

# Services shared: costs spared?

An analysis of the financial and non-financial benefits of local authority shared services

**Appendix 2:** Review of LGSS shared services arrangements, Cambridgeshire and Northamptonshire County Councils

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# Executive summary

This report is a part of a wider research study commissioned by the Local Government Association (LGA) into the benefits that have been delivered from a selection of five local government shared service arrangements.

LGSS was established in October 2010 by Cambridgeshire and Northamptonshire County Councils. Both councils shared the same ethos and motivations, recognising that the development of shared services was required to meet their individual financial challenges. This was not only a reaction to budget constraints imposed by central government, but also reflected ageing demographics and rising service delivery costs.

The councils were concerned that they had already been cutting costs and services to the point where further reductions would mean that services would no longer be viable. In contrast, LGSS represented the opportunity to provide services across two counties, creating cost savings through economies of scale, whilst at least maintaining existing performance standards.

LGSS is the largest of the five shared service arrangements reviewed as part of this study as measured by cost base (£83 million). In addition, it is the only one that is governed by a Joint Committee.

LGSS provides a wide range of business support and advisory services, including the whole range of professional services (HR, Finance, Legal), ICT, property and payroll. Some front-line services are also included, notably social care financial assessments.

It was also a clear intent from the outset that LGSS would provide services to other public sector entities and that positioning the shared service arrangement (SSA) as 'by the public sector, for the public sector' would help attract third parties that might be cautious about contracting with private sector organisations. All savings generated are invested back into the public purse for the benefit of front line services.

A range of business models and structures were considered, including forming a limited company or a Teckal company. However, it was decided that the most appropriate approach was to establish LGSS under a Joint Committee. This was the fastest way of establishing the SSA, bearing in mind the restrictions of European procurement rules, and meant that staff would continue to be employed by their existing county council rather than be transferred to LGSS as a separate employment entity. It was also a flexible transition solution as it enables several longer-term structures to be considered as the SSA evolves.

The Joint Committee consists of six elected councillors, three from each county council, created in accordance with established regulations. This helps to 'de-politicise' LGSS, as each council appoints two members from its leading party and one member from the main opposition party to the Joint Committee. Senior LGSS Executives attend Board meetings of the Joint Committee, but are not members.

The LGSS initial cost base was approximately £83 million. This included all the in-scope services from both Cambridgeshire and Northamptonshire County Councils and also around £12 million relating to external income, including the provision of services to the authority pension funds and other third parties. In its first year of operation LGSS made ongoing savings of £3.79 million (4.6 per cent of the cost base), largely through the consolidation of management positions and economies of scale through the integration of services and procurement efficiencies.

The development of the LGSS organisational design model, the consultation and overall staff selection process for tiers one and two took approximately seven months. While this was quite rapid, some people commented that the process could have been completed faster and the uncertainty was a constraint on the development of the business.

LGSS successfully worked with the recognised Trade Unions of both councils to form a joint Consultation Forum. This enabled a joined up approach to employee relations across both employers, whilst recognising the terms and conditions and policy differences of the two councils. This model was shortlisted as a finalist for the Personnel Today awards in 2011 for Excellence in Public Sector HR.

During its second full year of operation (2012/13) LGSS is confident that it will deliver further consolidation savings, including the integration of teams beyond senior and middle management.

Annual property savings of £936,000 are forecast as falling staff numbers and improved space utilisation across the councils reduces the estate footprint, resulting in lower property occupation costs (rental, utilities, service charge and rates). ICT savings of approximately £3 million per annum will result from the re-procurement of the Cambridgeshire IT network.

In total LGSS will deliver additional annual savings during 2012/13 of £5.69 million, taking the total level of annual savings since the inception of LGSS to £9.47 million or 11.4 per cent of the cost base. Reduced management costs and economies of scale through the integration of teams and services have made a significant contribution to these savings.

LGSS executives state the financial savings are being delivered without any detrimental impact on service standards. This is backed up by the results from a customer survey undertaken by LGSS. At the end of 2010 LGSS recorded an overall customer satisfaction figure of 89 per cent. A recent customer survey undertaken in March 2012 shows a slight improvement in overall satisfaction to 90 per cent. LGSS uses the approach of creating Centres of Excellence and a Business Partner model within HR and Finance advisory services to engage with customers and to ensure that their requirements are built into the service planning process.

Drummond MacFarlane is confident from the interviews that some other important non-financial benefits have been delivered, including:

- Improved operational resilience as greater depth and breadth of skills exist in-house. LGSS has created a critical mass in the delivery of some specialist services (eg Legal). This has made the provision of internal specialist advice more feasible, with less reliance on more expensive private sector support.
- Staff motivation has been maintained despite significant organisational change. The staff working within LGSS remain employed by their county council and yet identify as being part of LGSS. They recognise the greater career development and employment opportunities that exist as LGSS grows and provides services to other organisations. In addition, the fear of losing pensions has been reduced as staff remain local authority employees. LGSS has run a number of LGSS Vision and Values employee engagement events to build and embed the LGSS identity across its services.
- The opportunity to learn from each other's experiences. LGSS possesses a wide pool of resource and expertise, which it can make available to others at public sector rates.

The investment cost to create LGSS and to deliver the efficiencies has been £3.32 million to date. Both Cambridgeshire and Northamptonshire County Councils received a net financial benefit from LGSS in its first year of operations.

The main set-up costs have been Oracle system implementation and project costs, including staffing.

Although LGSS has already made significant cost savings, these have largely been due to the consolidation of services across the two county councils rather than from the implementation of more fundamental business changes or process innovation. LGSS recognises this and states that these longer-term savings will start to be delivered from 2013/14 onwards as a result of:

- business process transformation, including further service integration, convergence and standardisation
- cultural integration and development
- new technology.

These longer-term initiatives are expected to generate additional efficiency savings of £9.32 million in annualised savings between April 2013 and March 2016. This will take the annual cost savings to £18.8 million by end 2015/16. This is equivalent to around 22.7 per cent of the 2011/12 cost base of £83 million. However, it should be recognised that the cost base will rise over time as LGSS grows its business and recruits staff to provide services to third parties.

The incremental investment cost to deliver the forecast 2013-2016 savings is estimated at £1.34 million, taking the total expenditure to £4.66 million. This is equivalent to only 7.5 per cent of the total savings of £61.8 million expected to be generated over the 5 years to end 2015/16.

Providing services to clients other than CCC and NCC was a core part of the LGSS vision. From inception there has always been a strategic intent to sell services to other organisations by adopting the approach of being ‘by public sector for public sector’ – a very clear competitive differentiation from private sector outsourcers. During 2012, LGSS has entered into partnership agreements with Norwich City Council for the provision of Finance and Information and Communication Technology (ICT) service and Huntingdonshire District Council to deliver HR and Payroll services.

Currently around 15 per cent of LGSS’ costs of £83 million relate to external income and the delivery of third party services including the authority pension funds. Although this proportion is expected to grow significantly, there are no formal targets as each opportunity is assessed on its own merits and subject to rigorous business case evaluation.

This is important not just for the effective management of the business, but also as it enables councillors to confirm that proposed growth is at ‘no detriment’ to the residents of Cambridgeshire and Northamptonshire. After all, there are no ring-fencing provisions, so ultimately any losses resulting from a ‘failed third party contract’ would be borne by the council tax payer.

Cost savings and the net operating surplus from partnership arrangements are divided at the end of each year on an equal basis between the two authorities. Any liabilities would be handled in the same way. This helps both councils to protect their own front-line services which might otherwise have been facing even greater budgetary pressures.

LGSS has delivered substantial benefits in a very short period of time as a result of two councils building strong political and officer relationships. LGSS is well placed to grow and deliver further savings, although long-term success is dependent on LGSS over-coming some important barriers and constraints, most notably:

- ensuring the effective integration of Information Technology (IT) across the two councils
- building a single identity as LGSS employs no staff
- agreeing an appropriate evolution of the management and governance structures.

All these concerns are recognised by LGSS and are being addressed.

# Introduction

The purpose of this LGA research project is to identify the benefits that have been delivered from a selection of five established local government shared service arrangements. The research provides the sector with important evidence and numerical based analysis on the success of the projects in terms of financial returns and service delivery. The main themes explored were:

- the impact of shared services on customer satisfaction and outcomes
- the set up costs and timescales for delivery
- the efficiencies achieved so far
- the extent to which the outcomes have varied from initial business cases.

LGSS was established by Cambridgeshire and Northamptonshire County Councils in October 2010 as a shared service arrangement managed by a Joint Committee. It provides a wide range of corporate support and advisory services, including professional services such as legal, audit and property. Some front-line services are also included, notably care assessments.

LGSS is the largest of the five shared service arrangements reviewed as part of this study as measured by cost base (£83 million). In addition, it is the only one that is governed by a Joint Committee.

This report is based on documentation provided by Cambridgeshire and Northamptonshire Council Councils, including

the initial LGSS business case, business development reports and both financial and non-financial performance data. This information was supported by interviews with:

**Paul Blantern**

LGSS Managing Director and Northamptonshire County Council (NCC) Chief Executive

**Councillor Nick Clarke**

Leader for Cambridgeshire

**Councillor Andrew Langley**

Northamptonshire Portfolio Lead

**Mark Lloyd**

Chief Executive for Cambridgeshire County Council (CCC)

**Nicholas Dawe**

Previous LGSS Director of Finance

**Quentin Baker**

LGSS Director of Legal Services

**Christine Reed**

LGSS Director of HR and OD

**Vernice Key**

LGSS Head of Financial Operations

**Steve Dainty**

LGSS Head of Pensions.

Drummond MacFarlane is grateful to all of the above for their assistance during the preparation of this report.

# Shared services background

LGSS was formed in October 2010 by Cambridgeshire and Northamptonshire County Councils. Both councils recognised that the development of shared services was necessary in order to meet their individual financial challenges. This was not only a reaction to budget constraints imposed by central government, but also a reflection of ageing demographics and rising service delivery costs.

The councils were concerned that they had already been cutting costs and services to the point where further reductions would mean that services would no longer be viable. In contrast, LGSS represented the opportunity to create sufficient economies of scale to enable the councils to continue delivering services, whilst making cost savings.

From the outset it was recognised that there was an opportunity to provide services to other public sector entities and that positioning the shared service arrangement (SSA) as 'by the public sector, for the public sector' would help attract partners that might be cautious about contracting with private sector organisations.

Consequently both councils agreed an overall LGSS vision of becoming the number one public sector provider of business services in the UK.

This vision is supported by a Strategy Map for LGSS, with the following four strategic outcomes from the shareholder perspective:

- minimum cost business services
- grown income from LGSS
- maximised return on investment from LGSS
- national reputation for shared services excellence.

While growth is part of the LGSS strategy, it is not at the expense of service quality. Similarly, while the savings LGSS generates from sharing services with other partners may be re-invested in LGSS, they could also be used to fund other CCC/NCC services.

The business case for LGSS estimated that the shared service would generate an annual saving in excess of £25 million per annum (£12.5 million each for CCC and NCC) after ten years of operation.

This compares to LGSS' total cost base on initiation of £83 million, with approximately 1,000 Cambridgeshire and Northamptonshire County Council staff providing services under the LGSS brand. LGSS is already close to realising its ten year target within its current five year planning timeframe.

A range of business models and structures were considered, including forming a limited company or a Teckal company. However, it was decided that the most appropriate approach was the simple solution of establishing LGSS under a Joint Committee. This was the fastest way of establishing an SSA as staff would continue to be employed by their existing county council rather than be transferred to LGSS.

The Joint Committee consists of six elected councillors, three from each county council, created in accordance with established regulations. This helps to 'de-politicise' LGSS, as each council appoints two members from its leading party and one member from the main opposition party to the Joint Committee. Senior LGSS Executives attend Board meetings of the Joint Committee but are not members.

The Joint Committee structure is a tried and tested way to run shared arrangements in the public sector. Although there are some complications (eg Staff remain employed by each council rather than LGSS), a Joint Committee is quick to establish and can give real advantages in working collaboratively to share services with other partners in the public sector by avoiding public procurement requirements. The Joint Committee and having its staff directly employed by the county councils significantly reinforce LGSS' 'public sector ethos' branding.

There was some initial opposition to a Joint Committee as it was seen as a traditional local government way of doing things. However, it has proved to be a flexible and effective way of ensuring that LGSS could be set up relatively quickly.

LGSS provides an extensive range of services. Consideration was given to commencing with a 'LGSS Lite' model that consisted of just transactional services and no professional services. However, this approach was rejected and the wider opportunity selected, covering the following activities:

- Finance and Investment Planning
- Finance Operations
- HR and People Management
- Organisation and Workforce Development
- Business Transformation and Change Management
- ICT Services
- Legal Services
- Pension Service
- Property and Assets
- Procurement and Insurance
- Audit and Risk Management
- Payroll and Recruitment.

In hindsight, both councils are pleased that the temptation to start with a more cautious 'Lite' model was rejected. Significant savings have accrued from amalgamating the professional services.

Importantly, the services are not just back-office. Several entail professional advisory services, while Finance Operations includes customer facing staff who visit people in their own homes.

# Set-up consolidation benefits

The immediate benefits from establishing a shared service invariably relate to the consolidation of activities and services from two or more partners into a single entity. With LGSS these efficiency savings were delivered from three sources:

- reduced management and staffing costs
- technology savings
- procurement savings.

The LGSS initial cost base was approximately £83 million. This included all the in-scope services from both Cambridgeshire and Northamptonshire County Councils and also around £12 million in relation to external income, including the provision of services to the authority pension funds and third parties. In its first year of operation LGSS made significant staff related savings, primarily through the consolidation of management. In total the number of posts at Director level was reduced by four, and at tier two by 12.

The annual financial savings of £3.79 million that LGSS delivered in its first year of operation, was equivalent to 4.5 per cent of the original cost base of £83 million.

A breakdown of savings by Directorate is shown in Table 1:

**Table 1: Total savings 2011/12**

Directorate	2011/12 saving
Central Management	£436,000
Finance	£945,000
Human Resources and OD	£217,000
Operations	£1,584,000
Legal	£606,000
Total	£3,788,000

The focus was on getting the right directors in to post, irrespective of whether they were employed by Cambridgeshire or Northamptonshire. Under the terms of the 1972 Local Government Act, there was no difficulty in sharing managers between the councils as the Act allows councils to second officers between themselves whilst acting as officers of both under delegated powers.

The overall organisational design, consultation and selection process took around seven months, with firm interventions to reduce staff numbers quickly rather than create prolonged uncertainty. Although there were risks with this approach in that the structure and resources required were not always in place, the advantage was the rapid removal of the management 'nay-sayers'.

During its second year of operation (2012/13) LGSS is confident that it will deliver further consolidation savings by extending staff integration beyond the senior management team and the further integration of transactional services and teams. This is expected to increase the staff reorganisation annual savings from £1.06 million to £2.03 million (Table 2).

In addition, LGSS expects to generate further consolidation savings in 2012/13 from property and ICT: Annual property savings of £936,000 are expected as falling staff numbers and improved space utilisation reduces the leasehold estate footprint, resulting in lower property occupation costs (rental, utilities, service charge and rates). There were no property one-off savings as LGSS had no freehold estate to sell.

The other main consolidation saving is forecast to come from ICT through the re-procurement of the Cambridgeshire ICT network. Overall this approach will result in annual IT saving of approximately £2.9 million per annum from 2012/13. This is in addition to the £1.78 million saved during 2011/12 and 2012/13 by integrating IT provision with Oracle and Fujitsu.

Importantly there has been no bespokeing of software. LGSS has insisted on a plain ‘vanilla’ approach to IT to ensure that processes are intuitive and simple. This has helped increase the savings that can be delivered.

Procurement savings of £1.2 million were achieved in 2011/12 and a further £0.2 million forecast in 2012/13 against LGSS support services. These impact directly on the LGSS cost base. In addition, LGSS Procurement aims to enable savings of around £6 million a year on the costs of externally procured goods, works and services across Cambridgeshire and Northamptonshire County Councils. It is on course to deliver these savings which benefit each council separately and are not incorporated within the financial results of LGSS.

In summary, LGSS forecasts additional annual savings during 2012/13 of £5.68 million, taking the total level of annual savings since the inception of LGSS to £9.47 million. The details are highlighted below in Table 2:

**Table 2: LGSS consolidation savings in first two years of operation**

Savings	Actual 2011/12 ( £m)	Forecast 2012/13 (£m)	Total annualised savings (%)
Staff – initial reorganisation	1.06	2.03	21.4
Procurement	1.24	1.44	15.2
Technology	1.38	1.78	18.8
Further sharing and income	0.11	0.33	3.4
Property	0	0.94	9.9
ICT	0	2.96	31.2
Total	£3.79m	£9.47m	100

The total annual saving of £9.47 million predicted by end 2012/13 equates to 11.4 per cent of the initial cost base of £83 million. The recently published 2011/12 finance report for LGSS confirms that the full estimated savings of £3.79 million have been delivered. Additionally, a further in-year under-spend of £2.78 million was realised through managed spending and vacancy control, which the Joint Committee at their meeting in May 2012 agreed will be retained within LGSS for potential reinvestment in delivering future efficiencies.

Impressively, LGSS delivered these financial savings without any detrimental impact on service standards. LGSS has established an annual customer satisfaction survey to track service standards. The first survey was carried out shortly after the launch of LGSS at the end of 2010 and sought the views of managers in both Cambridgeshire and Northamptonshire County Councils. The results showed that overall 89 per cent of customers surveyed were satisfied with the service they receive from LGSS. The survey was repeated in March 2012 and the results showed that service standards had improved very slightly with a satisfaction figure of 90 per cent. As one senior executive stated: "LGSS was formed during the most difficult year of my career given the financial challenges imposed by the economic environment, but the HR, IT and Finance all worked".

There has been an investment cost to create LGSS and to deliver the efficiencies of £3.32 million to date, meaning that both Cambridgeshire and Northamptonshire County Councils received net benefits in the first year of operations. The main set-up costs were primarily related to the Oracle implementation and project costs.

# Wider business change benefits

Although LGSS has already made significant cost savings, these have largely been due to the consolidation of services across the two county councils rather than from the implementation of more fundamental business changes or process innovation. LGSS recognises this and states that these longer-term savings will start to be delivered from 2013/14 onwards as a result of:

- business process transformation, including further integration of services, convergence and standardisation
- cultural integration and development
- new technology.

## Business process transformation

LGSS has introduced several measures over the last few months as part of the evolution and growth of the business. These include:

- The policy teams within LGSS have been integrated. This has resulted in better use of resources and gives customers access to a greater breadth and depth of expertise and experience. For example, the pensions service has become one team working across both pension funds, resulting in more efficient processes, the development of best practice and greater in-house expertise, as well as financial savings. It is now responsible for looking after the funds of around 150 organisations, including

district councils. Similar integration has occurred with the HR Policy and Strategy Teams and the Organisational Workforce Development Teams.

- Core processes were identified and revised, specifically those relating to:
  - selling business services
  - transition management
  - client management
  - exploiting Oracle processes (including self service)
  - providing leading edge public sector decision support.

However, in some instances there have been challenges, with process change appearing fragmented, dictated by the individual heads of service with limited integration and Information Technology (IT) co-ordination.

- Improvements to ensure the better utilisation of assets, via a programme focused on identifying opportunities for sharing and better using buildings in the market towns and delivering locality hubs. LGSS also reviewed opportunities for investing in energy efficiency and energy generation in the school and non-school estate.
- Reviewed overall procurement strategy, with development of a shared contract register and a focus on the top hundred contracts in Cambridgeshire and

Northamptonshire, with the aim of jointly driving down costs as part of the Integrated Planning and Medium Term Planning processes in both authorities.

This coincided with initiatives to assist local businesses, including the introduction of a simple 'register once' on line approach.

Joint procurement for occupational health, IT service contracts and ground maintenance contracts have already resulted in financial savings, with plans in place for joint procurement of banking services, insurance, cleaning and records management. In aggregate savings are estimated at around £6 million per year from the combined councils procurement spend of £500 million. These savings are realised directly by the county councils and are in addition to the overall LGSS financial savings.

- Development of an integrated HR strategy, including a review and update of HR policies and a review of remuneration costs across both councils. The HR Advisory team advised and supported on the development, consultation and implementation of 44 separate restructurings and workforce reduction proposals at CCC and 46 at NCC.

## Cultural integration and development

There were significant differences in culture between the two county councils prior to the establishment of LGSS and there were concerns about LGSS being a Northamptonshire takeover of Cambridgeshire County Council services, and indeed vice versa. In addition, in common with the remainder of the public

sector there have been fears that budget pressures would result in large-scale job losses. In this environment it has certainly been a challenge to persuade staff of the benefits of LGSS and the potential to preserve employment by using their skills and expertise to create opportunities for winning new business.

LGSS has taken several actions aimed at building a common culture and developing the right staff skills for long-term success. These have included:

- Creating pride in the LGSS brand. The first steps were creating an LGSS logo using the corporate colours from Cambridgeshire County Council and Northamptonshire County Council, issuing branded templates for LGSS documents and presentations, developing a LGSS website and issuing branded LGSS lanyards to engender a one LGSS ethos.
- Co-locating LGSS staff in one building / floor at both CCC and NCC Head Offices.
- Making people more accountable. This was accompanied by building an integrated management team, with team leaders given responsibility across both councils. This was an effective way of trying to overcome the 'our way's best' view.
- Establishment of a Leadership and Management Development Programme for all LGSS senior managers.
- LGSS has delivered Vision and Values staff engagement workshops for all employees to aid understanding and commitment to the LGSS vision and direction, also helping to engender a one LGSS ethos. Pre and post survey findings indicated a 53 per cent improvement in staff understanding of

the LGSS strategic direction, taking staff understanding from 31 per cent to 84 per cent. Confidence surrounding the vision and direction of LGSS has increased, with workshops facilitated by directors and senior managers. This increased their visibility with employees across both sites. The output from these sessions has been incorporated within a Workforce Development Strategy and Plan for LGSS.

Further discussion with staff indicated that the number of colleagues who felt part of LGSS increased by 10 per cent, from 54 per cent to 64 per cent having attended a workshop which brought them together for the first time across the whole organisation.

LGSS has succeeded in building acceptance that its creation was not about losing sovereignty, but rather introducing a process whereby each authority could retain its staff within the public sector, whilst having their services delivered more efficiently, learning from best practice and benefitting from the efficiencies offered by convergence and standardisation.

LGSS has also managed to retain strong cross-party political support in both organisations. The Joint Committee includes an opposition member from both councils. There is cross-party consensus behind LGSS and ideas are now shared at a political level as well as between officers.

Trade Union support has also been very important and encouraged through the establishment of a joint LGSS Consultation Forum with the recognised trade unions of both employers. The creation of LGSS has meant that all jobs remain within the public sector. There have been some concerns regarding differences in pay and grading

structures between the two county councils as employees provide LGSS services but are employed by either council. Whilst the impact of this has been contained, going forward alternative models of employment will be kept under review. Whilst LGSS are not harmonising terms and conditions across both employers, HR policies and procedures are being converged where this is appropriate. This will continue over time.

## New technology

As stated, the initial consolidation savings included significant benefits resulting from upgrading, extending and integrating Oracle IT systems across the two councils. Over time, other technology changes have been made which have created further financial and service benefits. For example;

- The general introduction of electronic rather than paper based forms relating to HR, Finance, Pensions and IT. The current pilot of e-forms has simplified processes and provided managers with better management information.
- A new pensions system has enabled LGSS to eliminate a four year 1,200 case backlog that it inherited. Changes to pension IT systems is expected to result in annual savings of around £400,000.
- Greater use of video conferencing across sites to reduce time and cost of travelling.
- Improvements to the Northamptonshire Payroll system, after the service was brought in-house to LGSS from an outsourced provider.
- Major project underway to move document management systems at NCC into a SharePoint model office.

- Bringing the support service helpdesks for HR, finance, pensions, property and IT under one management structure with the aim of providing a 'one stop shop' for all internal support service needs for the two councils and other partners.

However, despite the upfront annual savings in IT that resulted from consolidating arrangements with external suppliers (specifically Oracle), LGSS has yet to implement a single integrated IT strategy across the organisation.

The IT Directorate was one of the last to be integrated into LGSS and some organisation consolidation has yet to be completed.

Additional savings will therefore be delivered once further integration has been achieved. For example:

- Sharepoint has been introduced for the sharing of documents. However, not everyone has yet been trained to use Sharepoint and this is being developed for use across an extranet to facilitate collaboration across the LGSS offices.

- As the two IT systems are not yet fully integrated, staff have to use remote access to use one or other of the council's systems. The increasing move to web based and fully shared applications like the Altaire pensions systems and Oracle R12 is alleviating this issue.

- Staff have retained their existing Northamptonshire or Cambridgeshire County Council email addresses. There are no LGSS email addresses, which risks causing confusion for partners who need to remember specific email addresses for their LGSS contacts. However, LGSS is using partner organisation email accounts and global address book entries for key LGSS contacts to avoid this confusion.

The process, cultural and technological changes outlined above are helping LGSS to secure the financial savings of £9.47 million that are expected to be delivered during 2011/12 and 2012/13. Further annualised savings of £9.33 million are projected to be delivered over the three years 2013/14, 2014/15 and 2015/16. These are highlighted in Table 3.

**Table 3: LGSS annual savings 2011/12 to 2015/16**

Annual savings	2011/12 (£m)	2012/13 (£m)	2013/14 (£m)	2014/15 (£m)	2015/16 (£m)
Initial cost base	£83m (£12m third party)				
Staff – initial reorganisation	1.06	2.02	2.21	2.21	2.21
Staff – further reorganisation	0	0	0.98	1.03	1.11
Procurement	1.24	1.44	1.54	1.54	1.54
Technology	1.38	1.78	2.03	2.03	2.03
Further sharing and income	0.11	0.32	0.98	3.89	5.10
Property	0	0.94	2.15	3.00	3.72
ICT	0	2.96	3.08	3.08	3.08
<b>Total</b>	<b>£3.79m</b>	<b>£9.47m</b>	<b>£12.98m</b>	<b>£16.79m</b>	<b>£18.80m</b>
Savings as per cent initial £83m cost base	4.6%	11.4%	15.6%	20.2%	22.7%

In total, LGSS expects to generate annual cost savings of £12.98 million in 2013/14, rising to £18.8 million by end 2015/16. This is equivalent to around 22.7 per cent of the 2011/12 cost base of £83 million. However, the actual cost base may increase as LGSS grows the business by providing services to third parties.

LGSS expects to spend around £4.66 million to generate the savings detailed in Table 3. This is equivalent to 7.5 per cent of the total savings of £61.8 million expected to be generated over the 5 years to end 2015/16. The main investment costs are technology implementation and project related costs.

The creation of LGSS has also provided some important non-financial benefits, including:

- Improved operational resilience as greater depth and breadth of skills exist in-house. LGSS created a critical mass in the delivery of some specialist services (eg Legal), making the provision of internal specialist advice more feasible, with less reliance on more expensive external solutions.
- CCC and NCC are learning from and supporting each other in areas that are not covered by the arrangement (eg Democratic Services). A 'built-in' benchmark has been established between the two authorities that they investigate together to gain a real understanding of performance differences, rather than just review the top line numbers from several other organisations.
- Staff motivation has largely been maintained despite significant organisational change. This is based on the executive interviews and supported by feedback received from employees who attended the LGSS Vision and Values events. Staff working within LGSS remain employed by their county council and yet recognise the greater career development/employment opportunities that exist as LGSS grows and provides services to other organisations. In addition, the fear of losing pensions has been reduced as staff remain local authority employees.
- The opportunity to learn from each other's experiences. LGSS possesses a wide pool of resource and expertise which it can make available to others at public sector rates.
- The two councils stated that LGSS has provided them with a greater voice and increased influence in dealings with other organisations – companies, other tiers of local government and central government.

There is no evidence that these advantages combined with the process, culture and technological changes have been at the expense of any decline in service standards.

In fact the March 2012 LGSS customer survey results show a slight increase in the percentage of managers at CCC and NCC satisfied with the service they receive from LGSS. Work in developing common KPIs across CCC and NCC is ongoing, although some headline service benefits are apparent. For example:

- Customer satisfaction with LGSS maintained during a period of significant transformation at 89 per cent in 2010 and 90 per cent in 2012.
- Days lost to staff absenteeism and sickness at CCC have been constant at an average of 7.6 days from 2009/10 to 2011/12. The respective figures for NCC have reduced from 8.49 to 7.84 days over the same period.
- Staff turnover at NCC has reduced from 10.6 per cent in 2010/11 to 7.65 per cent in 2011/12 and in CCC from 9.24 per cent to 8.62 per cent in the same period.

Over time, LGSS is anticipating further benefits and improvements. However, these are dependent on LGSS successfully overcoming some important barriers and constraints, Most notably:

- there are still some different definitions of what roles and tasks fit in to which department between NCC and CCC
- while processes are converging, there is more to do, specifically with respect to full integration of IT and Recruitment and Payroll services
- LGSS can benefit from professional networks to understand sector best practice outside the two founding authorities as it converges and focuses on improving performance, so that lessons can be replicated across the shared service.

# Third party services

Providing services to clients other than CCC and NCC was a core part of the LGSS vision. There was always a strategic intent to share services with other partners by adopting the approach of being ‘by public sector for public sector’ – a very clear competitive differentiation from private sector outsourcers. Having services provided by LGSS can deliver substantial benefits for other authorities, both financially and in terms of gaining a pool of expertise that they could not afford independently.

The overall competitive positioning is the provision of an upper quartile service at a lower quartile price, combined with the LGSS public sector insight and philosophy.

The LGSS growth strategy is predicated on three specific target markets:

- Up to three additional partners of scale to join the LGSS Joint Committee. These are likely to be county councils or unitary councils.
- Serving local public bodies within Cambridgeshire and Northamptonshire and further afield. This could include any borough councils, district councils or any other public sector organisation where significant benefits to all parties are identified through a business case.

- Retaining local organisations. This includes maintaining the current business LGSS conducts with schools, academies and other small scale public and not for profit organisations in and around Cambridgeshire and Northamptonshire.

Any net operating surplus from partnership arrangements is divided at the end of each year on an equal basis between the two authorities. Any liabilities would be handled in the same way. This income generation helps both councils to protect their own front-line services which might otherwise have been facing even greater budgetary pressures.

To date LGSS has signed partnership agreements with two other local authorities for the sharing of services. LGSS is working with Norwich City Council to provide IT, Finance and Revenues and Benefits services, and with Huntingdonshire District Council for HR and Payroll services. LGSS is currently working with Northampton Borough Council on an Outline Business Case for the sharing of all back office services. Ensuring that both political and executive support is engaged at the earliest possible stage is essential to develop a genuine partnership culture. This helps to ensure that traditional barriers such as ‘empire preservation’ are less of an issue.

Product offers aimed at other local authorities have also been developed such as the free school meals website – an automated online service for assessing the eligibility of free school meal applications ([www.myfreeschoolmeals.com](http://www.myfreeschoolmeals.com)).

Similarly LGSS is using its scale and depth of expertise to provide professional advisory services to other public sector organisations.

For example, LGSS has been appointed as the provider of legal services to NHS Cambridgeshire. The operating surplus created enables the overall cost to be reduced for CCC and NCC. The improved economies of scale and ability to recruit more specialist expertise also means that there is less need to use private sector legal support which is often more expensive. Legal Services made a significant operating surplus in 2011/12 and the average cost of providing an hour's legal support has fallen from £63 per hour to £53 per hour in one year. In contrast, the lowest private practice framework charges are around £180 per hour.

Currently 15 per cent of LGSS' costs of £83 million relate to the delivery of third party services. This proportion is expected to grow significantly, but there are no formal targets as each opportunity is assessed on its own merits and subject to rigorous business case evaluation.

This is important not just for the effective management of the business, but also as it enables councillors to confirm that proposed growth is at 'no detriment' to the residents of Cambridgeshire and Northamptonshire. After all, there are no ring-fencing provisions, so ultimately any losses resulting from a failed partnership arrangement with a third party would be borne by the council tax payer.

As the delivery of third party services involves some contractual risk, applying the philosophy of 'no detriment to local CCC/ NCC residents' to all proposed third party services helps ensure that LGSS effectively identifies and manages its business risks.

At present the working relationship between the LGSS Management Board and the political leadership of CCC and NCC (and their representatives on the LGSS Joint Committee) is good. The challenge will come when LGSS identifies other strategic level partners to join at the Joint Committee Level. New strategic partners are important for the long-term growth of LGSS, but it will be challenging to integrate these partners within the Joint Committee, whilst also proving to CCC and NCC political leaders that the 'no detriment' condition remains secure.

If LGSS delivers its stated intent of five strategic partners, the Joint Committee will have fifteen members, with only six coming from CCC and NCC. Having five competing viewpoints also increases the risk of more cumbersome strategic decision-making.

Such concerns are recognised by LGSS. There is an acceptance that while the Joint Committee Structure has been a very effective way of quickly establishing the shared service arrangement, the LGSS business model may need to be reviewed over time. There are several alternative structures for longer-term consideration, including forming a Teckal company, a mutual or even a limited company.

Moving to a new structure would be a fundamental change for LGSS as it would mean that staff would work for a single employer rather than being retained by CCC and NCC as at present. This has the advantages of facilitating the development of a common culture and processes, and will also make it easier for LGSS to project a common identity to the marketplace. Whilst this is manageable now, it becomes more difficult as the business grows.

The advantages of moving to a single employer entity need to be balanced against the loss of the public procurement advantages currently enjoyed by LGSS. As a public sector entity it is currently exempt from European Union procurement regulations when seeking other public sector work. This not only makes it easier for LGSS to secure new business, but can also save its partners significant procurement costs.

However, while this has been an important advantage in LGSS' formation and early growth, it perhaps becomes less important over time as the business develops its brand and reputation. Therefore the potential loss of this advantage might not be significant in the future, as long as LGSS can retain its 'by the public sector, for the public sector' philosophy and culture.

The other main determinant of longer-term growth is the extent to which the public sector remains under budgetary pressures.

LGSS has found that the self-interest of senior executives in some organisations can be a powerful obstacle that prevents the completion of deals with robust economic justification. The intensification of financial pressures is likely to mean that such objections will increasingly be over-ridden, with LGSS being well placed to benefit from the growth of many more shared service arrangements across the public sector.

# Strategic developments

LGSS has been a major success story, securing a forecast £9.5 million of financial savings by the end of March 2013, whilst also building a strong portfolio of external public sector partnerships.

Further internal savings have been identified, which are projected to take annual savings to over £18 million by the end of 2015/16. These will result from longer-term changes to processes, culture and technology. In particular, ensuring the effective integration of the IT across the two councils is a major priority.

IT is a critical enabler of wider business transformation and any failure will slow down other initiatives and ultimately impact on the success of third party contracts. An integrated IT strategy across the councils is still being developed.

The senior executives and political leadership of both county councils believe that the success of LGSS has also resulted in the greater protection of budgets for front-line services and improved the operational resilience of both councils.

The cautious 'no detriment' approach to third party growth is sensible. There will always be commercial risks when providing services to other organisations and there are plenty of examples from other sectors of the perils of diversifying too quickly without the necessary commercial skills base.

However, LGSS has implemented a robust business case approach, which when combined with the political 'no detriment' test to local residents, means that business risks are understood and managed.

Moving forward, it is expected that LGSS will look at how best to evolve its Joint Committee structure to support the growth of the business. At the same time it may also consider appointing an independent Managing Director who is not also the Chief Executive of one of the partners.

The willingness of the two sets of officers and members to collaborate is seen as critical to the success of LGSS. This applies to the initial discussions aimed at finding out whether the shared arrangement would and could work, and to creating and sustaining it once established. Both councils considered the bigger picture and were prepared to put aside purely local interests 'for the greater good'. It would not have taken too much to derail the process. One senior officer or councillor could probably have done it because the initial business case included only the most prudent financial savings figures and it required a 'leap of faith' to make LGSS a reality.

A similar approach is now required in other parts of the public sector, where self-interest remains a constraint on the growth of LGSS and other shared service arrangements.



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