

# THREE RIVERS & WATFORD SHARED SERVICES JOINT COMMITTEE

Date of meeting: 3 June 2013

PART A

AGENDA ITEM

# 8

**Title:** FUTURE OF THE SHARED SERVICES JOINT COMMITTEE

**Report of:** Director of Corporate Resources & Governance – Three Rivers D.C.

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1. **SUMMARY**

- 1.1 This report allows the Joint Committee to consider its successes and the lessons learned in order to inform the changes proposed by the two councils.
- 1.2 It also considers the advantages and disadvantages of moving to a lead authority model.

2. **RECOMMENDATIONS**

- 2.1 that the Joint Committee notes its successes and lessons learned, as set out in the report, and that they be conveyed to the councils to inform any proposed changes.
- 2.2 That the Joint Committee notes the two councils' proposals to abolish the Committee and move to a lead authority model, and that the advantages and disadvantages, as set out in the report, be conveyed to the councils to inform any proposed changes.

**Contact Officer:**

For further information on this report please contact:

David Gardner – Director of Corporate Resources & Governance – Three Rivers D.C.

telephone number: 01923 776611

email: david.gardner@threerivers.gov.uk

**Report approved by:**

Bernard Clarke – Head of Strategic Finance – Watford B.C.

### 3. DETAILED PROPOSAL

#### **Background**

3.1 At its meeting on 18 March 2013 (Minute JSS47/12 refers), the Joint Committee received a report which provided feedback from the two Councils on proposals for the future of the Committee. It resolved:-

that the Director of Corporate Resources and Governance, following consultation with senior managers, prepare a report for the Joint Committee meeting on 3 June 2013 on the advantages and disadvantages of a lead authority model for service management, together with other options which are considered viable. The report shall include legal aspects and appropriate case studies to inform the review of shared services by both Councils and consideration of proposed changes. The report shall be forwarded to the Resources Policy and Scrutiny Committee and the Executive Committee of Three Rivers District Council on 13 June and 24 June 2013 for comment and approval.

3.2 Members noted the decisions of the two Councils on the report put to them (Attached as Appendix 1). The Three Rivers representatives stated that their Council's decision was intended to permit their Council's Resources Policy and Scrutiny Committee and Executive Committee to have the opportunity to examine the proposals with their effects in detail and to express a view on them before they were put to both Councils for adoption.

3.3 Members recognised the issue of ensuring democratic accountability for any form of service governance and that this applied to any form of out-sourced service provision, particularly for an authority which received but did not manage the service. They wished to ensure that an alternative arrangement would be viable and requested that the report contain case studies involving district/borough authorities for any option recommended. The Chairman commented that the Joint Committee had demonstrated that joint working had been achieved. It was acknowledged that whatever model was adopted needed to provide for three essential elements, namely democratic control; value for money and service quality.

#### **The Joint Committee**

##### ***Successes***

3.4 At member level, the Joint Committee has demonstrated that joint working can be a success. The four functions delegated to it were charged with achieving resilience, savings and improved service. These have been achieved with varying degrees of success as set out in the report to the Committee on 18 March 2013 (Attached as Appendix 2).

##### ***Lessons Learned***

3.5 That report also highlighted some of the lessons learned. Appendix 2 details the effect that a changing economy, due diligence, and the difficulties in expanding have had on the shared services.

3.6 This report concentrates on governance issues in respect of the current joint committee arrangement and the lead authority model.

3.7 The governance arrangements have made it difficult to harmonise the terms and conditions of staff. For example, there are still staff working alongside each other with different leave entitlements.

3.8 The 'Delegation and Joint Committee Agreement' delegates the operation of the four services to the Joint Committee. This was done with the intention of producing one report for members upon which decisions could be made and action taken. In the event officers have frequently found themselves answerable to the joint committee and, separately, the two councils. This has introduced inefficiency not to say confusion as to where accountability lies.

## **The Lead Authority Model**

### ***Description***

- 3.9 In a lead authority model, one constituent council takes responsibility for delivering one or more service to the other council(s). The Lead Authority's systems and processes are those that are usually adopted. Delivery of services between councils are managed via Service Level Agreements and an agreed cost share formula (see under Financial Implications below). The proposal is that Three Rivers leads on Revenues & Benefits and Finance, and Watford on Human Resources and ICT.

### ***Officer Arrangements***

- 3.10 In a lead authority model, it is usual for staff to be transferred from the recipient council to the lead council under the Transfer of Undertakings (Protection of Employment) Regulations. To avoid the disruption this might cause there are no plans to transfer staff initially. This could be reviewed when it becomes clearer as to what is happening with universal credit and the role (if any) for Revenues & Benefits. Vacancies will be treated as posts to be filled by the lead council. Similarly, there are currently no proposals to relocate staff to the premises of the lead authority, although if the opportunity arises this should be reconsidered.
- 3.11 The Managing Director at Watford will have direct line management responsibility for the Head of Human Resources. The Head of Corporate Strategy and Client Services at Watford will have direct line management responsibility for the Client ICT Managers. The shared Director of Finance post will have direct line management responsibility for the Heads of Revenues & Benefits and Finance and will co-ordinate collaboration between all four shared services. Both councils' scheme of delegation should reflect these officers' responsibilities for operational matters.
- 3.12 A Joint Management Board meeting of the two councils' management teams will review performance.

### ***Democratic Accountability - Watford***

- 3.13 At Watford, for Human Resources and ICT, member accountability would be to the portfolio-holder for Shared Services, Democracy & Governance and for non executive functions (Human Resources and Audit) to the relevant committee.
- 3.14 Both services will be subject to a quarterly review of performance with the Portfolio-Holder, to which the appropriate Committee Chair at Three Rivers would be invited.
- 3.15 The shared Director of Finance will act as a 'client officer' in that she will be the first point of contact and be expected to handle any day to day issues over Revenues & Benefits and Finance service delivery raised by the Portfolio-Holder.
- 3.16 All four services will be subject to the Council's scrutiny arrangements. In this respect, the shared Director of Finance will be the principal adviser to members. She will have the ability to call on further advice from the heads of Human Resources and the ICT Client Managers. The service level agreement will specify that where scrutiny advice is required on Revenues & Benefits or Finance, then the shared Director of Finance will have the ability to call upon the attendance of the Heads of Revenues & Benefits and Finance. This is to mirror similar arrangements made with private sector suppliers and reinforce the recipient council's relationship with the lead authority.

### ***Democratic Accountability – Three Rivers***

- 3.17 At Three Rivers, for Revenues & Benefits and Finance, member accountability will be to the successor of the Resources Policy & Scrutiny Committee. The Committee will still have responsibility for policy *and* scrutiny. It is anticipated that there will be no delegation to the chair of the committee. Under the Council's conventions there will be briefings for the Committee Chair and Spokespersons to which the Portfolio-Holder at Watford will be invited if shared services matters are to be discussed.
- 3.18 The shared Director of Finance will act as a 'client officer' in that she will be first point of

contact and be expected to handle any day to day issues over Human Resources and ICT service delivery raised by the Committee Chair and Spokespersons.

3.19 All four services can be scrutinised by the Committee. In this respect, the shared Director of Finance will be the principal adviser to members. She will have the ability to call on further advice from the heads of Revenues & Benefits and Finance. The service level agreement will specify that where scrutiny advice is required on Human Resources and ICT, then the shared Director of Finance will have the ability to call upon the attendance of the Head of Human Resources or the ICT Client Managers. This, again, is to mirror similar arrangements made with private sector suppliers and reinforce the recipient council's relationship with the lead authority.

**Political Resolution**

3.20 Should joint political resolution be needed, *ad hoc* meetings of the relevant members will be called.

**Timing**

3.21 Three factors need to be taken into account when deciding when any new arrangements should come into effect:

- Three Rivers is moving back to a traditional committee structure under the new provisions of the Localism Act with effect from May 2014. The abolition of the Joint Committee for any substantial period prior to this date will require temporary governance arrangements to be employed at Three Rivers.
- The new legal agreement between the two councils will have to be drawn up and ratified
- The service level agreements and consequential financial arrangements will have to be in place (see financial implications below)

To allow all of these matters to be concluded, officer advice is to implement the new lead authority arrangements with effect from 1 April 2014.

**Advantages**

3.22 The lead authority model, as described above, is designed to clarify accountability and introduce greater efficiency by avoiding duplication. In the longer term it could resolve differences in employment arrangements by harmonising terms and conditions.

The lead authority model also appertains to Parking and Building Control (as detailed at Appendix 1). It should be noted that, beyond the remit of the joint committee, both councils operate perfectly good arrangements over Leisure, on which subject we spend little time navel-gazing yet it is a major public-facing service.

**Disadvantages**

3.23 Members of the authority that is not leading will not be able to command officer time on a day-to-day basis at the lead authority. The relationship becomes much like one with an outsourced contractor. Formal scrutiny arrangements will need to be followed.

**Case Studies**

3.24 These are attached at Appendix 4.

**Other Options**

3.25 The table below shows the options for governance that have been considered:

Do it Ourselves			Work with the Private Sector	
Joint Committee	Lead Authority	Wholly Owned Company	Joint Venture Company	Outsource

3.26 Each option has been considered in the light of the Committee's concerns about democratic accountability.

3.27 Members are aware that the outsourcing route has been followed for ICT and that a soft-market test is proposed for the Revenues and Benefits service. Further outsourcing would result in less direct control of services and would take up to two years to achieve.

Whilst this option should not be ruled out, and a tendering exercise could be run in parallel, it is felt that a lead authority model meets the medium term necessities.

- 3.28 The wholly owned company whilst retaining control and allowing the shared services a better opportunity to grow would involve high investment, take a long time to set up and represents a higher risk than the lead authority model. The Joint Venture Company has the advantage over the wholly owned company in that risk can be shared and private sector investment can be obtained. (For example, this might have been appropriate for ICT had the two councils not had the capital funds to invest in infrastructure). Neither option is considered viable at this time.

## 4. **IMPLICATIONS**

### 4.1 **Policy**

- 4.1.1 The recommendations in this report are within the policies of the Joint Committee, Three Rivers District Council and Watford Borough Council.

### 4.2 **Financial**

- 4.2.1 The agreement for a lead authority model will need to include service level agreements linked to a charging mechanism. The deficiencies of the existing financial arrangements are detailed at Appendix 3. The introduction of the lead authority model should simplify matters considerably.
- 4.2.2 The charging mechanism will need to reflect the risk taken on by the lead authority and whether any of this can be passed back to the recipient through the charge. For example, it might be agreed that the Human Resources service (led by Watford) will charge Three Rivers a fixed fee on a per capita basis variable if the number of Three Rivers staff changes by, say, an agreed percentage. The agreement might also include (or not) a provision that Three Rivers would pick up a proportion of any under or overspend up to a specified limit. The arrangement should not be entered into with the intention of generating super profits, although consideration might be given to sharing the financial benefits of the lead authority taking on additional work from elsewhere.
- 4.2.3 Appendix 3 also describes the need to reduce shared services costs to Watford BC as a result of that council outsourcing services. The four shared services are considering how they will achieve the savings required with effect from 1 January 2014. Their proposals will be presented to a future Committee meeting.

### 4.3 **Legal Issues** (Monitoring Officer)

- 4.3.1 The current shared services arrangements are included in the 'Delegation and Joint Committee Agreement' made by the councils on 26 August 2008.
- 4.3.2 In moving to a lead authority model the councils will need to conclude a new agreement. Legal powers exist under Section 101 and 113 of the Local Government Act 1972, and the general power in Section 2 of the Local Government Act 2000.
- 4.3.3 The key contents of the new agreement will be:
- The functions to be carried out by each council detailing the delegation made and those items of policy to be retained at each council
  - Dispute resolution including the arrangements for scrutiny by the non-lead authority and the imposition of penalties in the event of service failure
  - Employment arrangements including the resolution of grievance and disciplinary matters
  - Service Level Agreements and the financial arrangements for charging
  - Length of agreement, exit and handover clauses

### 4.4 **Risk Management and Health & Safety**

- 4.4.1 There are no risks associated with the decision members are being asked to take, i.e. to convey the Committee's views to the constituent councils.
- 4.4.2 The financial risks to the lead authority, and how they might be mitigated, are discussed

(briefly) at paragraph 4.2.2 above.

4.4.3 The risk of a service failing should be mitigated by the review of performance at officer level and by the scrutiny arrangements in place for members. Nevertheless, the new agreement will need to allow for penalties to be imposed compensating the disadvantaged council for the costs of remedy.

4.5 **Equalities, Staffing, Accommodation, Community Safety, Sustainability & Environment, Communications & Website and Customer Services**

4.5.1 None specific.

#### **Appendices**

- 1 Future of Shared Services Joint Committee – Report to Watford BC on 30 January 2013 and Three Rivers DC on 26 February 2013.
- 2 Shared Services Review – Report to the Shared Services Joint Committee on 19 November 2012
- 3 Support Service Costs & Recharges
- 4 Case Studies (To follow)

#### **Background Papers**

No papers were used in the preparation of this report.

## WATFORD BOROUGH COUNCIL – 30 JANUARY 2013

## THREE RIVERS DISTRICT COUNCIL – 26 FEBRUARY 2013

## 16. FUTURE OF THE SHARED SERVICES JOINT COMMITTEE (CE)

### 1. Background

The SSJC was established in 2008 with the functions set out in the attached. It became as a result responsible for the four shared services. Its key role was to manage the establishment of the services and it has performed that role well. However the delivery of these services and the local government context has changed considerably since this period and it is now timely to review its role.

The key contextual changes are:

- (1) Shared services delivery is expanding rapidly but in a flexible, diverse way as a result of WBC/TRDC needing to innovate separately as well as together to deliver cost reductions and safeguard services. For example:
  - the proposal to deliver Audit through the County-wide Shared Internal Audit Service (SIAS)
  - HR bid to provide services
  - TRDC buying in WBC transport/engineering support
  - potential SW Herts collaboration on cemetery services
  - potential TRDC/WBC collaboration on economic development.

Existing shared delivery of services not covered by the Joint Committee is the Parking Service (TRDC, WBC, Dacorum) and Building Control (WBC/TRDC).

More hybrid arrangements are inevitable, making the SSJC not aligned in governance terms with these changes.

- (2) Two of the four services are impacted by fundamental changes to their delivery mode: ICT through proposed outsourcing, where the client function would be distinct and there will be a new delivery relationship with the contractor; Revenues & Benefits where the government reforms to introduce universal credit will revise the service dramatically.
- (3) As resources reduce, the capacity of both Council management teams to support the SSJC becomes increasingly limited, with pressure on officers to streamline performance reporting.
- (4) TRDC is moving back to the Committee structure under the new provisions of the Localism Act, whilst WBC is retaining the executive structure.
- (5) Both Councils' political leadership wanting to see faster service improvement in key Shared Services areas and hence seeking more direct influence through their existing Executive structures.

## 2. **Proposal**

In the light of the above, it is proposed to dissolve the SSJC and revert the management responsibility for each shared service with an identified authority on the following basis:

### TRDC

Building Control (not currently overseen by SSJC)  
Revenues & Benefits  
Finance

### WBC

ICT (client function)  
HR  
Parking (not currently overseen by SSJC)

Each responsible authority would be delegated by both Councils to manage the service based on an agreed SLA and cost share formula. There is a senior officer Joint Management Board meeting of the two management teams that reviews performance and therefrom accountability would be to the relevant Authority portfolioholder or for non executive functions (HR and Audit) to the relevant committee. The shared Director of Finance post will co-ordinate collaboration between HR, ICT, R&B and Finance. Where joint political resolution is needed, *ad hoc* meetings of the relevant members will be called.

As part of sharing the learning of the joint management arrangements, it is also proposed that the SSJC undertake a review of its successes and lessons learned to inform the above proposed changes.

## 3. **Legal implications**

The process to change the existing SSJC arrangement is not straightforward as existing delegations and the assets lodged with the SSJC will need to be reallocated, and the financial responsibilities for the services made clear under the remit of the relevant authority. If Council agrees the recommendations, work will then commence on these issues. It is not proposed that the contracts of employment of staff would be changed as a result.

## 4. **Recommendation**

- (a) that SSJC undertake a review of its successes and lessons learned to inform any proposed changes;
- (b) that SSJC is dissolved from a date to be agreed once legal and financial processes are complete. This may be in 2013 or possibly from 1 April 2014 depending on the legal and administrative processes involved;
- (c) that each authority takes the responsibility for the service identified in paragraph (2) above from the effective date determined; and
- (d) that a further report is made to each Full Council meeting once the timing is clear so that proper notice of the change is given to the SSJC.



Note:

The above recommendations were agreed un-amended by Watford Borough Council

Three Rivers District Council agreed an amendment to recommendation (b) as follows:-

- (b) that SSJC is **considered for dissolution** from a date to be agreed once legal and financial processes are complete. This may be in 2013 or possibly from 1 April 2014 depending on the legal and administrative processes involved; *but to ensure that the Resources Policy and Scrutiny Committee and Executive Committee are advised of details and implications of the proposed management arrangements a report be prepared for consideration prior to approval by this Council.*

THREE RIVERS & WATFORD SHARED SERVICES JOINT COMMITTEE

Date of meeting: 19 November 2012

PART A

AGENDA ITEM

**Title:** SHARED SERVICES REVIEW

**Report of:** Director Of Corporate Resources & Governance - Three Rivers D.C.

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1. **SUMMARY**

1.1 This report reviews the shared services against the original objectives of improvement in services, resilience and savings, and considers the lessons learnt.

2. **RECOMMENDATIONS**

2.1 That this report be noted.

**Contact Officer:**

For further information on this report please contact:

David Gardner – Director of Corporate Resources & Governance – Three Rivers D.C.

telephone number: 01923 776611

email: [david.gardner@threerivers.gov.uk](mailto:david.gardner@threerivers.gov.uk)

**Report approved by:**

Bernard Clarke – Head of Strategic Finance – Watford B.C.

### 3. DETAILS

3.1 The Three Rivers Resources Policy and Scrutiny Committee has agreed to investigate, from a Three Rivers perspective, whether the original shared service objectives of resilience, improved services and savings have been achieved and the lessons learned. This report is presented to the Joint Committee for its input and information.

#### 3.2 **Finance**

##### 3.2.1 Improvement in Service

- Accountancy closed and reported the Financial Statements for 2011/12 in advance of the statutory timetable
- Internal Audit have adopted a new service model to provide consultancy and advice
- The Fraud section have exceeded performance targets and extended their service to investigate more types of fraud.

##### 3.2.2 Resilience

- CIPFA benchmarking reports Accountancy Section as having:-
  - Lowest overall cost
  - Lowest staffing cost
  - Fewest staff
- Internal Audit with reduced resources achieved the Audit Plan and met requirements of Grant Thornton for the managed audit service

##### 3.2.3 Savings

- Savings are now running at more than £250k *over and above* the Shared Services business case.

	2009/10	2010/11	2011/12	2012/13
	£000s	£000s	£000s	£000s
Detailed Business Case				
Combined Costs	2,156	2,156	2,156	2,156
Shared Services	1,748	1,748	1,748	1,748
Savings	408	408	408	408
Actuals / Budgets	1,698	1,611	1,533	1,496
Savings against Business Case	458	545	623	660
Additional Savings (+) / Reduced Savings (-)	50	137	215	252

#### 3.3 **Human Resources**

##### 3.3.1 Improvement in Service

- Accuracy rates with payroll increased to 99% and working relationship improved; self service modules introduced; increased fees from client plus tendering for further opportunities;

##### 3.3.2 Resilience

- Harmonisation of specific terms and conditions although more to do; team working embedded with HR Business Partners working across both Councils.

##### 3.3.3 Savings

Savings have been achieved that are greater than estimated in the original detailed business case:-

	2009/10	2010/11	2011/12	2012/13
	£000s	£000s	£000s	£000s
Detailed Business Case				
Combined Costs	1,226	1,226	1,226	1,226
Shared Services	944	917	917	917
Savings	282	309	309	309
Actuals / Budgets	844	779	695	727
Savings against Business Case	382	447	531	499
Additional Savings (+) / Reduced Savings (-)	100	138	222	190

### 3.4 **ICT**

#### 3.4.1 Improvement in Service

- Increased technical documentation and knowledge base within the department.

#### 3.4.2 Resilience

- Infrastructure review and improvement plan leading to upgrade of much of the infrastructure at both councils providing increased stability and resilience of ICT Systems.

#### 3.4.3 Savings

- The ICT service has fallen short of the savings estimated in the detailed business case, primarily through the increased costs of employing agency staff and obtaining external assurance of the outsourcing process (Actica).

	2009/10	2010/11	2011/12	2012/13
	£000s	£000s	£000s	£000s
Detailed Business Case				
Combined Costs	1874	1874	1874	1874
Shared Services	1741	1415	1415	1415
Savings	133	459	459	459
Actuals / Budgets	1796	1468	1470	1523
Savings against Business Case	78	406	404	351
Additional Savings (+) / Reduced Savings (-)	-55	-53	-55	-108

### 3.5 **Revenues & Benefits**

#### 3.5.1 Improvement in Service

- Improved collection rates in Council Tax, Business Rates and Sundry Debts
- Harmonised operating platform leading to further improvements in access channels, e.g. Self-Service
- More efficient processes for gathering information to support benefit claims, i.e. "triage"

#### 3.5.2 Resilience

- Unified approach to service delivery. Workload is not allocated on authority basis but by demand.
- Greater flexibility of staff available to offer reception facilities at each site.

### 3.5.3 Savings

The additional costs incurred by the benefits service have been well documented. The service is spending more now than the original estimated combined costs of the two councils:-

	2009/10	2010/11	2011/12	2012/13
	£000s	£000s	£000s	£000s
Detailed Business Case				
Combined Costs	2,722	2,722	2,722	2,722
Shared Services	2,505	2,176	2,176	2,176
Savings	217	546	546	546
Actuals / Budgets	2,869	3,161	2,966	2,955
Savings against Business Case	-147	-439	-244	-233
Additional Savings (+) / Reduced Savings (-)	-364	-985	-790	-779

### 3.6 ***What lessons have we learnt?***

#### 3.6.1 Nothing stands still

##### The Economy

Increased demand for benefits has significantly affected that service.

The finance department has reacted well to the cost reduction exercise brought about by the government's austerity measures, other shared services have struggled to cope.

#### 3.6.2 Governance Arrangements

Members should review the Joint Committee arrangements and consider whether a lead authority model might be better.

The governance arrangements have made it difficult to harmonise the terms and conditions of staff

#### 3.6.3 Due Diligence

##### Some surprises

A better understanding of the respective ICT Infrastructures would have enabled the ICT service to start on a better footing.

#### 3.6.4 Difficult to Expand

The shared services set out with the intention of combining with other authorities to increase resilience, improve services and achieve further savings. It has been difficult to find willing partners.

## 4. IMPLICATIONS

### 4.1 Policy

4.1.1 The recommendations in this report are within the policies of the Joint Committee, Three Rivers District Council and Watford Borough Council.

### 4.2 Financial

4.2.1 There are no changes to the budget or the efficiency gains already agreed by the Joint Committee, Three Rivers District Council or Watford Borough Council as a result of this report.

4.2.2 The table below shows the combined impact of all four shared services. The saving to the two councils in the current financial year is £1.3m against the £1.6m estimated in the original detailed business case. This has to be considered in the light of:

- considerable increases in cost to meet addition demand for housing and council tax benefits
- the original detailed business case did not allow for inflation, and whilst pay awards have been pegged, employers pension costs have increased, and pay and grading arrangements have led to some salary drift. Contracts such as for payroll have inflationary increases in-built.

	2009/10	2010/11	2011/12	2012/13
	£000s	£000s	£000s	£000s
Detailed Business Case				
Combined Costs	7,978	7,978	7,978	7,978
Shared Services	6,938	6,256	6,256	6,256
Savings	1,040	1,722	1,722	1,722
Actuals / Budgets	7,207	7,019	6,664	6,701
Savings against Business Case	771	959	1,314	1,277
Additional Savings (+) / Reduced Savings (-)	-269	-763	-408	-445

### 4.3 Legal Issues (Monitoring Officer)

4.3.1 There are no legal issues associated with this report.

### 4.4 Risk Management and Health & Safety

4.4.1 There are no risks associated with the decision members are being asked to take (i.e. to note the report).

### 4.5 Equalities, Staffing, Accommodation, Community Safety, Sustainability & Environment, Communications & Website and Customer Services

4.5.1 None specific.

## Appendices

None

## Background Papers

No papers were used in the preparation of this report.

## SUPPORT SERVICE COSTS AND RECHARGES

### 1. Introduction

The provision of direct services for both authorities is supported by:

- administrative support from within the service areas themselves, e.g. community or environmental services administration teams
- administrative support from back office functions provided separately by each Council, e.g. Customer Service Centres
- administrative support from shared services functions such as Human Resources and Finance

At each council, the costs of administrative support, plus accommodation (i.e. Three Rivers House / Watford Town Hall / Depot costs) are collected initially in their own cost centres and then fully recharged to the direct services.

The process of recharging support costs can be highly complex but, at its heart, it is based upon a percentage allocation process (based predominantly on staff time, but also using such measures as the number of invoices paid, or PCs used). The complexity relates to the fact that some members of staff allocate their time to 'holding codes' which are subsequently recharged out to other cost centres (this often occurs with senior management time which cannot be identified to individual activities and is often related to 'corporate functions'). Another difficulty is that a support cost centre is cleared back to zero (fully recharged) only to find that another support area has recharged activities to it. As a consequence a second round of recharges is necessary to achieve a fully recharged situation. This process is called 'iteration' (or 'tail chasing' to the uninitiated!!).

Shared Services operational costs are collected at each council. This is necessary because staff are employed by both councils. By amalgamating the costs from each council, each shared service's total operational costs are arrived at and charged to each council on the basis of the proportions contained in the 'Delegation and Joint Committee Agreement'. The proportions used clearly need to be reviewed as the circumstances will almost certainly have changed since shared services inception:-

	Three Rivers %	Watford %	Basis of Apportionment
Finance	40	60	Expenditure
Human Resources	32	68	Staff numbers
ICT	40	60	No. of PCs
Revenues & Benefits			
Benefits	43	57	Caseload
Revenues	39	61	No of Properties

The apportioned operational costs are posted to what are termed 'client' accounts at each council (e.g. ICT Client Account). It should be noted that a saving of, say, £100k in ICT operating costs will only benefit Watford to the tune of £60,000, and if Watford requires a saving of £100k, then total savings of £167k would have to be achieved if the proportional method of recharge is to be used. This is considered further below.

The shared services operational cost centres are not charged with support costs. These are charged directly to the client accounts at each council. So, for example, the Watford ICT Client Account receives a charge c. £106k from other areas (e.g. customer services £20k; Human Resources £19k; Facilities Management / Accommodation £41k). Similarly, the Internal Audit Client Account receives a £40k charge from other support

services which includes £6k from HR; £8k from Finance and £16k from Facilities Management / Accommodation.

TRDC Client Accounts also receive a similar level of charge. These recharges also need to be reviewed to establish whether they are still justified. They will certainly need a total revision when the lead authority model is adopted.

## 2. Watford Outsourcing

From Watford's perspective, there is a far larger issue and that relates to the outsourcing of waste, street cleansing, recycling, parks and open spaces. These activities account for circa 33% (£5m) of council 'activity' and not surprisingly require quite a large back office support function. Similarly, Watford Council's Indoor Market and Charter Place service level agreements / rent portfolio are to be outsourced and this, too, will affect the level of support services required. The debt recovery / income function in particular will be potentially affected from both these events.

An analysis of Shared Services staff allocating their time against the affected cost centres is detailed below, together with an equivalent cash value:

	Full Time Equivalents	Cash Value £
Human Resources	2.27	141,000
Finance: Accountancy	0.53	29,000
Finance: Accounts Payable	0.52	28,000
ICT Recharge	0.88	56,000
Sundry Debtors	0.82	37,000

Watford wishes to achieve the required savings from 1 January 2014. It needs to be recognised that the cash value identified in the table above all relates to activities at Watford and 100% of any saving should accrue to Watford and should not be diluted through the proportional allocation included in the 'Delegation and Joint Committee Agreement'. Three Rivers needs an input into the discussion as to how the savings are to be achieved as it has an interest in the quality of service and may indeed wish to secure further savings for itself.

## 3. The Next Steps

Officer advice is to keep any analysis as simple as possible. Not every 'nuance' of the process will be picked up first time around—but it can be revisited and anomalies identified.

Staff have not been given the opportunity to change their recharge percentages in 2013/2014 (unless there was an over riding case). The recharge data for 2012/2013 has been used. This is because in the past staff have realised an activity might be outsourced and shifted their recharge allocation elsewhere!

Heads of shared services have been asked to identify the cash savings shown above. There is no assumption that these *must* come from reductions in staff numbers. It is appreciated that the total number of full time equivalents charging their time to any front line service can comprise a small fraction of a number of individuals. A further problem is that the cash values are derived from operational costs only and will not include an element of recharge from other support services and for accommodation, although the costs of the latter are fixed in the short term.

These savings are to be applied from 1 January 2014 for the remainder of the 2013/14 financial year.



Assuming the lead authority model will apply from 1 April 2014, there needs to be a comprehensive exercise, completed for the next budget round, that:-

- a. reviews the administrative support recharges at each authority and particularly those to the shared services it leads;
- b. reviews the method for charging the recipient authority for shared services, based on service level agreements set out in a new 'Shared Services Agreement' between the councils. The charge will include operational costs and administrative support charges incurred by the shared service.