

Report to Cabinet

26 January 2017

By the Cabinet Member for Finance & Assets

DECISION REQUIRED



**Horsham
District
Council**

Not Exempt

Shared Support Services - Conclusions and Recommendations

Executive Summary

In July 2016 Cabinet approved the development of final business cases for sharing Internal Audit, Human Resources and Payroll and Legal Services with Chichester and Arun District Councils. In November 2016 Cabinet approved the Medium Term Financial Plan that included £250,000 savings from sharing these services.

On 13 December 2016 the Shared Services Steering Group met and concluded the savings from sharing these services were not sufficient for all Councils for them to recommend the final business cases to the Cabinets. The Chief Executives met and agreed this position with the Leaders of the Councils on 9 December.

This report considers the need for these services to still deliver the savings included in the Medium Term Financial Plan. It recommends that internal audit services are commissioned from a public sector audit partnership, Orbis, saving the Council £50,000 and that Human Resources and Legal Services' management modernise and redesign their services to deliver £100,000 and £150,000 savings respectively. The report seeks approval from the Cabinet for use of Transformation Reserve funds to procure new IT systems in Human Resources and Legal Services to support these changes.

Recommendations

The Cabinet is recommended:

- i) to accept the recommendation from the Shared Services Steering Group to not enter into a shared services arrangement with Arun and Chichester District Councils.
- ii) to authorise the Human Resources and Organisational Development Manager to identify and procure a self-service Human Resources system with funds from the Transformation Reserve to facilitate internal savings from Human Resources Services;
- iii) to authorise the Head of Legal and Democratic Services to identify and procure a self-service legal case management system with funds from the Transformation Reserve to facilitate internal savings from Legal Services;
- iv) to procure the internal audit service from the Orbis Partnership and delegate to Director of Corporate Resources to enter into the agreement on behalf of the

Council after being satisfied as to the terms and conditions and its delivery of the £50,000 savings;

- v) to note the proposals to achieve the savings in Human Resources and Legal Services outlined in paragraphs 3.3 and 3.4 of the supporting document.

Reasons for Recommendations

- i) the procurement of the new systems in Human Resources and Legal Services will allow these services to modernise, maintain quality and deliver savings to support the Medium Term Financial Plan;
- ii) the transfer of internal audit services to Orbis will allow the service to deliver savings, maintain resilience, give the Council access to further audit specialisms and allow the service to be benchmarked from specialists the Council could not afford if operating alone.

Background Papers

Detailed business cases for shared services: Arun, Chichester and Horsham District Councils, November 2016, v4

Wards affected: all

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1 Background Information

1.1 Over the last twelve months Chichester, Arun and Horsham District Councils worked together to explore sharing some back office services. Arun and Chichester considered joint ICT, Revenues and Benefits and Customer Services. Horsham worked with the other two councils on proposals to look at sharing Internal Audit, Human Resources and Legal services.

1.2 In July the three Cabinets reviewed outline business cases for sharing these services. They asked the project team to work up more detailed costs, benefits and savings allocations in detailed business cases. Senior managers reviewed these detailed business cases in December 2016 and discussed conclusions with the three Councils' Leaders and relevant Cabinet Members. Leaders and officers agreed the work was valuable in analysing and comparing resources, operating methods and productivity. However, they considered the projected scale and timing of savings and the difference in the Councils' operating models, resource levels and systems did not justify the costs and risks of implementing shared services.

1.3 The Shared Services project developed a 'user pays' savings model. Each detailed business case projected annual revenue savings at the end of a five year period. Applying this model, Horsham District Council's projected annual revenue savings were £414,000 across the 3 services. The table below summarises the risks and assumptions used to assess each business case and the likelihood of realising these savings:

Internal Audit	£90,000	Based on Horsham reducing its annual audit days from 600 to 400 and removing all specialist computer audit resource
Human Resources/Payroll	£182,000	Based on transferring payroll from Capita to Arun DC and making the Human Resources service a transactional service
Legal	£142,000	Based on existing workloads. Would need significant change management to align all three Councils' practices. Once applied, this would increase Horsham's share of the savings.
Total	£414,000	

1.4 Arun and Chichester Councils' projected lower savings for Internal Audit than Horsham's savings. Arun's savings' for Human Resources were lower than Horsham's and Chichester made no savings. Chichester and Arun made more savings than Horsham for Legal Services. However Chichester and Arun considered the changes in workload proposed were likely to favour Horsham and move savings from them to Horsham. Of the 3 services only Internal Audit would have delivered its savings by 2018/19 with the other 2 services making no savings until 2019/20.

1.5 After assessing the risks, assumptions, implementation costs and payback periods for each business case, the Steering Group (Chief Executives and Portfolio Holders of each authority) recommended to not progress any of the business cases. The Group felt that Chichester and Arun could deliver most of the savings in house and Horsham deliver a good proportion of the potential savings.

1.6 One of the key drivers for considering shared services was the financial imperative to reduce operational costs. Horsham District Council included a £250,000

savings target for these 3 services within the Council's Medium Term Financial plan. This target remains within the deficit reduction plan.

2 Relevant Council policy

- 2.1 This report supports the Council's policy of efficiency and balancing the budget over the medium term by seeking efficiency savings from Human Resources, Legal and Internal Audit services.

3 Details

- 3.1 Although the recommendation is not to proceed with shared services, Horsham District Council has gained very detailed benchmarking data and analysis of processes as part of this project. This work will be the basis for redesigning existing operating models within the services and applying, where appropriate, those changes that can be delivered by Horsham District Council to meet, if not exceed, the £250,000 Medium Term Financial Plan commitment for these services. It is also hoped to be able to deliver the savings at least a year earlier in each case than in the shared services model with Internal Audit delivering its savings in 2017/18, Legal and Human Resources delivering its savings across the years 2017/18 and 2018/19.

3.2 Internal Audit

The benchmarking from this project showed that the Council, at 600 audit days, had an internal audit plan and team around 25% larger than Arun's audit plan. Therefore it is proposed to give the team a target saving of £50,000.

The benchmarking also showed that while Horsham employs a Principal Internal Auditor with specialisms in computer audit and data analytics, the other Councils do not. However, we are convinced that while Horsham does not need a "full-time" specialist computer auditor it does need access to 3 particular specialisms: computer audit, contract audit and counter fraud at the correct proportions to the size of its operations.

Alongside the work of setting up a partnership for internal audit the 3 Councils also considered the option of joining a larger local authority internal audit partnership. The benefits of such an approach were seen to be giving access in appropriate quantities to computer, contract and counter fraud specialists, resilience for small teams, access to modern technological solutions such as data analytics and access to more testing external scrutiny of the service rather than peer review. The Councils looked at 2 such partnerships: the Southern Internal Audit Partnership based in Hampshire and the Orbis Partnership based in Surrey and East Sussex. Both partnerships had similar benefits of size, quality, resilience and specialism.

3.3 Human Resources and Payroll

The benchmarking from the project indicated the team was around 40% larger than the teams in Arun and Chichester. There were 2 key reasons for the difference. First the Chichester service had a well-developed computerised self-service system that managers could use without specialist assistance. Second

Horsham District Council's service included a more senior manager, an organisational development function and an equalities and wellbeing function the other teams did not. To move the service more in line with others it is proposed to give the team a target saving of £100,000 alongside a requirement to move to more self-service within 2 years.

Although the other teams ran their own payroll benchmarking indicated that our contract with Capita is an efficient way of delivering payroll and pensions advice. It is proposed therefore to leave this service as is for the next 2 years.

3.4 Legal Services

The benchmarking from the project indicated the team was around 70% larger than the Chichester team and slightly larger than the Arun Team. This was not indicated in the savings in section 1.3 because these were based on continuing with the current level of service, hence Chichester's concern they would lose their share of the savings if efficiencies from Horsham were subsequently recognised.

There were 3 key reasons for the difference. First the Chichester service had a more advanced case management system that ensured all workload in the team was recorded and progress monitored. Second Chichester had actively ended the culture of over reliance on the Legal Team by practitioners in other services wanting their work checked to be on the safe side. This included ending the practice of lawyers attending Committee meetings as happens at Horsham, for example at Planning Committee. Third Horsham District Council's service tended to be more top heavy with senior lawyers often undertaking junior work amongst their critical high level work. To move the service more in line with others it is proposed to give the team a target saving of £150,000 alongside a requirement to introduce a new case management system to better control the work.

4 **Next Steps**

4.1 Internal Audit

Having reviewed the benchmarking data and current staffing levels the optimal way forward for Horsham is to reduce audit coverage and audit resources. A consequence of reduced staffing is an unbalanced skills mix within the current team. This can be resolved by engaging with one of the existing partnerships. This will allow us to reduce the size of our audit plan but retain an appropriate level of computer audit specialism. It will also enable us to access contract audit and counter fraud specialists and a higher level of external scrutiny of our service.

Of the 2 partnerships considered we will pursue the option of the Orbis partnership. This is because a TUPE type transfer would be expected to apply and because of such a transfer having an individual element, staff retention is likely to be better with team members having an employer based in East Sussex or Surrey rather than one based in Hampshire.

The proposal includes one redundancy, a provisional arrangement in 2017/18, and a formal purchase of the services from the partnership no later than 1 April 2018. The formal agreement could begin earlier than this should the due diligence be completed and agreed by Orbis at an earlier date.

4.2 Human Resources

The Human Resources service will remove 2 part-time posts by April 2017. They will investigate and implement a self-service computer system by the end of March 2018 and train all managers in its use, enhancing their Human Resources skills by the end of 2018/19. The final savings will come out of Human Resources in March 2019 ready for managers to operate with the smaller service from 1 April 2019.

4.3 Legal Services

Legal Services will reduce its Committee attendance immediately and start its staff reductions during spring 2017. The team will identify and procure their new case management system during the spring and summer of 2017. Management will monitor workload during the next year and work with colleagues across the Council to step away from over-dependence on the team.

Legal Services hope to make some of their savings through additional income with target markets being developers and Parishes. The team leader will work closely with the Future Horsham's commercialisation work stream to deliver these savings.

5 Views of the Policy Development Advisory Group and Outcome of Consultations

5.1 The Finance & Assets PDAG had been updated on the progress of the business cases throughout the summer and autumn. They discussed the recommendation from the Steering Group and next steps at their meeting on 19 December 2016. They supported the idea of a transfer of Internal Audit to Orbis. The group felt Human Resources savings should come as early as possible. The PDAG said any reductions in Legal Services should not impact on the Council's ability to prepare s106 or CIL agreements and said it was important to maintain the quality of the service.

5.2 This project did not require external consultation. Staff were continually provided with updates as the project progressed using staff briefings by the Chief Executive, regular newsletters and reports to the Joint Employee Consultative Panel.

5.3 Unison Branch Secretaries from each Council met with a lead Chief Executive and Project Lead Officers on a monthly basis during the process and were given the opportunity to raise questions or concerns which were formally addressed.

5.4 Comments from the Senior Leadership Team and the Service Managers the 3 services, including the Monitoring Officer, have been incorporated in the report.

6 Other Courses of Action Considered but Rejected

6.1 The alternative option would be to retain the existing operating models for the service areas within shared services. The shared services programme has demonstrated opportunities to improve in-house processes and operating models to allow services to continue to provide a good quality service, whilst meeting the

£250,000 savings target. If this exercise is not undertaken, the savings target will need to be achieved through efficiency savings in other service areas across the Council.

7 Resource Consequences

- 7.1 At their meeting in July, Cabinet authorised the release of £25,000 to fund Horsham District Council's share of project resources and associated costs in compiling the detailed business cases, this was in addition to the original £20,000 agreed by Cabinet in February. Each Council equally contributed staff resources to the project and therefore did not recharge for this time. The direct costs spent on the project were around £2,000 of Horsham's contribution and the rest will be returned to the Transformation Reserve and will support the in-house change moving forward.
- 7.2 The proposed targets issued to the services for savings total £300,000. This exceeds the £250,000 included in the MTFS and, if achieved, will contribute to the remaining budget gap for 2019/20 and 2020/21.
- 7.3 Around 6 posts will be removed as part of these budget reductions. Any redundancies will be made by the Head of Paid Service in accordance with the constitution and consultation with staff and unions will take place in line with the Council's organisational change procedures.

8 Legal Consequences

- 8.1 For Internal Audit the basis of the relationship with Orbis would be one of customer supplier. It is likely the Council will do this by using Section 101 of the LGA 1972. This section of the Act allows a local authority to discharge any of its functions by another local authority and through Section 1 of the LA (Goods and Services) Act 1970, where a local authority can enter into an agreement for the provision by another local authority of any administrative or professional services. The Monitoring Officer has advised that the agreement would be between Horsham and one of the partner authorities e.g. Brighton & Hove City Council. We would expect the agreement would reference that a named Head of Internal Audit was responsible for carrying out functions on behalf of and therefore accountable to Horsham District Council and attendance at all Audit Committee meetings.
- 8.2 There are no legal consequences of the current work in the Legal Services and Human Resources teams. Procurement of new systems will be compliant with the Council's procurement regulations and we do not expect the value of these systems to be high enough to need EU procurement compliance.

9 Risk Assessment

- 9.1 There are no community impacts or corporate risks in the decision not to proceed with a shared service.
- 9.2 Reducing Human Resources and Legal Services does increase the risk of successful legal challenge including at employment tribunal. However the transition phase of these projects including upskilling all managers will help mitigate this risk.

- 9.3 Legal Services' withdrawal from Committee meetings will increase the risk of decisions being postponed to seek legal advice. This will be mitigated by upskilling the Democratic Services team in Constitutional advice and that the Council now has a simplified Constitution.
- 9.4 Commissioning internal audit from a larger partnership should reduce the team's vulnerability to staff absence. Smaller Legal and Human Resources teams will increase the vulnerability to service failure due to staff absence although this will be mitigated through management training and, in the Legal Team, asking all specialist lawyers to develop a second specialism.

10 Other Considerations

- 10.1 There are no Crime & Disorder; Human Rights and Sustainability impacts of this report. Although the full details of the new Human Resources model are not complete a move towards a Chichester/Arun smaller service would be likely to lead to equality and diversity issues being managed by Service Managers and Team Leaders rather than retaining an equalities and diversity specialism.