CHESHIRE EAST COUNCIL

CABINET

Date of Meeting:	7 January 2013
Report of:	Shared Services Joint Officer Board (Lisa Quinn)
Portfolio Holders:	Shared Services Joint Committee (Cllrs David Brown, Barry Moran, Peter Raynes)
Subject/Title:	Shared Services Separate Legal Entity

1.0 Report Summary

1.1. This report concerns the future of the key Shared Services between Cheshire East Council (CE) and Cheshire West and Chester Council (CWAC), namely the ICT and HR and Finance Shared Services.

1.2. It proposes that a Teckal compliant Separate Legal Entity (SLE) be established to enable greater efficiency, improve service quality and expand commercial opportunities. The creation of the SLE is the critical first step to drive the desired cultural change, service improvement and future business optimisation.

1.3. The Shared Service Joint Committee and Joint Officer Board have considered and debated an extensive Options Appraisal of shared services models and the viability of an SLE. The Joint Committee have agreed with the Joint Officer Boards' recommendation that an SLE is the optimal delivery model for the future of the Shared Services under consideration and requesting the Executive Bodies from each Council to agree to this as the recommended way forward.

1.4. The Strategic Options Appraisal and High Level Business Case are contained in Appendix 1. An analysis of the current market is also attached as Appendix 2.

1.5. This report will also be presented to Cheshire West and Chester Executive on 9 January 2013. The project can only proceed if both Councils agree to the recommendations set out below.

2. Decision Requested

2.1. That the Cabinet / Executive support the Shared Services Joint Committee's recommendations and agree:

2.1.1. The transition of the ICT Shared Service and HR and Finance Shared Service to a Separate Legal Entity (SLE) as the future delivery model.

2.1.2. The establishment of a Teckal compliant SLE as a company limited by shares wholly owned and controlled by the CE & CWaC Councils.

2.1.3. The development of the SLE on a phased basis (as detailed in Section 10).

- Phase 1: Change Programme
- Phase 2: Commercialisation

2.1.4. The dedication of resources to the establishment of the SLE as detailed in Section 7. The pump prime funding required for the one-off set up costs are estimated at £198,000 for each client Council. This funding is in part to recruit the essential skills including an interim Managing Director to lead the company. In Phase 1 there are additional on-going running costs of circa £125,000 for each client Council largely relating to pensions and additional salaries.

2.1.5. The decisions as set out in Section 8.12 regarding the SLE to be delegated to, and undertaken by, the Joint Officer Board, in consultation with the Chairman and Vice Chairman of the Joint Committee on behalf of the two Councils but with regular reports being submitted to appropriate monitoring groups within each authority (Cheshire East Executive Monitoring Board; Cheshire West Capital Operations Programme Board).

3. Reasons for the recommendation

3.1. CE and CWaC have been sharing services for over 3 years and have realised savings of in excess of £6.7m. It has built solid capability and intellectual capacity during that time which can be capitalised upon. There is now considerable scope to drive further efficiencies and create future value.

3.2. The creation of an SLE facilitates a clear separation between client and supplier, enables capacity growth, and generates savings whilst retaining Council control. Some modest start-up costs are involved, but savings can be realised early and are not vitiated by a private partner. Furthermore, the Teckal exemption permits parent Councils to commission services from the SLE without going through a competitive procurement provided the parent Councils retain ownership and strategic control of the SLE.

3.3. The Teckal exemption also allows the company to bring in another public sector partner without undertaking a lengthy procurement and incurring the sizeable associated costs.

3.4. The SLE is free to commercialise and market its services to customers, as long as this remains the subsidiary portion of its activity in compliance with Teckal. A properly developed SLE can provide all the benefits of commercialisation without the loss of local government control.

3.5. The SLE can be mobilised reasonably quickly. Before an OJEU level procurement exercise can be completed the SLE can start to create value through:

- Implementing an overarching business model
- Developing a customer focused commercial culture

- Implementing the full target operating model
- Exploiting opportunities to achieve further efficiencies by adding new business units (factories)
- Developing commercial value propositions to generate additional income streams
- Securing an additional partner

4.0 Wards Affected

4.1 This report relates to Shared Services that operate across both Cheshire East and Cheshire West & Chester, so all wards are affected in both Councils.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications including - Carbon reduction
- Health

6.1 The report provides an overview of the Joint Officer Board recommendation following an extensive review of alternative service delivery models as summarised in Section 10. The outcomes from the review have determined that the SLE is a viable delivery model which will enable the quality of service provision to increase, whilst at the same time reducing costs and adopting national best practise.

6.2 A full Equality Analysis (formerly known as Equality Impact Assessment) will be carried out on the proposals to ensure due account is taken of the potential impact on equality and diversity.

7.0 Financial Implications (Authorised by the Director of Finance and Business Services)

7.1 The following table depicts a five year view of the gross expenditure of SLE without any Phase 2 developments.

It assumes that the financial impact will commence mid financial year in 2013/14 and that any current overspends will be dealt with before "go-live".

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Gross expenditure (excl pensions impact)	9,985	19,971	19,971	19,971	19,971
Less: Synergies from the implementation of a single TOM for HR/Finance/ICT	-50	-100	-100	-100	-100
Pensions impact					
Staged increase in employer's future service contribution	42	168	252	335	419
Less: Budget adjustment to reflect historic pension deficit retained by the Councils	-500	-500	-500	-500	-500
External income and charges	-2,369	-4,738	-4,738	-4,738	-4,738
Net charge to client councils	7,109	14,801	14,885	14,969	15,053
Current budget provision					
Charges to capital	1,121	2,241	2,241	2,241	2,241
HR/Finance budget	1,616	3,232	3,232	3,232	3,232
ICT revenue budget	3,887	7,774	7,774	7,774	7,774
Est Transfer from corporate budgets	736	1,471	1,471	1,471	1,471
Less: Budget adjustment to reflect historic pension deficit retained by the Councils	-500	-500	-500	-500	-500
Total current budget provision	6,859	14,218	14,218	14,218	14,218
Net impact of establishing the SLE	**250**	**583**	**667**	**751**	**834**
Add: One-off set up costs	395				
Total Year 1 impact of establishing SLE	**645**				

7.2 Phase 2 developments are estimated to produce the following impact:

7.2.1 Adding an additional business unit (factory); for illustrative purposes only the Revenues Service:

7.2.1.1 Projected one off costs(including CR & VR) of £500k
7.2.1.2 Year on year efficiency saving of £360k

7.2.2 Initial high level estimates of a partner joining is projected to realise a further year on year efficiency of approx £1.477m.

7.2.3 A robust marketing strategy & plan will identify additional revenue streams which will seek to generate surpluses for the shareholders.

8.0 Legal Implications (Authorised by the Borough Solicitor)

8.1 Final legal advice is being commissioned from external legal advisors who are being recruited jointly by the two Councils to scrutinise and validate legal decisions and documentation.

8.2 **Legal Powers**

The Localism Act 2011 introduced a general power of competence which gave local authorities power to do anything that individuals may do. The legislation was designed to remove uncertainty as to what local authorities may do and to enable them to explore innovative solutions to deliver services. The power includes the right to charge for discretionary services. However, charges must be based on actual costs incurred by the Council in providing the services and cannot include a profit element. Commercial trading must be carried out via a company. As with the exercise of any local authority powers, the Council is under a duty to act fairly and reasonably.

8.3 **Local Authority companies**

Part V of the Local Government and Housing Act 1989 and the Local Authorities (Companies Order) 1995 introduced categories of local authority companies and controls which apply to each type. For the purposes of Part V, the SLE would be a “controlled” company given that the Councils will jointly own more than 50% of the voting rights and so certain proprietary controls will apply to the SLE. In addition the CIPFA/LASAAC Code of Practice on Local Authority Accounting requires all local authorities that have “material” interests in a company to produce Group accounts that will take and recognise the Councils share of the results, assets and liabilities of the SLE.

8.4 **State Aid**

State aid involves giving financial assistance which may be seen as distorting competition and could include granting leases rent free and providing guarantees and other financial benefits which are not available to other market providers. State aid which is above the de minimis level (E200, 000 over a 3 year rolling period) and not otherwise exempt is unlawful. The rules around state aid are very complex and further specialist advice will be sought to ensure the rules are not breached.

8.5 Employment Perspective

8.5.1 If the decision to proceed with the SLE is made, then essentially those staff providing the services immediately before transfer will follow the work and transfer from both Councils to the SLE under the Transfer of Undertakings (Protection of Employment) Regulations 2006

8.5..2 Approximately 330 staff (FTE) will be affected. They would transfer on their current terms and conditions and continuity of service would be preserved. Given the scale of the transfer being considered, there may be staff within support services who could be within scope of a TUPE transfer but further work is required to assess this potential impact. The Council will ensure it complies with its information and consultation requirements set out in the Regulations and allows sufficient time for this process to be completed.

8.5.3 A full consultation exercise will be carried out with all staff involved to comply with statutory requirements, the Councils' policies and best practice.

8.6 SLE & Pensions

8.6.1 Local authority staff are entitled to pension protection under the Best Value Authorities Staff Transfer (Pensions) Direction 2007. The protection is such that a new employer must provide all transferring staff who are members of the LGPS or entitled to join with continued access to the LGPS or to a broadly comparable pension scheme. Where a broadly comparable scheme is provided it must be certified as such in accordance with guidance published by the Government Actuary's Department and accrued benefits will transfer on a day for day basis.

8.6.2 As discussed above, as a company wholly owned by the Council the SLE will be able to join the LGPS. In accordance with the Fund's Admissions Policy, the SLE would be required to provide either a pension bond or guarantor to protect the Fund and the other employers within the Fund against the consequences of pension default by the SLE. It is proposed that the Council act as guarantor during the phases of the SLE's development (for so long as the SLE is owned and controlled by the Councils) therefore removing the need for the bond. Initial estimates are that a bond in the region of £4m would be required, but the councils will need to take actuarial advice before this figure can be confirmed.

8.6.3 Each employer within the Pension Fund pays a standalone contribution rate which reflects the demographic profile e.g. age, gender, salary, and accrued LGPS service of their workforce. When a service ceases to be part of a Council either through outsourcing or the establishment of a new SLE, the Pension Fund's Actuary will calculate a stand alone employer contribution rate for the new body. The calculated employer's contribution rate may vary (up or down) from that of the two Councils as it will refect the actual demographic profile of the SLE's workforce, which may differ from the demographic profile of the two Councils' wider workforces. At this stage the actual demographic profile is not known.

8.6.4 The Councils' current employer contribution rates in payment were last formally reviewed and set at the 2010 triennial valuation. These are due to be reviewed again in 2013 with any revisions to the rates coming into effect from 1 April 2014.

8.6.5 When the Fund's actuary calculates a new stand alone contribution rate for new employers, they will make certain assumptions regarding the expected returns from the Fund's assets. These assumptions are derived objectively from the financial markets at the date of staff transfer. The financial markets and hence the actuary's assumptions for investment returns are currently significantly lower than those assumed as part of the 2010 valuation.

8.6.6 This has the effect of increasing the employer contribution rate to compensate for the reduced investment returns. This would result in the SLE paying a different rate to that currently paid by the two Councils, and recent experience is that the employer contribution rate for transferred staff can be substantially higher over the short to medium term than the rate currently paid by the Councils. All things being equal, the Councils' own contribution rates will face the same upwards pressure when they are reviewed in 2013. However, the key difference is that local authorities will have more flexibility than a limited company (even one wholly owned by local authorities) in terms of the phasing of increases in contribution rates. Typically, a local authority could phase large increases over a 20 year period, while a limited company would be expected to move towards the correct contribution rate more quickly.

8.6.7 To avoid pension costs distorting the overall business case to establish an SLE, the intention is to phase in any increase in equal instalments over the development phases. All things being equal this approach is likely to result in the creation of a further pensions deficit over the transition period as the phasing in of the increased future service contribution rate means that the SLE will have been underpaying compared to the full assessed rate.

8.6.8 However, as the Councils themselves are still paying contribution rates set at the 2010 valuation, the phasing of any increases to the SLE's rates would put the Councils in no worse position than if staff had remained in-house.

8.6.9 It is proposed that the Council will support the SLE during the incubation period by retaining the pension deficit accrued up to the date of transfer.

8.6.10 The financials set out in section 7 do not include any benefit from either closing the LGPS to new members or the Hutton review. These options have the potential to produce significant savings over the long term, and are covered in more detail below:

8.6.10.1 The SLE could decide to close access to the LGPS to new employees. Typically the LGPS would be replaced by a defined contribution scheme with a matched employer's contribution of a minimum of 6%.The rate at which savings were achieved would depend on the level of staff turnover. In the short term, closing the LGPS to new members could marginally increase costs as the existing membership profile matured and the SLE had less time to benefit from investment returns before paying pension benefits.

8.6.10.2 The impact of changes to the LGPS based on the Hutton recommendations for public sector pensions which are due to take effect from 1st April 2014 are currently unclear. The potential level and timing of savings from this review are still uncertain as this will depend heavily on the final protection arrangements and the demographic profile of the staff in the SLE.

8.7 SLE & Procurement

8.7.1 The procurement of goods, services and works by the Councils are subject to EU procurement rules. The regulations require certain services to be procured via a competitive procurement process and in a manner which is open, transparent and demonstrates equal treatment. However, the SLE will be established to operate under the Teckal exemption meaning that the Council will be able to award the contract for ICT and HR/Finance services without a procurement exercise.

8.7.2 The Teckal exemption has developed from an ECJ decision in 1999 and is sometimes referred to as the in-house exemption. For Teckal to apply, two conditions must be satisfied; the contracting authority must exercise over the service provider control which is similar to that which it exercises over its own departments; and the service provider carries out the essential part of its activities with the contracting authorities.

8.7.3 In respect of the control test it is not enough to simply own the SLE. The Councils must retain the same degree of control as they have over their internal departments such that they have "a power of decisive influence over both strategic objectives and significant decisions" of the SLE. The SLE must remain wholly owned by the Councils or the control test is not satisfied. The Councils will therefore between them own 100% of the shares in the SLE. Whilst the fact of ownership tends to indicate sufficient control, it is not decisive and additional provisions will be included within the company articles which reserve certain decisions to the Councils as shareholders. The control test may be satisfied by the reservation to the Councils (as shareholders) of the decisions listed below;

- Appointment and removal of directors
- approval of annual budgets and business plans
- Approval of reserves strategy (for example covering policy on distributing and retaining profits)
- Approval of strategic objectives

- Changing the articles
- Varying the share capital
- Creating a charge
- Issuing debentures
- Creating or selling subsidiaries
- Selling parts of the business
- Entering into a contract which is not in the normal course of business
- Changing the name or the registered office
- Changing the nature of the business
- Remuneration policies & pension matters

8.7.4 The Councils' Section 151 Officers will recommend what other decisions will be retained by the Councils such as approval of early or ill-health retirements, the acquisition or disposal of material assets and a decision to enter into partnership arrangements. Whilst the SLE is council owned we may wish to put some limits on increases the company make that affect future pension liabilities e.g. significant pay rises.

8.7.5 To meet the second test to the Teckal exemption, the SLE must carry out the essential part of its activities for the Councils' and other activities must be of only marginal significance. The rationale is that EU public procurement law remains applicable to an entity which is active in the market and therefore likely to be in competition with other undertakings.

8.7.6 There is little case law on what is meant by marginal significance but it was considered in the case of Tragsa, in which the ECJ concluded that a company which carried out 90% of its activities for the owners and 10% of work for third parties satisfied the Teckal exemption, as the 90% constituted the essential part of its activities. "To trade more extensively could lead to the SLE losing the benefit of the Teckal exemption and potential procurement challenges."

8.7.7 In terms of the geographic area of operation of the SLE, activities carried on outside of the Councils' administrative area would not amount to activities on behalf of the Councils. It is likely that such activities would be viewed as commercial activities within the 10% of marginal activity.

8.8 Shareholder agreement

8.7.1 As ownership of the SLE will be vested in the two Councils, the way in which they deal with each other will be set out in a shareholder agreement The matters covered by the shareholder agreement could include:

- The issue of new shares – for example, to a new partner

- Exit arrangements including provision for what happens if one shareholder wants to sell their holding

- Management of the SLE – for example rights to appoint directors (although this will usually be covered in the articles as well)

- Appointment of external auditors and rights of access for the Councils' auditors
- Financial reporting arrangements
- Future funding
- Confidentiality
- Deadlock provisions

This is a key area for discussion between the two Councils.

8.9 Property and Assets

8.9.1 The management of assets including ownership of the network will require careful consideration taking into account any state aid issues and the Councils' exit strategy. Further work is required to develop an agreed approach by the Councils.

8.9.2. The heads of terms of the licenses/leases in respect of premises required to provide the service will be based on legal advice and will be agreed by the Head of Property and Regeneration and on such detailed terms or conditions as deemed appropriate by the Head of Legal and Democratic Services.

8.10 Corporate Support services

As parrt of its agreed corporate framework to SLE's, the starting point for corporate support services would be to require the SLE to purchase services back from the Council for a large proportion of its support services unless there is a compelling business case /reason to otherwise do so. However, this requires further discussion and agreement with CE. Further work is required on corporate services buyback and any additional requirements the SLE will need to meet as a separate entity.

8.11 Tax & VAT

8.11.1 The Council does not pay income or corporation tax and there are special statutory provisions that enable it to recover all its VAT. These benefits are unlikely to be available in full to the new SLE. In particular, unless the SLE is a registered charity it will have to pay income tax or corporation tax on its taxable profits. Therefore any liability to tax would need to be included in the business case.

8.11.2 HMRC have recently introduced new rules known as cost sharing arrangements. The effect of these rules is that if certain conditions are met, then the Teckal company cannot recover its VAT paid on purchases, potentially increasing the company's cost base. The cost sharing exemption only applies to arrangements between two or more organisations. Further guidance is being sought before a final assessment of the impact can be made.

8.11.3 Specialist external advice is being sought in relation to the SLE's position on Tax & VAT.

8.12 Other decisions

If the decision to create the SLE is made then the Section 151 Officer in consultation with the Head of Finance and Head of Legal and Democratic Services and the Chair & Vice Chair of the Shared Services Joint Committee be authorised to do all things necessary to establish the SLE including but not limited to the following:

8.12.1 To finalise the business case for the SLE.

8.12.2 To recruit and appoint an interim Managing Director for the SLE and commence recruitment as soon as is practicable for the rest of the board of Directors.

8.12.3 To finalise the form and structure of the company (including board of Directors) following detailed legal and financial advice.

8.12.4 To develop the operation of the client side functions within existing resources.

8.12.5 To agree the memorandum and articles of association based on the principles outlined in this report including those matters to be reserved to the Councils as shareholders.

8.12.6 To agree the scope of services to be commissioned from the SLE, the performance management framework, the contract length, price and payment mechanism.

8.12.7 To agree the terms of the shareholder agreement.

8.12.8 To oversee the completion of the due diligence work taking external advice as appropriate.

8.12.9That the terms of the licenses/leases required be agreed by the Head of Property and Regeneration and such detailed terms or conditions as deemed appropriate by the Head of Legal and Democratic Services.

8.12.10 To agree the principle of the buyback of corporate services.

8.12.11 To agree the following financial provisions:

8.12.12.1 To agree in principle to guarantee pension liabilities for the wholly owned company for the duration of the Contract in respect of Council staff transferring to the company. The scale of the guarantee is likely to be in the region of £4m.

8.12.12.2 To agree in principle to provide such financial guarantees as the company may reasonably require for the duration of the Contract subject to the approval of the Head of Finance (and subject to Standing Orders) on a case by case basis including Parent Company Guarantees and bank guarantees.

9.0 Risk Management

9.1 Taking the step to an SLE is a low strategic and financial risk. The high risk is the loss of opportunity by taking a different route.

9.2 Set out below are some of the key challenges and risks to externalisation of Council services:

9.2.1 **Leadership** – a key objective will be to develop the business and develop new markets. Experienced commercial managers with sound leadership skills will be required to drive the business forward and may need to be recruited.

9.2.2 **Staff –** a major success factor will be winning the support of employees and trade unions and managing the transition to the new organisation.

9.2.3 **Competition –** the SLE may find itself unable to expand by winning new work or it may lose the initial contract with the Councils.

9.2.4 **Risk of failure –** as with any new business there is a risk of failure because, for example, its business case is not robust enough, it does not have sufficient resources or it develops poor relationships with clients and suppliers. The Councils would have to consider whether they would guarantee the company financially, at least initially.

9.2.5 **Loss of Teckal exemption -** If a significant number of the currently maintained schools converted to Academy status, the 10% limit on external trading income would be exceeded

9.3 Any of the above may lead to service failure and the need to run an emergency procurement to put alternative arrangements in place at increased costs and reputational damage.

9.4 An analysis of major risks associated with the SLE together with the proposed mitigations is detailed in Appendix 1 - Section 4.9 pages 55 & 56.

10.0 Background and Options

A Separate Legal Entity is an appropriate delivery model where there is a desire to trade commercially for a profit with other public & private sector organisations. It involves establishing a separate legal entity (SLE) – i.e. a company - which will deliver services back to the contracting authorities. There are a number of different forms a company can take such as:company limited by shares or guarantee (either of which may be charitable);

- community interest company (CIC);
- industrial and provident society (IPS).

10.2 The most suitable structure depends on the key aims and objectives of the SLE. A company limited by shares will tend to be appropriate where the SLE is commercial in nature. A company limited by guarantee is the traditional model for a non-profit distributing company where the intention is to reinvest profits into the business. A CIC is designed for social enterprise which operates as a business. An IPS is a form of employee mutual.

10.3 The most suitable structure for Cheshire Shared Services is a company that is limited by shares and is Teckal compliant (Teckal is further explained in Section 8.7).

10.4 The key drivers for creating an SLE are:

- To create future value for the authorities that requires modest investment and represents a low financial risk

- Exploiting the Teckal exemption allows the shared services company to be more agile in partnering with other local authorities

- Desire to trade commercially for a profit with other public and private sector organisations.

10.5 The desired outcomes / objectives for the SLE are:

- To be the leading public sector shared company in the UK providing a high quality, customer focused services, demonstrating value for money and high levels of customer satisfaction.

- To grow the shared service business by bringing in new partners and customers to realise economies of scale and by trading key services on a fully commercial basis with other organisations.

- To meet and exceed client expectations of service delivery and quality driven by internal transformation and standardisation of processes and adoption of new technologies.

10.6 In order to ensure success the Councils will need to:

- adopt a commercial business model which will exact commercial behaviours (a proposed business model is explored further in Section 4.3 of Appendix 1). The SLE will need to be successful at "realising capacity or releasing capacity". The model needs to be aligned with a Business Plan so as to constant flex to levels of growth, reinvestment opportunities through efficiency realisation and management of risk.
- invest in the current management structure which fully implements the current Target Operating Model, to build a solid culture for the business

to move forward. (the current target operating model is presented in Section 4.4 of Appendix 1)

- focus on Strategic Marketing activity, to develop & monetise the company offering & propositions (a proposed approach is included in Section 4.5 of Appendix 1)

10.7 Building upon the Options Appraisal & High-Level Business Case (Appendix 1), and the recommendations of the Joint Officer Board, the Joint Committee requested that the implementation of the SLE commence, provided it be developed via a phased change programme, the details of which are summarised as follows:

10.7.1 **Phase 1: Change Programme**. This entails the creation of the company, Shareholder Board and Management team. The new company will be the change catalyst to drive the correct commercial behaviours between Shareholder (client) and Company (Shared Services SLE) – essentially building the structure, culture, and skills on both sides. The business focus in this initial phase will concern improving the quality of service provision within the new structure and in accordance with the new culture – whilst continuing to develop the future commercial company propositions.

10.7.2 **Phase 2: Commercialisation Programme**. Value is monetised as services are evaluated and marketable packages take concrete form. The company has a robust business plan detailing how it will grow the business. Change management and cultural adaptation are implemented and proposition branding is further developed. As the SLE operates on a commercial basis, marketable service packages are distilled and Unique Selling Points developed. The Council clients will begin to feel the service benefits born of the greater commercialisation of the SLE.

10.8 In summary, the Joint Committee recognises that unlocking the success of the Shared Service is a lengthy change process. The creation of the SLE is the critical first step, forging the vehicle in which the desired cultural change and business optimisation can take place.

10.9 As set out in section 7, establishment of the SLE will incur some additional on-going costs. Given the financial pressures facing both councils, this cannot be an open ended commitment. Therefore, both councils will be closely monitoring progress of the SLE against its business plan. If it becomes apparent that the commercial objectives are not going to be achieved, or will not being achieved within an acceptable timescale, the alternative approaches set out in section 10.10 would need to be reconsidered.

10.10 Options Appraisal

In August 2012, the Shared Service Joint Committee requested that the Joint Officer Board revisit the range of strategic delivery options to determine whether an SLE remained the best delivery option for the future of Shared Services. The conclusions of this options analysis were presented to the Joint Committee at the workshop on 25 October 2012. These conclusions can be summarised as follows:

10.10.1 **Do nothing**: Not considered a viable option for the future of CSS. Prevailing negative perceptions surrounding the quality and parity of the shared service arrangement could be compounded, whilst business focus remains strained and core business continues to decline. The boundaries between client and supplier remain obscure, and shared services cannot drive expansion of customers or capacity, lacking commercial grounding. **Not recommended.**

10.10.2 **Disaggregation:** This option is both costly and time-consuming. It forfeits savings as efforts and infrastructures are duplicated, and sacrifices accumulated experiential and intellectual assets. **Not recommended.**

10.10.3 **Transfer Model:** In this option, hosting is balanced but the target operating model is fragmented. A transfer model could represent either a holding pattern or proto-disaggregation. Hosting equity will be achieved but perceived bias could become realigned according to reorganised service location. Would potentially involve protracted and arduous decision-making. **Not recommended.**

10.10.4 **In-House Trading:** This option requires a similar level of investment to an SLE with decreased scope to monetise offerings, forge partnerships and trading opportunities, and create value. This model will be more difficult to market to prospective customers and partners, and could easily become a holding pattern. **Not recommended.**

10.10.5 **Outsourcing:** Allows access to private sector acumen and delivery capability, but entails forfeiting control and exposing the Councils to rigid contracts and 'one size fits all' solutions. Moreover, whilst some predictable efficiency can be achieved early, the true depths of savings are largely handed over to the private partner and offset by a costly procurement. There are plentiful examples in the market that reveal tensions between client/supplier when the outsourcer fails to deliver on the authority's change agenda during a long-term tenure arrangement. **Not recommended.**

10.10.6 **Joint Venture:** The assessment of 'Outsourcing' above equally applies to Joint Ventures, but the latter have a few unique caveats. Though they pledge open accounting, Joint Venture private partners can still hide their costs, with some major providers having a 48% profit margin on Joint Venture deals. This is often discovered as a partnership develops, but the length of contract and the infrastructural entanglement of the private partner makes 'step-out' from the contract costly and arduous. Conflicts of interest can also emerge if the local authority wants to move the Joint Venture into a market that the private partner already dominates. A recent spate of high-profile Joint Venture collapses have highlighted the many pitfalls of this model, where once it was regarded as a silver bullet to shared service savings and quality. **Not recommended.**

11.0 Access to Information

The background papers relating to this report can be inspected by contacting the report writers:

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