1. **Summary**

1.1 The purpose of this report is to seek authorisation to continue exploration of a viable delivery model between the London Borough of Sutton and the Royal Borough of Kingston, from which to deliver current and future shared services.

2. **Recommendations**

The Strategy and Resources Committee is recommended to:

2.1 Authorise officers to continue to explore the optimum way to manage the shared services between the London Borough of Sutton and the Royal Borough of Kingston and report back to this Committee.

2.2 Note that a similar proposal and recommendations were presented to and agreed at the Treasury Committee of the Royal Borough of Kingston on 30 June 2016.

3. **Background**

3.1 The proposal for the exploration of a potential Shared Service Vehicle was first brought to Strategy and Resources Committee on 8 February 2016 along with a revised Memorandum of Cooperation. Members endorsed the recommendation that “officers be instructed to examine the business case for the establishment of a jointly owned company by the London Borough of Sutton and the Royal Borough of Kingston, as a vehicle for delivering current and future shared services.
services, including options for joint Member oversight of these arrangements, and to report back on the business case and delivery options.”

3.2 The exploration into a jointly owned company and other delivery models has focused on the ways in which shared services may optimally be managed and operated, in particular seeking a solution that feels genuinely and equally shared between the partners, that continues to respect and support their sovereignty and that aligns with the strategic direction of both Councils.

3.3 Whilst there are many variants of each potential solution, the main models for exploration have centred around how the staff are employed (by which organisation/s) and whether that model is likely to best support the authorities’ ambitions into the future.

3.4 Work to date has highlighted the relative strengths of two of the four models being explored: these are 1) a separate jointly-owned council controlled company, or 2) a continuation and enhancement of current arrangements whereby one authority acts as the employer for each shared service.

3.5 The other two models are not felt to provide the necessary advantages over the current approach and therefore no further detailed exploration of these is planned. These alternatives are co-employment (or a shared staffing model, where staff are employed by both Councils) and original employer (where staff remain employed by their original hiring authority but deliver services to both).

3.6 Each individual service that may be shared is brought to Committee for a decision on the merits of the case for turning it into a shared service. In presenting the proposal, the business case will detail the service delivery options that have been considered and the benefits and risks of entering a shared arrangement. As a result of this approach over recent years, a number of services are already shared, some between only Sutton and Kingston and others with a wider group of Councils. There are several potential shared services in scoping or development and each of these will be presented to Committee for a decision in due course.

3.7 The wide range of shared service arrangements in place at present has not impinged on the sovereignty and autonomy of either Council and has delivered significant efficiencies, greater resilience and service improvements for both Councils. It is not intended that transferring these arrangements into a single vehicle or management arrangement would change the position in relation to sovereignty, and the exploration into other models has specifically identified appropriate governance and controls that would support each Council as a separate and distinct decision-making authority.

3.8 Sutton and Kingston’s shared services are shown below, some of which they also share with other Councils.
### Participating Councils

<table>
<thead>
<tr>
<th>Participating Councils</th>
<th>LBS</th>
<th>RBK</th>
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### KEY

- **Live (darker colour is employing authority)**
  - L
  - L
- **Implementation**
  - I
- **Development (scoping, review or bus. case)**
  - D

3.9 Each shared service has, or has planned, a range of financial and service benefits. For both Councils, sharing where it makes sense to do so has been successful and has led them to continuing to view sharing as a credible way of addressing their individual budget and service requirements.

4. **Issues**

4.1 The challenge with replicating current arrangements across a growing number of different services has provided a series of drivers against which to consider a broader range of organisational models. The point of comparison is therefore whether an alternate model could better fit our future aspirations than continuing with what we have now. This report highlights the progress made to date on the exploration of a separate jointly-owned Council controlled company asks the Committee to authorise officers to continue exploring this delivery model, with a recommendation being expected to return to this Committee in October 2016.

4.2 The drivers for exploring whether a different model for managing Sutton’s and Kingston’s shared services would offer greater benefits are grouped into four categories:

- **Operations**
  - Manage what we share in a better way without the Councils themselves becoming shared
  - Build on our success with shared services
  - End implementation and operational issues around employing authority
  - Streamline the service offering and governance for current and future shares
• **Stakeholders**
  ○ Improve quality of service for internal customers
  ○ Simplify management and reporting requirements for staff and managers
  ○ Attractive proposition for partners and clients
  ○ Acknowledge our Councils’ strategic partnership

• **Behaviours**
  ○ Create something truly shared
  ○ Culture of innovation
  ○ Thinking about service delivery in fresh ways and with a commercial view
  ○ Values geared towards sharing services, ideas and benefits

• **Future**
  ○ Adopt a model that works with the Councils’ aspirations
  ○ Develop an identity and brand
  ○ Create a “destination” for staff currently employed by each Council
  ○ Allow for greater economies of scale and revenue opportunities to save public money
  ○ Improve outcomes for residents.

5. **Options Considered**

5.1 For clarity, the reasoning behind exploring the jointly owned company in detail is illustrated by considering the different employment options below.

• **Single Council employer** (per service). This is the status quo – given the drivers outlined, it was felt that a move away from this option may give the Councils additional benefits and has led to the exploration of different models. However, until such time as an alternative method is selected and implemented, this remains a viable option that is known to be effective. If there is no resulting proposal to use a different model, the Councils could still create a shared service brand (or identity) and would need to look at how best to bring consistency to the management and governance of this growing collection of services and to optimise future service innovation and revenue opportunities.

• **Original employer**. A number of local government shared services in the UK successfully use this option. It addresses the perceived imbalance of employer, but can lack clarity over reporting structures and control, as well as not capitalising on the opportunity for culture change and innovation, an aspect that is critical to maximising the success of shared services. Sutton and Kingston have effectively moved beyond this model already by choosing to run their existing services through a single Council employer. This option was therefore discounted and is not being investigated further at this stage.

• **Co-employment**. This model is also known as a shared staffing model. No examples of individual or groups of shared services were found that currently work in this way, although some Councils are actively considering its application. Whilst it was felt that it could potentially address the perceived imbalance of employer, its lack of wider usage increased risk. Additionally, use of such a model could imply a wider “joining” and
sharing of Councils that is not intended for Sutton and Kingston - rather, each service shared is supported by a business case and the Councils retain their sovereignty. This option was therefore discounted and is not being investigated further at this stage.

- **Separate company.** There are examples of public sector bodies successfully using this model. Although there are costs in implementation and operation of a separate company, it was felt that these costs could be offset to some degree by the increased simplicity of transitioning services to a shared model and by the opportunity for a collection of services operated in this way to drive additional savings. Equally importantly, this model most fully supported the aspiration to create a set of services that feel genuinely and equally shared between the Councils with no single Council having greater control over their operation. It may also lay the foundations for greater service innovation and the ability to create revenue streams. This model and the variants within it are being explored to understand suitability as a shared service delivery mechanism for Sutton and Kingston.

5.2 Regardless of the choice of vehicle by which to manage and operate the shared services, it is anticipated that it will continue to make subcontracting or outsourcing decisions where it makes sense to do so on behalf of the Councils. These may be for an individual service (for instance ICT and the Google service) or there may be efficiencies or improvements that can be made that affect multiple services (for instance around systems or transactional services).

5.3 Early investigations indicate that a separate company may be a viable solution, although more work is required to confirm whether there is a robust financial and business plan that would support recommending it for implementation.

5.4 Bevan Brittan has been engaged to provide legal advice on how a separate company might work in practice and in developing a set of recommendations for its arrangements. Options for how existing arrangements could be scaled up and brought together to incorporate additional shared services in a coherent way are also being worked upon.

5.5 In summary, the legal advice has covered:

- **Type of company vehicle.** There are several acceptable options, with the recommendation being a Private Company Limited by Guarantee. This would be a publicly-owned private company with Sutton and Kingston as the owners (although others could be admitted at a later date if required). Other supporting documents would illustrate the intent of the company, which may include staff voice and demonstrating the public-service focus of its activities.

- **Company Board and LA Governance.** There is a recommended composition of a Company Board and the overseeing governance by the two Local Authorities, which would be a Member Board (supported by the existing decision-making provisions in each Council). The actual composition and approach to this would depend on a series of choices about how we want the company to operate, particularly in relation to the owner Councils. This further detail will form part of the report in October.
● **Reserved Matters.** These aid the control over how much freedom a company has to act without reverting to its governing bodies. There is an initial draft that is likely to develop further in step with the other governance arrangements.

● **Constitution.** The Councils’ constitutions will need to change to reflect the arrangements with the company, including any decision-making.

● **Statutory functions.** These will be carefully assessed for each transferring service – some functions will be retained by each Council.

● **Teckal.** It will be important for the company to operate as a Teckal body from the outset to enable services to be provided back and forth between the councils and the company without falling foul of external procurement requirements. Initial financial, legal and trading analysis indicates that this would be possible and any proposal to implement will need to demonstrate this in detail. It is acknowledged that future opportunities may arise that require freedom outside of the Teckal constraints - these could be accommodated in a variety of ways and each opportunity would be assessed on its own merits.

● **Partners.** There are appropriate measures that can be taken to admit other partners (either taking all or limited services) as well as a limited level of trading (up to 20% of activity).

● **Service Contracts.** These will be held between the Councils and the company, with any onward arrangements for service provision (eg to AfC) being held as SLAs (as they are now).

● **Client Arrangements.** Although not a legal matter, both Councils will need to develop a clienting arrangement that allows an appropriate level of day-to-day control over the services received and commissioned from the company.

● **Exit arrangements.** Should there be a proposal to proceed, there will be comprehensive mechanisms for resolving service issues or disputes, alongside exit provisions for individual services or the company itself. The intent is to share and benefit from the operation but it is acknowledged that it needs to be sufficiently flexible to allow each Council to take a different direction should it decide to do so in the future.

5.6 Member engagement has begun in both Councils to ensure that members are kept fully briefed on progress and potential outcomes and that their concerns and questions can be discussed and addressed. During the next phase of exploration it is anticipated that members from both Councils will meet to jointly discuss their aims and ambitions for the shared service vehicle and how they see it working in future.

5.7 Staff engagement has begun in both Councils, which has covered general progress updates via a variety of methods, a commercialism workshop and a vision workshop. A branding exercise will begin in July 2016 - as clarity on future name and visual identity for the group of shared
services is important irrespective of the formal structure that they exist within. Any resulting output could be used whatever the ultimate proposal.

5.8 Financial analysis has begun so that implementation and operating costs and savings of any new model can be understood, including any pensions implications. This is a detailed piece of work that is critical to any future recommendation.

5.9 This further investigation is expected to form a proposal that would return to Kingston’s Treasury Committee and Sutton’s Strategy and Resources Committee, both in October 2016.

6. Impacts and Implications

Financial

6.1 There will be limited financial implications in developing a proposal around management of shared services, with the largest expenditures likely to come from legal advice and branding work. The costs will be shared between Kingston and Sutton, met out of their shared DCLG funds. Other costs in developing the proposal will be largely staff-based, needing input from the relevant officers in both Councils and the Programme Manager role which is covered by DCLG funding (and also managing individual service share implementations).

6.2 There are likely to be financial implications to implement and operate any proposal and these will be explored during development and presented within that proposal when it returns to committee for approval.

Legal

6.3 The Council has the necessary legal powers to implement the delivery models being explored for the establishment of shared service arrangements.

6.4 There are important legal issues to be considered with each of the delivery models being explored and these will be addressed as work continues.

Risk Management

6.5 There is no identified risk in exploring the optimum management mechanism for the two Councils’ shared service interests. However, there is likely to be risk associated with the implementation of any resulting proposal and key risks will be presented within that proposal when it returns to Committee for authorisation.

Consultation

6.6 There is no consultation proposed regarding authorisation to continue exploring the management of shared services. If a future proposal is accepted, then as part of the process leading to implementation, legal advice will be sought on the required level of internal and external consultation.
Equalities

6.7 An Integrated Impact Assessment (IIA) has not currently been carried as there are no policy changes proposed at this point. It will be carried out as part of the development of any proposal and will include consideration of the two Councils’ levels of control and sovereignty for services delivered through any proposed mechanism.

7. Appendices and Background Documents

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Background documents

None

Audit Trail

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Consultation with other officers

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<td>Integrated Impact Assessment required?</td>
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