and associated costs.
- Oracle hosting costs have not been reduced proportionately as there is a significant fixed cost element, which would be incurred for two partners anyway.

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Business case comparators: cumulative NPV (per partner)

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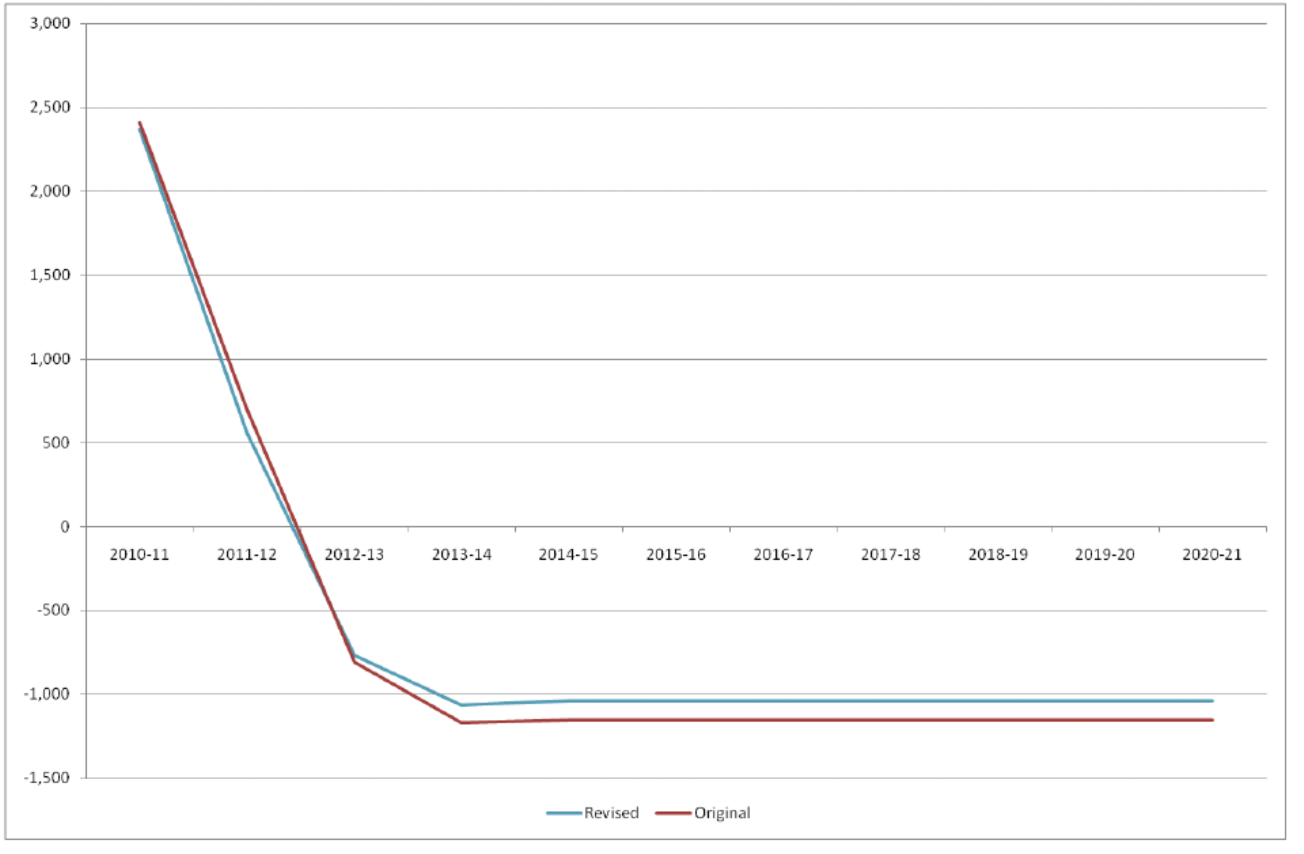
Business case comparators: cash flow (per partner)



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Cambridgeshire County Council
Northamptonshire County Council
Slough Borough Council

Local Government Shared Services

Business Case for Local Government Shared Services (LGSS)

Management Summary

Status: FINAL

[illegible]

[illegible]

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1. Management Summary

1.1 Introduction

The vision for the "Local Government Shared Service" (LGSS) is a step change in the extent of and commitment to collaboration and partnership working for the three founding authorities. Part of the historic collaboration relates to the implementation and deployment of a shared Oracle eBusiness Suite (EBS) instance for Northamptonshire (NCC) and Cambridgeshire County Councils (CCC). In November 2008, this partnership expanded to include Slough, who are an established Oracle EBS user and share the desire to achieve additional benefits through collaborative working, rather than working alone.

The first formal outline business case for LGSS was released in January 2007, relating to just Northamptonshire and Cambridgeshire County Councils. However, since then, the LGSS concept and wider operating environment has evolved significantly, therefore requiring a new business case. Some of the key changes include:

- Engagement of Slough Borough Council (SBC) to join the proposed venture;
- Recent legal precedents that have led to a more cautious approach to engaging the private sector in a joint venture company. Hence, the proposal is now a public sector-owned Teckal company (this point is further explored in section 1.3);
- Consideration of a wider scope, beyond the original transactional finance and HR administration processes, to include wider professional support services and also, regarding Slough, the inclusion of revenues & benefits and the customer contact centre;
- Each of the authorities have already made savings relating to the in-scope functions, reducing the baseline cost for comparison; and
- More challenging financial forecast for local government and the wider public sector, putting greater pressure on the need for LGSS to demonstrate an effective return on investment against other potential projects, in order to justify the management effort and wider resources the programme is using.

The LGSS team have recently developed an options appraisal, which looked at a number of options to move the agenda forwards at a high level. This appraisal has been reviewed and the output of that assessment can be found in Appendix F. The option to continue with the LGSS shared service venture has been the basis of this business case. This document comprises the business case for LGSS, incorporating the outputs from a number of key activities:

- Definition of scope and gap analysis – based on both the process analysis undertaken by the LGSS Programme team with the three Councils, and also a series of stakeholder workshops led by Deloitte to bring together the analysis and highlight the salient points;
- Baseline analysis – undertaken by each Council, using a common template, with support from Deloitte;
- Benchmarking – using industry standard benchmarks or Deloitte comparators, where applicable;
- Organisation design – led by Northamptonshire, on behalf of the three Councils, to create an outline management structure for LGSS based on the above scope and propose the potential impacts on the client-retained management;
- ICT support infrastructure – undertaken by Deloitte in consultation with each Council;
- Oracle EBS – convergence and development plan, costings provided by Fujitsu.

1.2 Scope

For the purpose of this business case, the following functions have been evaluated and are proposed to be in scope:

- HR (including organisation development);
- Finance;
- Internal Audit;
- Legal;
- Procurement Services;
- Revenues and Benefits (SBC only); and
- Contact Centre (SBC only).

Although professional services have been included within the scope of this document, this modification of scope against the original OBC is clearly subject to approval by Members, as is the future of the programme overall.

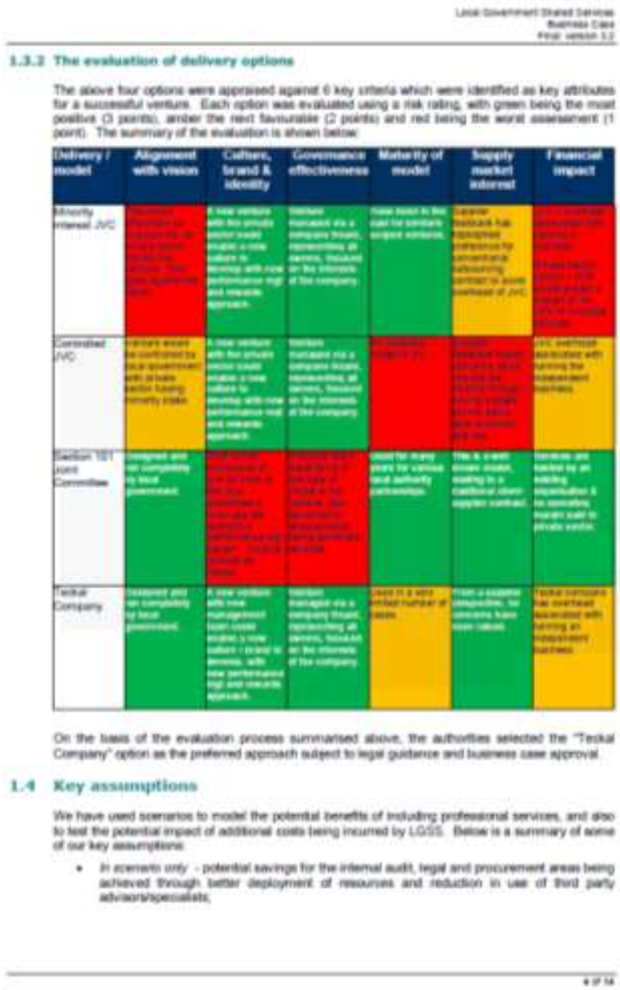
1.3 Delivery options

Prior to the development of this business case, the LGSS programme board undertook an assessment of the various delivery options available to deliver the LGSS vision. This analysis was undertaken in consultation with the programme's legal advisors, Sharpe Pritchard.

1.3.1 Four key options

In outline, four key options were considered to progress the shared service venture:

Delivery / governance model	Exclusively public sector controlled?	What is the legal entity?	Procurement issues
Minority interest JVC	No (<50%)	The JVC	All services delivered by the JVC must be subject to OJEU or using national public sector frameworks (e.g. BuyingSolutions). The procurement process would lead to the appointment of the JVC private sector partner, who would control the venture and would underwrite the success of the venture in terms of financial and performance risks.
Controlled JVC	No (>50%)	The JVC	All services delivered by the JVC must be subject to OJEU or using national public sector frameworks (e.g. BuyingSolutions). The procurement process would lead to the appointment of the JVC private sector partner. The private sector would have a stake in the ventures success (or failure), but would not control it.
Section 101 Joint Committee	Yes	One of the authorities would act on behalf of the Joint Committee, as the employing and contracting authority.	The private sector can be procured to meet the specific requirements of the Joint Committee either through OJEU or using national public sector frameworks (e.g. BuyingSolutions).
Teckal Company	Yes	The limited company (or LLP) which is wholly-owned by the local authorities.	No private sector involvement allowed in the management of the venture. Any private sector services would need to be bought via OJEU or using national public sector frameworks (e.g. BuyingSolutions).



1.3.2 The evaluation of delivery options

The above four options were appraised against 6 key criteria which were identified as key attributes for a successful venture. Each option was evaluated using a risk rating, with green being the most positive (3 points), amber the next favourable (2 points) and red being the worst assessment (1 point). The summary of the evaluation is shown below:

Delivery / model	Alignment with vision	Culture, brand & identity	Governance effectiveness	Maturity of model	Supply market interest	Financial impact
Minority interest JVC	[illegible]	A new venture with the private sector could enable a new culture to develop with new performance mgt and rewards approach.	Venture managed via a company board, representing all owners, focused on the interests of the company.	Have been in the past for similar scope ventures.	Supplier feedback has highlighted preference for conventional outsourcing contract to avoid overhead of JVC.	[illegible]
Controlled JVC	Venture would be controlled by local government with private sector having minority stake	A new venture with the private sector could enable a new culture to develop with new performance mgt and rewards approach.	Venture managed via a company board, representing all owners, focused on the interests of the company.	[illegible]	[illegible]	JVC overhead associated with running the independent business.
Section 101 Joint Committee	Designed and run completely by local government.	[illegible]	[illegible]	Used for many years for various local authority partnerships.	This is a well known model, leading to a traditional client supplier contract.	Services are backed by an existing organisation & no operating margin paid to private sector.
Teckal Company	Designed and run completely by local government.	A new venture with new management team could enable a new culture / brand to develop, with new performance mgt and rewards approach.	Venture managed via a company board, representing all owners, focused on the interests of the company.	Used in a very limited number of cases.	From a supplier perspective, no concerns have been raised.	Teckal company has overhead associated with running an independent business.

On the basis of the evaluation process summarised above, the authorities selected the "Teckal Company" option as the preferred approach subject to legal guidance and business case approval.

1.4 Key assumptions

We have used scenarios to model the potential benefits of including professional services, and also to test the potential impact of additional costs being incurred by LGSS. Below is a summary of some of our key assumptions:

- *In scenario only* - potential savings for the internal audit, legal and procurement areas being achieved through better deployment of resources and reduction in use of third party advisors/specialists;

- *In base case* - potential saving from adopting a local government delivered Oracle hosting solution, rather than the current commercially hosted solution;
- *In base case* - complete estimate of the Oracle development costs in the revised LGSS financial model. This will particularly focus on the HRM enhancements required to enable the transformation of in-scope services;
- *In scenario only* – potential reduced third party expenditure on professional services in the area of internal audit, legal and procurement. In this scenario, current levels of third party expenditure on professional services in the areas of internal audit, legal and procurement would be reduced by 3.33% in Year 3, 6.67% in Year 4 and would rise to generate year-on-year savings of 10% from Year 5 of operation (i.e. £343,943 p.a.).
- *In scenario only* – potential increased procurement savings through increased collaboration and category management. In this scenario, 1% of the current annual procurement contract spend (excluding utilities, Children & Young People and Adult Social Care) has been used as an indicative quantification of the potential benefits resulting LGSS providing procurement services to the customer authorities.
- *For base case and some scenarios* – we have developed Council-specific financial cases, in order to understand the impact of LGSS on the Authorities individually, based on two separate payment mechanisms.

Lastly, our analysis includes a high level qualitative appraisal of the pros and cons of including Information and Communications Technology (ICT) and Property services within the scope of LGSS. No financial or performance baseline analysis has been undertaken regarding these services and, therefore, our assessment should be considered as the beginning of this evaluation process and not a recommendation for inclusion or otherwise.

1.5 Investment appraisal

Below is a summary of the programme's financial appraisal (section 6.2), illustrating the aggregated implementation costs (capital and revenue shown separately), the recurrent net revenue impact, net cashflow and discounted cashflow (shown in £000s):

Project costs	2010-11	2011-12	2012-13	2013-14	2014-15	Totals
Capital	£3,883	£0	£0	£0	£0	£3,883
Revenue	£2,233	£2,999	£946	£0	£0	£5,239
Contingency @ 20%	£1,183	£611	£130	£0	£0	£1,824
Total project spend	£7,399	£3,065	£776	£0	£0	£10,942
Recurrent revenue impact						
Net impact	£127	-£981	-£3,206	-£3,514	-£3,463	[illegible]
Net cashflow						
Annual	£7,227	£2,084	-£2,429	-£3,514	-£3,463	[illegible]
Discounted	£7,227	£2,014	-£2,267	-£3,170	-£3,019	[illegible]
Cumulative NPV	£7,227	£9,241	£6,973	£3,804	£784	
Net revenue saving %	-	-2.83%	-9.26%	-10.15%	-10.01%	

1.5.1 Summary of financial benefits

This business case is built upon a known anticipated baseline position. At present, the baseline service cost of in-scope services amounts to approximately £34.6m per annum. However, Cambridgeshire is currently in the process of improving the efficiency of their respective baseline services, and has anticipated known savings of over £2m per annum[1]. Therefore, this anticipated saving has been removed from the baseline within our financial model: **the baseline cost is £32.4m per annum** (net of income).

Our analysis estimates that potential **annual savings** across the three councils after all programme-related costs have been accounted for, should be £3.206m in year 2, rising to **£3.463m by year 5**; the year 5 level of savings is expected to continue till year 10 (2020-21) thus generating a total of **£31.816m** in recurrent revenue savings. These savings relate to adopting a common streamlined service delivery model, and optimising process efficiency, for Finance, HR and payroll services. For these services, this saving equates to 10% per annum of the baseline cost.

Based on our financial analysis, we anticipate that LGSS will generate a **positive NPV in year 5 (2015-16)**, with a **final NPV of £15.3m in 2020-21**[2]. It will start to realise net cashable savings from 2012-13 with a payback period of 3 years. Our financial assumptions are predicated on all the in-scope services being redesigned and re-launched, through several phases, by April 2012. In section 8, we have developed a number of scenarios to test the sensitivity of the financial model to positive and adverse changes.

This financial performance is broadly consistent with other shared service initiatives in both the public and commercial sectors and should be considered within the context of each Council, in some cases, having already reduced the cost of in-scope services over a number of years.

Lastly, it should be noted that this business case is a joint investment appraisal for the three authorities. It was agreed that the allocation of costs and savings to each authority would be undertaken after the aggregated LGSS OBC was developed, on a basis agreed by Strategic Stakeholders. Furthermore, this business case has not included historic costs incurred (such as programme team costs, Oracle software enterprise license costs, etc) as they have been treated as 'sunk costs'[3].

1.5.2 Key Costs

We have anticipated programme costs of £10.9m over a 3 year period from November 2009, relating to both capital and revenue expenditure items. These costs include the following:

- Core systems migration, development and configuration costs - £3.6m
- Target Operating Model design and support (advice / QA) - £0.27m
- Programme team (backfill and temporary resources) - £2.89m
- Training (based on train the trainer approach) - £0.3m
- Staff transition (e.g., redundancy / early retirement) - £2.05m
- Contingency (20% of programme costs) - £1.8m

Regarding additional operational costs, the organisation design analysis has not anticipated any net increase in management costs. Furthermore, while the LGSS venture will incur costs from the founding Councils for the use of accommodation and ICT infrastructure services, these have been calculated as being cost neutral against the baseline and will be charged back to the customer Councils. Finally, in creating a limited company, LGSS will be subject to tax if it makes a profit. We have assumed that the venture will not make a taxable profit, as potential 'profits' will be eliminated through reduced service charges back to the founding Councils.

1.5.3 In-Scope service evaluation

Scope area	OBC estimated saving	Wider benefit	Implementation risks

1 Cambridgeshire have identified the affected individual posts and have a roadmap of planned projects to achieve the cost savings urgently.

2 The investment appraisal within the OBC has been prepared over 10 years in order to facilitate comparison with previous Business Cases prepared for LGSS.

3 The financial treatment has been agreed with each authority and the Programme Director.

Scope area	OBC estimated saving	Wider benefit	Implementation risks
Finance advisory/ accounting	£179k	• Adoption of common chart of account design will facilitate improved reporting. • Potential for FTE reductions in the area of Associate Accounting Technicians (AAT's) posts. • Potential to pool specialist resources (e.g. PFI scheme expertise). • Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Potential to reduce spend on external advisors. • FTE savings through consolidation of management structures. • Reduction in Finance workload through implementation of self-service.	• Learning curve/cultural change required to enforce use of self-service for budget holders. • Certain professional Finance roles are not conducive to a pooled resource model e.g. Section 106 officers, who advise Council members, or areas where resource continuity is important (e.g. business case advisory services). • Nature of service provided will change, providing less "hand holding" to Managers. • Adoption of over-complex time recording and chargeback procedures.
Payroll[4]	£128k	• FTE savings through consolidation of management structures.	• Managing the transition process to new combined service.
HR administration & professional HR	£1,312k	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Improved process efficiencies through use of self-service HR. • Standardisation of processes, improved control e.g. improved establishment control, centralised job evaluation. • Opportunity to rationalise third party contracts e.g. for training. • Reduction in HR workload through implementation of self-service HR, with potential to re-direct spare capacity to strategic HR areas e.g. organisational change support.	• System change for CCC, due to removal of customisations – may lead to loss of functionality • Major impact from a change readiness perspective (see also Payroll). • Nature of service provided will change, with less "hand holding" of Managers – this change is likely to have greatest impact on CCC and SBC. • Adoption of over-complex time recording and chargeback procedures.

4 Savings from NCC Payroll assumed to accrue to the current project to in-source Payroll and have not been double-counted.

Scope area	OBC estimated saving	Wider benefit	Implementation risks
		• FTE savings through consolidation of management structures.	
Transactional Finance	£331k[3]	• Standardisation and streamlining of processes (e.g. single entry of supplier records and removing errors upstream in processes). • Automation of interfaces from cash receipting systems to Oracle. • FTE savings through consolidation of management structures. • Reduction in Finance workload through implementation of self-service.	• Question over whether or not to include financial assessments in scope – may sit better with retained organisation, due to overlap in responsibilities between Social Care/Finance. • Compliance with use of Purchase Orders is a major cultural change issue in SBC and CCC.
Audit and Risk Management	NIL, however see Scenario 7	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • Establishing a larger audit service with greater capacity / credibility to offer its services to other organisations. • Risk management process efficiencies e.g. more proactive risk management.	• Risk of loss of key staff who may not wish to travel more and support a wider number of clients. • Audit day rates very sensitive and cost/benefit of pooling resources could be offset by increased travel costs.
Legal	NIL, however see Scenario 7	• Potential saving by combining expertise/capacity in specialist areas and reduce dependency on external resources. • FTE savings through consolidation of management structures.	• Adoption of over-complex time recording and chargeback procedures. • Increased premium for professional indemnity insurance.
Insurance	£5k	• Benefit by collaborating on procurement of insurance broker services. • Marginal benefit in combining expertise/capacity in specialist areas and reduce dependency on external resources.	• Cost saving partially offset by increase in professional indemnity insurance. • Adoption of over-complex time recording and chargeback procedures.
Procurement	£28k however see Scenario 7	• Process efficiencies through use of iProcurement and centralised contract management.	• Significant cultural change required to enforce compliance with agreed process.

3 Potential savings relating to Pensions Administration have been excluded from OBC, as posts are funded by the fund

Scope area	OBC estimated saving	Wider benefit	Implementation risks
		• Opportunity to deploy common, successful category management strategies by sharing category specialists for major spend areas. • Opportunity to access framework contracts negotiated by the other Councils to achieve further procurement economies of scale. • FTE savings through consolidation of management structures.	• Ability to generate major savings for joint contracts is not clear, due to both geographic / market constraints, and existing use of consortium contracts where viable. • Heavily customised iProcurement application in use at CCC – may lead to loss of functionality when CCC move to "vanilla" Oracle. • Adoption of over-complex time recording and chargeback procedures.
Contact Centre	NIL	• Key benefit in including this in scope is the ability to attract future revenue from District and Borough Councils (subject to 10% Teckal trading restriction).	• N/A
Revenues and Benefits	NIL	• Key benefit in including this in scope is the ability to attract future revenue from District and Borough Councils (subject to 10% Teckal trading restriction).	• N/A
Core systems support / maintenance	£607k	• Improved solution resilience • Provide a wider opportunity to deliver ICT services through an connected infrastructure	Relies on effective procurement of 3rd party contract or delivery of an LGSS 'in-sourced' hosting model.
TOTAL	**c.£3.5m**		

In a number of areas we have only modelled financial benefits through scenarios, rather than include the savings estimates within the core financial model. These scenarios build on the wider benefits of collaboration in the context of the wider services being considered (e.g., Internal Audit, Legal and Procurement (e.g., category management and procurement advice)), for example:

- deploying best practice service delivery models that exist within perhaps one of partner authorities to the others, without the need to redesign the service and 'implement' a new service from scratch, just expand the current best service;
- pooling specialist resources and create additional capacity where resources within each individual organisation are scarce – due to the limited availability of appropriate information and issues raised by some stakeholders, we felt that the prudent approach would be to exclude savings for areas such as Legal Services, Internal Audit and Risk Management;
- offering a coherent and comprehensive support service to the founding Councils, reducing the potential conflicts or tensions between services that are in-scope and dependent functions that are retained; and

- sourcing more cost effective services from 3rd party suppliers (when it is not appropriate for LGSS to recruit permanent roles) through looking at a wider package of support needs for three customer Councils, rather than just one.

1.5.4 Qualitative assessment of other scope options: Property & IT Services

When considering outsourcing, some local authorities have looked at creating "bundles" of support services, such as Finance, HR, ICT and Property into a single procurement process. This is often undertaken to maximise the overall contract value to the private sector, making the deal more attractive and encouraging a proportionately lower margin.

In the case of LGSS, this logic (which is often flawed) does not necessarily apply, as this programme is not about outsourcing to the private sector. The main justification for including these other services should be considered in the wider vision for LGSS, enabling the partner authorities to:

- share the best practice and service design models available from the partner authorities;
- pool scarce or high cost expertise;
- reduce transactional costs (such as the helpdesk); and
- include services that are complementary.

This business case was not commissioned to evaluate wider services, such as Property and ICT, and therefore, it is not possible to reach firm conclusions regarding the appropriateness of their inclusion. Nevertheless, it is clear that certainly ICT complements the current in-scope services well, in terms of:

- Customer service and accountability for results – for example, as LGSS is responsible for the delivery and support of Oracle EBS, a customer reporting poor Oracle self-service performance would prefer to know that LGSS will resolve the issue. However, if ICT remains with the founding Councils, the customer would need to:
  - initially decide whether to call the internal ICT helpdesk or call the LGSS helpdesk;
  - risk being pushed between LGSS and the internal ICT helpdesk to resolve the issue; and
  - rely on the internal ICT service and LGSS Oracle support team to work constructively well together to serve the customer.

  If LGSS had complete ownership, responsibility and accountability for the ICT service from Oracle hosting through to desktop support, it could then deliver an integrated helpdesk and straightforward service level. It would also mean that non-resolution of ICT issues would sit squarely with LGSS.
- Operational effectiveness – the LGSS will need significant co-operation and support from the organisations supporting the partner Councils' ICT infrastructure. It will rely on them for LAN access, messaging and storage services, security, availability, etc. Complete ownership of the ICT environment could well improve the efficiency of the LGSS's implementation and operation.
- Business benefit – just as sharing HR and Finance services is expected to achieve additional value to the customer authorities, it is difficult to see why ICT would not deliver similar benefits. Although, some aspects of the ICT service will be very organisation-specific, many will be common (such as helpdesk, service management, supplier management, etc).

Regarding Property Services, the synergies between its functions and wider LGSS services are less clear cut. However, as part of the rationale for LGSS relates to creating a single, arms-length vehicle for the delivery of support services, sharing best practice and making changes once and reusing the outputs three times, Property could be treated in a similar way to other in-scope services.

In section 3.5, we have undertaken a more detail breakdown of the potential pros and cons (for both ICT and Property & Facilities Management (PFM)) to further progress the discussion. Before a decision is made, we would suggest that further business cases are explored for both areas.

1.5.5 Scenario analysis

The table below describes the sensitivity scenarios that were modelled for LGSS, together with the key impacts.

Scenario #	Description	When is a positive NPV achieved & by how much?	What is the NPV after 10 years?
1	"Big Bang": In this scenario, all LGSS staff moves would complete at the same time as cut-over to the converged Oracle EBS application on 1st October 2010.	2014-15 (£1.846m)	£17.929m
2	Increased external advisory fees. This scenario assumes that additional external advisory spend is required in the second year of the project to support the programme team.	2015-16 (£1.824m)	£14.988m
3	Oracle EBS upgrade: The opportunity of upgrading to Oracle EBS Release 12 straight after the convergence is considered in this scenario. This would effectively require a two-stage project, with the Councils converging to a single instance of Oracle in stage 1 and then upgrading to Oracle EBS Release 12 in stage 2.	2015-16 (£0.392m)	£13.556m
4	Zero contingency: This scenario is based on having zero contingency, which is not recommended as it is very high risk.	2014-15 (£1.013m)	£17.093m
5	10% contingency: This scenario is based on having 10% contingency in place of the 20% contingency provision in the financial model.	2014-15 (£0.115m)	£16.194m
6	Transactional only: This scenario considers changing the scope of the services in LGSS to include only transactional functions.	2015-16 (£0.309m)	£10.226m
7	Reduction in third party expenditure on legal, audit and procurement services: This scenario assumes that by year 5, 10% of existing third party expenditure on internal audit, legal and procurement services could	2014-15 (£0.179m)	£21.333m

Scenario #	Description	When is a positive NPV achieved & by how much?	What is the NPV after 10 years?
	be saved year-on-year.		
8	Increased procurement savings through more effective collaboration and category management. This scenario assumes that 1% of existing procurement contract expenditure could be saved year-on-year, commencing in year 3. (Note that this excludes Utilities, Children and Young People and Adult and Childrens' Services)	2014-15 (£3.051m)	£32.430m

1.6 Key risks that could impact success

Within section 10 we have provided an analysis of the key risks facing this programme, as apparent through our consultation with key stakeholders. Below is a summary of the key issues and themes that must be understood:

- **A new service delivery model**: to achieve the additional benefits anticipated within this business case, we have assumed that the new HR and Finance services will be based on a 'self-help' model that promotes the accountability of Council managers for performance, employee and financial management. The role of the LGSS will be to provide advice and support the customer authorities to mitigate their business risks, by focusing on exceptions (i.e., problems that managers alone cannot deal with) and enabling change (supporting the customer authorities through transformation initiatives). LGSS, like most providers of support services within local government, will be expected to reduce its cost base. One of the most effective ways to achieve this is to empower the workforce via self service, which pushes the responsibility and ownership of simple changes out to staff and managers, thus reducing the transaction volumes and effort in the shared service centres.
- **Standardisation of and compliance with new processes**: The foundation of nearly all benefits derived from any Shared Service is based on the integration and consolidation of functions and processes. The key pre-requisite of this integration, is the commitment of the participating parties to a single vision and approach that is based on the standardisation and harmonisation of business processes. If the three Councils cannot agree and stay fully committed to this standardisation and improve process compliance, then the future viability of the model and associated benefits will be put into serious jeopardy.
- **Change Management**: Major programmes such as LGSS, often focus on detailed design, planning, and implementation. However, unless the deployment of new ways of working is genuinely embedded both with LGSS itself and also within the customer authorities, the programme will fail to deliver the expected benefits. LGSS will introduce significant changes to some of the core functional areas of the Councils. If the appropriate levels of change management and stakeholder engagement are not deployed, there will be significant risks to fundamental 'business as usual' operations during the transition to LGSS.

1.7 Overview of LGSS implementation approach

The implementation of LGSS is based on a phased approach. It will be initiated with the design of an agreed Target Operating Model for LGSS, including payment mechanisms and service level definitions. It will then progress through a 2.5 year implementation programme, which will complete the transformation of the in-scope services by April 2012. Depending on the decision to proceed, the key programme milestone dates are as follows:

- **October 2009** – Analysis: completion of the revised business case;
- **December 2009** – Design: completion of the outline LGSS Target Operating Model, SLAs, payment mechanism, share holder agreement, and draft contractual documentation;
- **January 2010** – Decide: completion of business case to each Council for approval;
- **February 2010** – Procure: begin the procurement of a private sector vendor to support the Oracle convergence process, host the LGSS core applications, and provide Oracle EBS support & maintenance.
- **April 2010** – Appoint Management: appoint the top-level management team for the LGSS to lead the programme of more detailed design, migration, implementation and transformation.
- **August 2010** – Appoint Technology Vendor: select the new technology partner for LGSS and develop the transition arrangements from the incumbent arrangements;
- **October 2010** – Tranche 1 service transformation: Staff TUPE (excluding Legal Services) and Business Systems available;
- **April 2011** – Tranche 2 service transformation: deployment of a single Oracle and process solution for the three authorities; TUPE of Legal Services staff;
- **October 2011** – Tranche 3 service transformation; and
- **April 2012** – Tranche 4 service transformation.

1.8 Conclusions

Overall, the business case estimates that LGSS could enable the three Councils to reduce the cost of in-scope services by nearly £3m per annum (c. 9%), achieving a positive NPV by year 5 and having a 3 year payback period. However, beyond the above quantified financial benefits, wider opportunities exist that appear to support this shared service venture, namely:

- **Reducing the net cost of change for each Council** – as transformation activity can be undertaken once and the outputs shared for each organisation, reducing the relative implementation costs;
- **Supporting a change in the customer authorities' culture** – promoting manager self-help and reducing the reliance on support services. In-scope services will be managed and deployed on a common, more formalised basis, providing the tools and information necessary to enable manager and employee self-service. While internal support functions are often treated as 'sunk' costs, LGSS will improve the transparency of service costs and performance, and influence the behaviours of the commissioning organisations;
- **Providing a vehicle to deliver services to other organisations** – LGSS could use its capacity to deliver services to other organisations, such as district councils, cost effectively supporting the wider local public service economy and supporting the emerging 'Total Place' agenda;
- **Providing an effective alternative to outsourcing** – the LGSS organisation will be focused on the optimisation and efficiency of the services it provides, in a similar way to private sector outsourcing companies. While the LGSS model arguably may not deliver the same extent of capacity or enhanced skills that could be achieved through working with an outsource provider, as a wholly-owned public sector venture, LGSS will not leak savings through profit margin which would be distributed to private share holders;

- **Freeing-up management capacity within the partner authorities** – to focus on their core business and transformation priorities, by enabling the LGSS management team to focus on the optimisation and reconfiguration of in-scope services.
- **Achieve savings from adopting common procurement category strategies and sharing category management expertise** – there may be opportunities to achieve further savings through pooling scarce, specialist category management teams and deploying best practice category management techniques. This could be particularly attractive in high cost and complex areas (for example, adult social care). There may be some further benefit from joint sourcing (i.e., procuring contracts together). However, the opportunities for this would be limited by the nature of supply market to support the diverse geography, and demonstrating additional value over and above existing consortia contracts.
- **Supporting sustainable communities in Cambridgeshire, Northamptonshire & Slough** – all three local authorities, like the rest of the sector, are facing challenging financial forecasts. Reducing the cost of support services through LGSS enables the authorities to prioritise more revenue funds into frontline services (such as adult social care) and reduces the need for rises in Location Taxation.

Inherently, however, achieving the savings anticipated will require greater commitment from the partner Councils to make decisions rapidly, provide the clear leadership needed to enable change and recognising that the journey of service transformation will not be a linear, upward trajectory. If the partner authorities are not able to agree to the implications of the proposal target operating model and service delivery model, then it is unlikely that the venture will succeed moving forwards.

1.9 Next steps

The following are the recommended key next steps:

- Decision to proceed or stop: clear leadership is needed to set the tone for the future of this initiative and avoid protracted analysis and further uncertainty for the staff concerned.
- Create interim governance arrangements to oversee the following:
  - Clarify the legal position regarding pension fund liabilities and responsibility of LGSS to accelerate payment of the deficit. This issue has not been addressed by this OBC.
  - Update business case to detailed business case.
  - Payment mechanism: if the quantum of benefit appears worthwhile, the authorities need to develop a workable payment mechanism that enables a fair distribution of investment and savings.
  - Governance review: revisit the LGSS governance framework to improve ownership, transparency and leadership.
- Create momentum and direction: enable the lead officers to drive the agenda and establish the new LGSS management team as shadow board prior to establishing the company in April.
- Refinement of service requirements: to build a common high level service specification with agreed service levels.
- Creation of legal framework: to address the outstanding issues raised by the LGSS legal advisors.
- Begin the service redesign process: transforming the services delivered by LGSS.

Agenda Item No: 13

LOCAL GOVERNMENT SHARED SERVICES (LGSS) – UPDATE OCTOBER

To:	***Cabinet***		
Date:	**16th November 2010**		
From:	***LGSS Director of Finance***		
Electoral division(s):	***All***		
Forward Plan ref:	**Not applicable**	*Key decision:*	*No*
Purpose:	**To review the progress and success of the Local Government Shared Services arrangement with Northamptonshire County Council.**		
Recommendation:	**Members are asked to:**		

a) Note the progress made.

b) Note the key actions planned until the end of the financial year.

	Officer contact:		***Member contact***
Name:	Nick Dawe	Name:	Cllr John Reynolds
Post:	LGSS Director of Finance	Portfolio:	Cabinet Member for Resources and Performance
Email:	Nicholas.dawe@cambridgeshire.gov.uk	Email:	John.Reynolds@cambridgeshire.gov.uk
Tel:	01223 699246	Tel:	01223 699173

1. BACKGROUND

1.1 The Local Government Shared Service (LGSS) initiative between Northamptonshire and Cambridgeshire County Councils came into operation as planned on the 1st October 2010.

1.2 To ensure that this initiative progresses to plan and delivers the financial and operational benefits required by the Authority it was agreed that monthly progress reports will be submitted to Cabinet.

1.3 From December the monthly progress reports will mirror exactly the operational report that will be received by the LGSS Joint Committee.

1.4 This report is therefore an "interim" report providing a summary of finance, performance and operational issues.

2. PROGRESS REPORT

2.1 **Operation of LGSS.** LGSS began operating as planned from 1st October. All Director appointments have been made and interim arrangements have been confirmed in respect of the Managing Director position. Team meetings and one to one meetings have taken place between Directors and heads of services and teams. Further team activities are planned built around delivering operational improvements and supporting strategic activities such as the Integrated Plan.

2.2 **Financial Performance of LGSS.** Although LGSS has only operated from 1st October for reasons of operational simplicity and financial discipline, LGSS has taken over responsibility for the financial position of in scope corporate services up and until 30th September. There are no significant financial performance issues in either the Northamptonshire or Cambridgeshire "office". For Cambridgeshire a balanced financial out-turn position is currently forecast, though it is appreciated that ideally an under spend in the order of £250,000 to £300,000 should ideally be delivered (to help off-set financial pressures in other services). *Please refer to the Authority Integrated Finance and Performance Report for further detail.*

2.3 **Operational Performance of LGSS.** No operational issue or problems have arisen from 1st October. Prompt payment, aged debtor, system availability and other metrics remain at or above target save for the asset sale target. The asset sale target is behind plan as a result of the Authority decision to retain certain school sites in Cambridgeshire to meet current and future need, these sites previously having been identified for disposal. Both Authorities have led the way in early publication of £500 plus spending. *Please refer to the Authority Integrated Finance and Performance Report for further detail.*

2.4 **Savings and Benefits Delivery.** LGSS savings come from a multiplicity of sources in the current and future years and are detailed in the Business Case. In terms of LGSS Management Team appointments and associated secretarial support, the target saving of £231,000 in a full year will be delivered with the probability that a further £60,000 saving will result from associated administrative changes For each year that the Managing Director appointment is not made a further £189,000 of savings will accrue. The other major area of saving achieved to date is in respect of the Business System hosting and support contract. The savings that will accrue from the recently completed tendering exercise are in the order of £1m a year across both Authorities. The net saving target included in the Business Case was £410,000 per annum (target saving of £560,000 less contingency of £150,000).

3. KEY ACTIONS AND ISSUES, NOVEMBER 2010 - MARCH 2011

3.1 The key actions until the end of March are essentially built around delivering the other expected improvements and efficiencies required by the business case and planning for the additional savings that will be required as a result of the recent Comprehensive Spending Review statement. The LGSS Team is currently working on these challenges and have commenced a series of tight, time defined projects to deliver on time and to budget. A fuller update on these project areas will be included in subsequent monthly reports.

4. SIGNIFICANT IMPLICATIONS

4.1 Resources and Performance

- Early indications are that LGSS will out deliver the savings target set for it. This out performance will be picked up in the Integrated Plan.

4.2 Statutory Requirements and Partnership Working

- The progress made to date emphasises the value of properly planned and operational beneficial partnerships with other public bodies.

4.3 Climate Change

- There are no climate change implications resulting from the proposed change in scope.

4.4 Access and Inclusion

- There are no significant implications for any of the headings within this category.

4.5 Engagement and Consultation

- There are no significant implications for any of the headings within this category, reducing "back-office" costs was favoured by the public in the 20010/11 Budget Consultation.

Source Documents	**Location**
LGSS Business Case	**Room 112,** Shire Hall, Cambridge