

Committee: Special Executive
Date: Monday 15 December 2014
Time: 4.00 pm
Venue: Bodicote House, Bodicote, Banbury, OX15 4AA

Membership

Councillor Barry Wood (Chairman)	Councillor G A Reynolds (Vice-Chairman)
Councillor Ken Atack	Councillor Norman Bolster
Councillor John Donaldson	Councillor Michael Gibbard
Councillor Tony Ilott	Councillor Kieron Mallon
Councillor D M Pickford	Councillor Nicholas Turner

AGENDA

1. **Apologies for Absence**

2. **Declarations of Interest**

Members are asked to declare any interest and the nature of that interest that they may have in any of the items under consideration at this meeting.

3. **Chairman's Announcements**

To receive communications from the Chairman.

4. **Developing the approach to Joint Working and the Delivery of Local Authority Service Draft Business Case (Pages 1 - 94)**

Report of Chief Executive

Purpose of report

This report presents the draft business case for a shared service and/or confederated approach to joint working and the delivery of local authority services

following consideration by the three way Joint Arrangements Steering Group (JASG) on 27 November 2014.

Recommendations

- 1.1 Following a review by the Transformation Joint Working Group and agreement by JASG, it is recommended that Cabinet endorse the attached business case for options to deliver three-way joint working for consideration by Council with the following recommendations.
- 1.2 Members are recommended, subject to South Northamptonshire and Stratford on Avon District Councils resolving in similar terms, to:
 - I. Agree an 'in principle' move towards scenarios 2 and/or 4 as set out in the appended business case and its supporting papers.
 - II. Agree that the appended business case is used as the basis for public, partner and stakeholder consultation and, subject to the outcome of that consultation not leading Members to a change of view, request that a full and final business case, taking account of the responses received to this consultation, is brought to the February 2015 Council meeting.
 - III. Agree in principle and subject to consideration of consultation responses to include all services within the potential scope of joint working (as set out in the appended business case scenarios 2 and 4, section 6), subject to prior approval of individual business cases on a service by service basis
 - IV. Agree in principle and subject to consideration of any consultation responses that any moves towards a confederated approach are undertaken on an incremental basis and that the first phase of services considered for inclusion are back office or support services.
 - V. Request that additional tax and pensions advice is sought to ensure that any implementation costs associated with the confederation approach are fully quantified in any final business case.
 - VI. Request that additional legal advice is sought to prepare governance arrangements including shareholders' agreement and exit strategy to be included as an appendix to any final business case. These arrangements should also any transitional requirements (e.g. steering groups, joint committees to oversee the establishment of the confederation).
 - VII. Request that a full organisational development strategy is developed for adoption to aim to ensure that Members and employees have the requisite skills to operate within a confederation approach should the final business case be approved.

5. Exclusion of the Press and Public

The following report contains exempt information as defined in the following paragraphs of Part 1, Schedule 12A of Local Government Act 1972.

3 – Information relating to the financial or business affairs of any particular person (including the authority holding that information).

Members are reminded that whilst the following item has been marked as exempt, it is for the meeting to decide whether or not to consider it in private or in public. In making the decision, members should balance the interests of individuals or the Council itself in having access to the information. In considering their discretion members should also be mindful of the advice of Council Officers.

No representations have been received from the public requesting that this item be considered in public.

Should Members decide not to make a decision in public, they are recommended to pass the following recommendation:

“That under Section 100A of the Local Government Act 1972, the public and press be excluded from the meeting for the following item of business on the ground that, if the public and press were present, it would be likely that exempt information falling under the provisions of Schedule 12A, Part 1, Paragraph 3 would be disclosed to them, and that in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.”

6. **Developing the approach to Joint Working and the Delivery of Local Authority Service Draft Business Case - Exempt Appendices** (Pages 95 - 152)

(Meeting scheduled to close at 4.30pm)

Information about this Agenda

Apologies for Absence

Apologies for absence should be notified to democracy@cherwellandsouthnorthants.gov.uk or 01295 221589 prior to the start of the meeting.

Declarations of Interest

Members are asked to declare interests at item 2 on the agenda or if arriving after the start of the meeting, at the start of the relevant agenda item.

Local Government and Finance Act 1992 – Budget Setting, Contracts & Supplementary Estimates

Members are reminded that any member who is two months in arrears with Council Tax must declare the fact and may speak but not vote on any decision which involves budget setting, extending or agreeing contracts or incurring expenditure not provided for in the agreed budget for a given year and could affect calculations on the level of Council Tax.

Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012

This agenda constitutes the 5 day notice required by Regulation 5 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012 in terms of the intention to consider an item of business in private.

Evacuation Procedure

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Queries Regarding this Agenda

Please contact Natasha Clark, Democratic and Elections
natasha.clark@cherwellandsouthnorthants.gov.uk, 01295 221589

Sue Smith
Chief Executive

Published on Friday 5 December 2014

Cherwell District Council

Executive

15 December 2014

<p>Developing the approach to Joint Working and the Delivery of Local Authority Services Draft Business Case</p>

Report of Chief Executive

This report is public

Appendices C and D are exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972

Purpose of report

This report presents the draft business case for a shared service and/or confederated approach to joint working and the delivery of local authority services following consideration by the three way Joint Arrangements Steering Group (JASG) on 27 November 2014.

1.0 Recommendations

- 1.1 Following a review by the Transformation Joint Working Group and agreement by JASG, it is recommended that Cabinet endorse the attached business case for options to deliver three-way joint working for consideration by Council with the following recommendations.
- 1.2 Members are recommended, subject to South Northamptonshire and Stratford on Avon District Councils resolving in similar terms, to:
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- VII. Request that a full organisational development strategy is developed for adoption to aim to ensure that Members and employees have the requisite skills to operate within a confederation approach should the final business case be approved.

2.0 Introduction

- 2.1 At their meeting in July 2014 JASG requested that a draft business case was prepared to outline potential high level savings associated with the delivery of a three way joint working and /or a confederation. This followed the completion of a full legal and governance review of options to underpin joint working.
- 2.2 In addition to the legal and governance work a financial implications/viability summary was also completed by KPMG.
- 2.3 This work has been overseen by the Transformation Joint Working Group (with updates to JASG in July and October.)
- 2.4 The work has been funded by the Transformation Challenge Award TCA (granted in December 2013) which was subsequently augmented by a further two successful bids to support ICT harmonisation and the implementation of a new financial management system. On 28 November 2014 it was announced that the three councils (in a bid led by South Northamptonshire) had successfully been granted a further £900,000 to implement the transformation programme.

- 2.5 The findings from the legal review and financial viability clearly show that the councils have within their powers the ability to establish confederated governance and that using this model there is potential to trade and/or work with additional partners.

3.0 Report Details

3.1 Business Case Outputs

- 3.1.1 The business case presents both a financial and a strategic case for pursuing a confederated approach to joint working. The financial case reviews 4 scenarios which compare savings achievable on the basis of scope of collaboration (i.e. which services to consider a potential areas for joint working) and governance arrangements (i.e. shared service or a confederation approach).
- 3.1.2 The financial assumptions are prudent and based on the levels and types of savings generally realised in joint working arrangements, i.e. management savings, ICT, business systems, procurement savings and some staffing reductions realised as economies of scale are generated. These savings are included in all 4 scenarios.
- 3.1.3 The savings associated with confederated governance (scenarios 3 and 4) also include workforce savings that can be realised over the medium to long term as new starters in any council owned company may be employed on private sector terms and conditions which are likely to reduce the costs of pension contributions significantly. In this scenario any existing staff transferred to the company would retain their existing terms and conditions under TUPE.
- 3.1.4 After the JASG meeting on 27 November the business case was amended by the Director of Resources to reflect the successful TCA bid. As such return on investment, payback periods and implementation costs have been altered to incorporate the £900,000 award.

3.2 Consultation Requirements

- 3.2.1 If the recommendations are accepted by the Councils as set out the next stage is to move to a consultation process where stakeholders can comment on the proposed policy. Stakeholders will include local residents, community groups and businesses as well as staff and trade unions. This consultation will take the form of an open online survey/consultation event during December 2014 and January 2015 hosted on each of the Councils' websites.
- 3.2.2 The consultation will take place alongside the Councils' statutory budget consultations and it should be noted that the proposal aims to contribute to addressing the deficits within each Council's medium term financial strategy.
- 3.2.3 At this stage the consultation will be seeking views on the adoption of the wider joint working and potential confederation approach as a Council policy as opposed to the other options for future service delivery or addressing the financial sustainability of the Council. The responses to the consultation will be presented to Members and, upon the assumption that there is no intervening change of officer advice as a result of this process, feed into any full and final business case.

3.2.4 The formal staff and trade union consultation that is required as part of any changes to job roles and organisational structures in shared working or the transfer of employment to a separate legal entity in a confederation approach would take place as individual service business cases were developed. At this stage there are no detailed proposals regarding potential changes at the service level either in terms of jobs, roles and structure or in terms of changes to service delivery arrangements.

3.3 Developing a Final Business Case

3.3.1 Any final business case will consider the consultation responses, address them where necessary and set out a full and final strategic and financial case. It will address the outstanding issues identified in the appended document.

3.3.2 The final business case will also set out the scope for a first phase of services to be considered for joint working beyond those already implemented. Initial development and review work undertaken by the Transformation Joint Working Group has scoped back office and support services for potential inclusion in this first phase for two reasons. Firstly these services have a key role in enabling the delivery of further joint working and secondly as these services are not directly delivered to external customers (i.e. residents of businesses) there is a lower risk in terms of impact on service delivery.

3.3.3 The final business case will also include a detailed delivery plan. As set out above the first phase of service reviews will likely focus on back office and/or support services.

3.3.4 It should be noted that any service considered suitable for joint working will move through an implementation pathway which supports the development of that service within a shared service environment before the service is considered for a more commercial or trading environment. This is expected to take place over the medium term (i.e. 2-3 years) and any final decision to move a shared service into a new structure or delivery vehicle within a confederation will be subject to Member decision making on a business case by business case basis.

3.4 The Democratic Process

3.4.1 If Members agree the recommendations as set out in the appended draft business case the implementation of a confederation approach will still be subject to the outcome of the consultation process and approval of a full and final business case at the three Councils' meetings in February 2015. This final case will consider the results of the consultation and set out a full financial and strategic case.

3.4.2 Thereafter legal and financial advice and risk assessment strongly suggests an incremental approach to implementation with any services to be considered for operation within a potential future confederation being subject to individual business cases setting out the costs and benefits. Staff and services users subject to any change as a result of these specific business cases would be consulted as part of a formal change process. Members would make the final decisions on which business cases should be developed and implemented within a confederation approach.

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report provides an overview of the work completed to date to prepare a business case for a confederation approach to joint working as requested by JASG at their meeting in July 2014.
- 4.2 The legal and financial viability studies show that as well as three way shared working councils have the powers to establish a confederated approach and that any move in this direction should be undertaken incrementally with services considered on a business case by business case basis.
- 4.3 The medium term revenue plans for each the three councils show significant gaps without some form of joint working and each of the scenarios explored in the business case show clear potential to narrow this gap.

5.0 Consultation

Transformation Joint Working Group has overseen the development of the business case as part of their work programme during the course of 2014; this has included scope, legal and financial implications. All Members have been invited to attend briefings outlining a potential confederation approach (July 2014) and the papers for the JASG meeting were circulated to Members across all three councils.

6.0 Alternative Options and Reasons for Rejection

- 6.1 The following alternative options have been identified and rejected for the reasons as set out below.

The business case and its appendices outline the rationale for joint working and/or a confederation approach by presenting four financial scenarios as options for joint working. In addition the business case also outlines a series of other options for meeting the medium term financial deficit (set out in a SWOT analysis in Appendix B to the Business Case).

7.0 Implications

Financial and Resource Implications

- 7.1 There are no financial implications associated with this report at this stage. Potential savings associated with the business case are clearly outlined in the appendices to this report but can only be realised through a full democratic process. Resources to support the further work on pensions and tax implications set out in the report can be funded as part of the £900k Transformation Challenge Award.

Comments checked by:

David Buckland, Assistant Chief Executive, Stratford-on-Avon District Council, 01789 260425, david.buckland@stratford-dc.gov.uk

Martin Henry, Director of Resources, Cherwell and South Northants Councils, 0300 0030102, martin.henry@cherwellandsouthnorthants.gov.uk

Legal Implications

- 7.2 There are no legal implications associated with this report at this stage. A full review of legal implications has been commissioned by the three councils and completed by an external legal practice. If Members decide to progress with the business case these legal considerations will inform the process. Before the consideration of any final business case a consultation process is required as set out in the main body of this report.

Comments checked by:

Phil Grafton, Head of Legal and Democratic Services, Stratford-on-Avon District Council, 01789 260400, phil.grafton@stratford-dc.gov.uk

Kevin Lane, Head of Law and Governance, Cherwell and South Northants Councils, 0300 0030107, kevin.lane@cherwellandsouthnorthants.gov.uk

8.0 Decision Information

Wards Affected

All

Links to Corporate Plan and Policy Framework

Links to all themes within the councils' corporate plans/strategies.

Document Information

Appendix No	Title
1	Business Case for A Confederated Approach to Joint Working and the Delivery of Local Authority Services
2	Business Case Appendix Pack
Background Papers	
None	
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Developing the Approach to Joint Working and the Delivery of Local Authority Services

Draft Business Case

Version 2.3

December 2014

Document Version Control

Author	Business Transformation Manager
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Document held by (name/division)	Claire Taylor / Transformation
Document available on Council website	No

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Change History

Issue	Date	Comments
1.0	10/11/14	Draft to CEO & s151
1.1	10/11/14	First draft to leaders
1.2	10/11/14	Draft updated to include risk content and exec summary
1.3	12/11/14	Draft updated to reflect comments from CDC/SNC MO. Financial Case updated.
1.4	13/11/14	Draft updated to include TUPE info, market survey
1.5	14/11/14	Table 2 updated – page numbers checked
1.6	17/11/14	Model changed to scenario (typo- in tables)
1.7	18/11/14	Change s post TJWG. MTFS tables updated. Para 6.3.3 and 6.3.4 updated section 7 updated, section 1 updated, section 4 updated
1.8	19/11/14	Pension sensitivity analysis included
1.9	20/11/14	Leaders sign off
2.0	21/11/14	Issue for JASG
2.1	24/11/14	Typo table 8
2.2	28/11/14	Financial case amended to reflect £900K TCA award and impact on payback/implementation costs
2.3	04/12/14	Implementation costs amended to include project management

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- B. Alternative options for meeting the medium term financial deficit
- C. Market appraisal (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972)
- D. Legal Position
- E. Role of Members
- F. Scope and implementation
- G. Glossary of terms

Foreword

The public sector is facing a period of financial and service delivery challenge. Whilst funding is decreasing, demand for public services is rising. Large increases are forecast in the number of people who require often intensive support, such as young children and the very old. Residents also expect that the quality of service they receive from the public sector keeps pace with that available from commercial organisations.

As a result local government is rapidly changing and it is expected to reform at an accelerated pace after the next General Election. We will need to adapt quickly as grant funding from central government is reduced. If we do not secure additional funding locally then we will be unable to achieve a balanced budget in the medium term.

The role and purpose of the public sector is also changing from what it was 10 years ago. Certain reforms are already underway, such as:

- Extension of 'City Deals',
- Adoption of City – Regions with Mayors; and
- An alignment of social care and the NHS.

In parallel with these reforms, we need to manage the impact on each District of the financial challenges facing the County Councils.

As the General Election approaches other ideas for change and post-election plans are starting to emerge. All parties look set to include proposals for changing the structure, role and purpose of the public sector.

The budget deficits are now well known and to do nothing is no longer an option. Local authorities need to look at alternative ways of working if they are to evolve to meet the following:

- Changing needs of our local populations
- Challenges that an aging population presents
- New technology in the provision of services
- Need to manage growth, both housing and employment, whilst preserving what is special in each District

The proposals in this document allow us to continue to be local sovereign councils that are:

- Forward looking by planning for economic, social and environmental changes
- Able to play a clear community leadership role across the public sector, whilst being transparent, accountable and engaged with local communities and local stakeholders
- Flexible and able to adapt to changing circumstances
- Providing high quality services

- Ensuring we remain an active, influential partner
- Smaller organisations that can ‘do more with less’
- Imaginative and creative
- Capable of generating new sources of income to control our own destiny.

By looking at how best to combine our services across a number of District Councils we aim to make sure that each sovereign Council can continue to provide high quality and efficient services over the next 10 to 15 years.

Our business case explores how best to reduce costs, while retaining the quality of services, which in many cases means changing the way in which that service is delivered. We are seeking the best solution for the needs and requirements of the users of each service. At the same time, we recognise that services need to transform to reflect changes in residents’ needs and attitudes. At the heart of the business plan is the aim to become a truly citizen-centric council.

The options for managed change in this paper are a positive and innovative response to the opportunities and challenges that confront us. They aim to ensure as councils we survive and prosper through the times ahead. Simply trying to maintain the status quo is no longer an option.

Collaboration is increasingly being seen by central government as something to encourage as it is locally driven and able to respond to identified local needs. New delivery models have become available which enable us to move beyond the structures in place since the reform of Local Government in 1974.

The option of forming a ‘Confederation of like-minded councils’ provides an opportunity for us to build resilience, secure continued solvency and maintain our local service delivery. The various approaches can be done all at once or evolve as circumstances dictate. This business case offers us options to begin to address the challenges that lie ahead whilst we continue to develop joint working and deliver a high quality and value for money local service.

Councillor Mary Clarke

Leader of South
Northamptonshire Council

Councillor Chris Saint

Leader of Stratford on Avon
District Council

Councillor Barry Wood

Leader of Cherwell
District Council

EXECUTIVE SUMMARY

1. Introduction

- 1.1 This document outlines an option for a potential new way of delivering local government services across a number of District Councils. The business case is based on Cherwell, South Northamptonshire and Stratford on Avon. These Councils deliver services to 350,000 residents in the heart of England.
- 1.2 It sets out an approach to governance arrangements that should ensure a wide range of options for service delivery can be considered within a collaborative partnership of a number of Councils.
- 1.3 These governance arrangements are referred to as a 'confederated approach'. In essence the approach uses company structures (fully owned by the partner Councils) for the delivery of services. In the company structures described the Councils will remain sovereign bodies able to commission services as specified by elected Members and the companies will be able to supply those services without lengthy tendering processes having to be undertaken by the Councils using what is known as the Teckal exemption. These companies will also be able to trade and generate income which can be used to reduce the costs of service delivery to the partnership Councils.
- 1.4 This business case outlines both the financial and strategic rationale behind these proposals and identifies a series of national policy drivers which have informed the development of this case.
- 1.5 The confederation approach represents an innovative and positive response to unprecedented financial constraint. Whilst this model is cutting edge within the sector it is based on sound and well-trodden experiences across local government. Indeed each of the three partner councils already uses a variety of alternative service delivery arrangements such as trusts, council owned companies and outsourcing. What makes this approach different is the ability to jointly commission alternative service delivery arrangements, to co-ordinate the approach across a wider range of partners, access greater economies of scale and have the flexibility to bring on additional partners if desired. It should also be noted that other partnerships of district councils are currently exploring similar approaches.

2. Background and Context

- 2.1 The three Councils have successfully bid for and received just over £1m from the Department for Communities and Local Government for Transformation Challenge Award Funding (TCA). This funding has been sought to implement three way joint working in support services and to support ICT investment to unlock future savings through harmonisation and standardisation of ICT systems. To date three way ICT

and legal services have been delivered along with a joint procurement activity for a shared financial management system with savings identified to date totalling in the order of £1m.

- 2.2 In early 2014 the Joint Arrangements Steering Group received the findings from a review they commissioned to explore the best governance arrangements for collaborative working within a three way environment. This review identified a number of constraints associated with traditional top down shared service arrangements (i.e. joint management followed by a joint workforce), particularly in terms of the ability to realise significant financial benefits without reducing strategic capacity, and as a result commissioned a study to consider alternative governance arrangements to get the most out of collaborative working.
- 2.3 This business case is the result of this extensive study which has included a full overview of legal and risk considerations, financial scenario mapping, a survey of success factors in similar models across the sector and a consideration of national policy drivers' strongly encouraging district councils to collaborate. The development of this business case has been overseen by the Transformation Joint Working Group and the Joint Arrangements Steering Group both comprising of Members of each of the three Councils.

3. Options

- 3.1 As part of the development of the business case a number of alternative options have been explored. These are outlined in section 5 of the main body of this document. This review is broad in nature and many of the approaches can still be used within the overarching confederation framework. For example within the confederation the councils may decide to jointly outsource a service. What this section does identify is that reliance on either the status quo or awaiting some form of whole scale national or regional reorganisation is unlikely to meet the deficit identified in the medium term financial strategies of the councils.
- 3.2 More detailed scenario planning has been completed as part of the financial case with four scenarios or models assessed. These compare potential benefits by contrasting in two ways: comparing shared service approaches with confederation approaches i.e. the use of council owned service delivery companies; and comparing savings on the basis of looking at back office or support services only or extending the model to include all services for potential consideration.

4. A Confederated Approach to Governance: a Financial and Strategic Case

- 4.1 The example financial case presented indicates potential savings over a ten year period. These savings range between £10,980,943 and £27,038,278 depending on scope and a shared service model compared with a confederation approach. These savings would be shared between the three Councils. Full details are outlined in Part 3 of this document.
- 4.2 The strategic case covered in Part 4 of this document outlines the non-financial benefits associated with the confederation model including retained sovereignty, organisational sustainability, strategic capacity and resilience. The approach is

flexible enough to bring in additional partners and can access a wider scope of savings through the use of private sector business and employment practices and the potential to generate some income through the sale of services.

5. Legal and Risk Considerations

- 5.1 A full review of the legal considerations associated with adopting a confederation approach has been completed and reviewed by both the Transformation Joint Working Group and the Joint Arrangements Steering Group.
- 5.2 This review has found that the councils have the necessary powers to set up a confederation and can use the Teckal exemption to trade efficiently within this model. The confederation can also accommodate a variety of service delivery vehicles which can be used to ensure the most efficient and effective approach to service delivery.
- 5.3 The review has found the use of contracts and shareholders agreements to be a key feature of the governance of any potential confederation and as a result a series of new Member roles have been identified within this context. These agreements will protect the sovereignty of the founding councils and may also be extended to include additional partners if the founding councils wish to extend the partnership.
- 5.4 A risk assessment has been completed and a clear finding from this assessment is that any move towards a confederation should be implemented on an incremental basis. If the governance framework is established for a confederation services should move into this delivery model (for example into a council owned service delivery company) after a business case has been agreed by Members with respect to that specific service. After Member agreement a shared service would be implemented and business systems harmonised as an interim step before any move to the service delivery company.

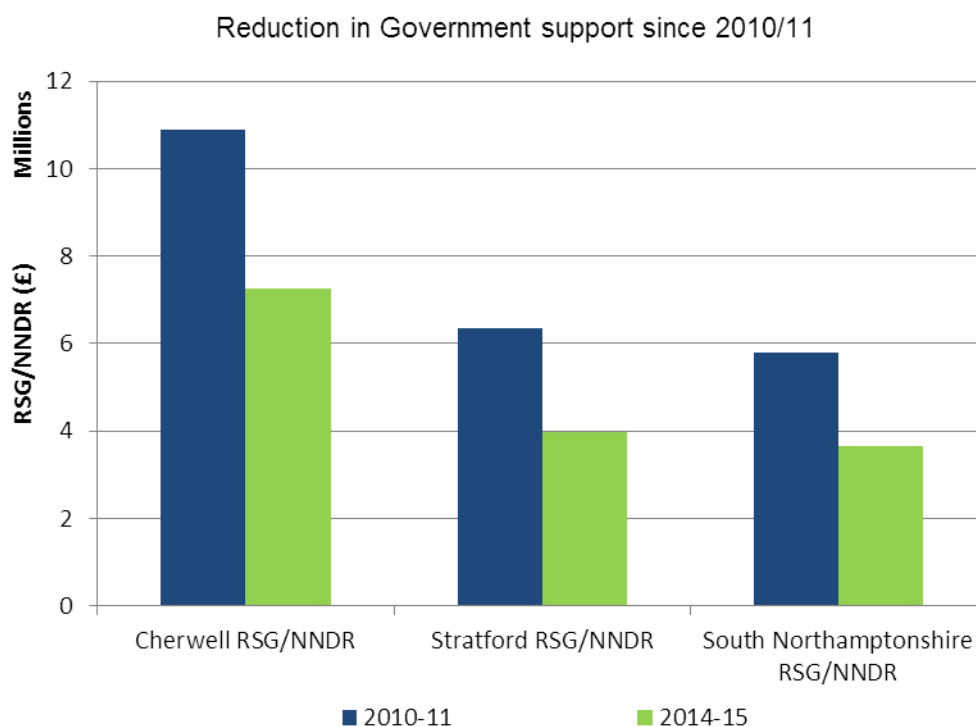
PART 1: BACKGROUND AND CONTEXT

1. National Financial Context

1.1 An Era of Austerity

1.1.1 Over the past five years there have been a number of significant changes to the external financial environment which have had an impact on district councils, markedly reducing government funding and revenue budgets. For Cherwell, South Northants and Stratford this has resulted in an average reduction in net expenditure of 19.2% between 2010-11 and 2014-15 (this includes reduction in concessionary travel grants funding). Perhaps the starkest illustration of the reduction in funding is shown in the graph below which highlights the significant drop in central government Revenue Support Grant (RSG) and Business Rates (NNDR), reflecting the move towards New Homes Bonus as a funding stream.

Figure1: Reduction in Funding from Central Government (RSG and NNDR)



1.1.2 All three councils have responded to these reductions proactively, balancing budgets, protecting frontline services and keeping council tax low. However the financial landscape is still one of significant constraint and there are expectations that the era of austerity will continue well into the next Parliament with further reductions for local government widely predicted. If the current trajectory continues all three councils will see a growing deficit in their medium term financial strategies which will render the councils unable to balance their budgets without significant cuts to service budgets and the inevitability of compulsory redundancies.

1.1.3 Many other councils have already made mass redundancies over the last two years. Swindon announced 150, Redcar and Cleveland 100 redundancies, Cheshire West and Chester 400, Derbyshire 587, Hull City Council 396, West Devon and South Hams Council 100 redundancies each. In Birmingham the Council has previously warned it would be unlikely to have enough funding for statutory services. Unitary, metropolitan and county councils are facing severe budget reductions in 2015-16 with most London Boroughs looking at budget reductions of between £40 – 100 million. The picture for district councils is similar in proportion to the size of their budgets. But the challenge for small districts is their ability to deliver these savings funding redundancies on the scale required to meet the funding gap entails significant upfront costs.

1.2 Government Policy Statements and Grant Settlements

1.2.1 The Chancellor of the Exchequer published his Autumn Statement in 2012, which identified that a slowdown in growth had led to the Government missing its medium term targets for reducing the deficit. As a consequence the Chancellor set out his projections for the future course of public expenditure beyond 2016/17. In broad terms the outcome of the statement was that a further year of fiscal austerity would be required along the lines of the previous strategy, which will end in 2016/17. However further forecasts have indicated the period of austerity will go beyond the next term of office for the Government i.e. 2020. Indeed the Institute for Fiscal Studies in a report published on 30th October 2014 suggested that spending cuts in this Parliament were only half of what was required and likely to be repeated in the next.

1.2.2 In December 2012 the Secretary of State for Communities and Local Government announced the grant settlement for 2013/14, which resolved a number of uncertainties around the new Local Government Resource Regime. The essence of the new regime is to shift the formula grant distribution from being entirely formula driven to an approach, which mixes both top down distribution with more locally raised resources via a share of Business Rates and New Homes Bonus. The new approach provides an incentive for business and housing growth, which represents both an opportunity and a risk. Although some suggested amendments to New Homes Bonus were not implemented this year (2014/15), concern still exists about the long term stability of New Homes Bonus as a funding stream.

1.3 Spending Review 2015/16

1.3.1 In June 2013 the Chancellor announced the details of the 2015/16 spending review, which unveiled a further series of grant cuts for local authorities. Whilst existing strategies anticipated a significant cut in external funding, the proposed reductions are more than anticipated and in addition a further reduction for 2014/15 was imposed to take account of extended public sector pay restraint.

1.3.2 In the grant settlement in December 2013 the Government maintained the Council Tax capping limit at 2% for 2014/15. At this stage it is not known whether the current approach to capping will continue.

- 1.3.3 It is clear all partners face substantial financial risk and cost pressure around future pension costs with a collective increase in employer contributions over the next three years. In addition, the change in employers' national insurance contributions places a further financial burden from 2016.
- 1.3.4 The financial constraints after the general election in 2015 are likely to tighten. As in this Parliament some policy areas are likely to be protected (defence, NHS) and demographic trends will increase demand in costly services such as social care. Given this context local government is likely to face another round of significant cuts and with the drive to deliver economic growth the relationship between the delivery of growth and funding will increase.

2. Policy Context

2.1 Collaborative Working

- 2.1.1 The financial context alone requires us to act. As district councils with annual revenue budgets of under £15m the ability to deliver services to any kind of standard will be significantly affected by the next round of budget cuts. But the financial context is not the only driver. Collaborative working (in all its forms) is a key element of central government policy and funding has been made available to support this agenda. It is clear that there is an expectation that district councils spending less than £15m must consider the way in which they operate to reduce their overheads. The excerpt from the TCA prospectus (published by DCLG in April 2014, pg. 4-5) highlights this:

“The government expects small councils to continue to consider its (sic) overheads by, for example, no longer having its own senior management team and workforce, but to share a senior team with one or more other local authorities and have a shared or contracted out workforce. Whilst business re-engineering should be a priority for these councils, it is equally important that their particular strengths are preserved.

These strengths are that such councils should give recognition to the identities of many of our most local, historic, and vibrant communities, and enable individual localities to have real influence over their future and the local public services they receive. Accordingly, each such local authority, whilst no longer having its own individual operational structures and processes, should continue with its own representational structures and democratic processes, maintaining its identity for the benefit of the communities it serves”

- 2.1.2 Looking ahead there are no indications that a top down restructure of local government is likely to form part of any of the main parties' manifestos. However on-going financial constraints, pooling of health and social care budgets, the debates around devolution and economic growth all point to central government policy requiring sector led change.
- 2.1.3 The tension between the desire for local representation and the need for significant savings creates a challenge for district councils in particular. How to retain local democracy and have the strategic capacity to influence at a regional

and national level and deliver savings within a financial envelope of less than £15m is a conundrum to resolve.

2.2 Other Policy Drivers

- 2.2.1 The policy context for local government is rapidly changing. In the last Parliament alone we have faced the challenge of responding to the consequences of major reforms to the housing and welfare systems and to the education and planning services. At the same time national reporting and performance targets have been streamlined. It is clear that the outcome of the 2015 General Election will herald further policy changes from further financial reductions and the next wave of policy reforms. It is important that we have the resilience as Councils to positively address these changes.
- 2.2.2 The desired policy direction for districts is clearly reflected in national government policy. But the focus on collaboration and alternative models for service delivery is not limited to districts. The demographic challenge the public sector faces is funding health and social care as the population ages. The risk of cost shunting between agencies, the failure to join up budgets under the previous local area agreement regime and the emergence of system wide approaches such as the troubled families initiative are being increasingly reflected in government funding policies such as the Better Care Fund and the encouragement of establishing alternative delivery models such as employee mutuals for care services.
- 2.2.3 This policy direction is also reflected in the developing localism debate within the context of Scottish devolution and what this may mean for English regional and local governance. The increasing move towards city regions, combined authorities and mayors as seen in the Greater Manchester deal and the recently announced West Midlands Combined Authority highlight the intention of the Treasury to devolve to larger partnerships where system wide outcomes and economies of scale can be accessed.
- 2.2.4 As noted in section 1, government funding for districts has shifted to incentivise economic growth and the ability to influence and shape economic development within a locality must be a key concern for districts hoping to balance growth with the protection of the local environment.
- 2.2.5 Taken together financial constraints, socio-demographic projections and national political trends in devolution are driving a policy direction that is moving towards a funding model that rewards collaboration, incentivises local leadership and encourages the commissioning of local services using a variety of delivery models. It is within this context that district councils must consider their approach to developing and delivering their own corporate and financial strategies.

3. Local Context

3.1 The Medium Term Financial Outlook

- 3.1.1 The three Councils share a common medium term financial challenge. So far all have effectively delivered significant financial reductions and to date have

successfully protected frontline services. But on-going reductions of the same magnitude will now result in a significant impact on frontline services and job losses if the Councils are to meet the requirements to set balanced budgets.

- 3.1.2 Figure 2 and table 1 outline the medium term financial position of the three Councils and highlight significant deficits from 2016/17 if steps are not taken to close the budget deficit. It should be noted that the budget strategies of CDC, SNC and SDC differ with SDC building 100% of the New Homes Bonus (NHB) into the base budget. For SNC and CDC the percentage of the NHB built into the base budget is currently 50%. The remaining NHB is treated as windfall income and ring fenced for specific activities/projects. There are also differences in terms of assumptions around the rate of RSG reducing – as shown in the tables for each council.
- 3.1.3 Figure 2 shows the latest publicly available information projecting the medium term financial deficit. The graph shows the gap by 2018-19 and the data source beneath shows the growth in this gap during the course of 2015-16 to 2019-20. For all three councils significant deficits are projected, i.e. the amount the councils will spend to deliver their services will not be met by the predicted funding available.
- 3.1.4 Table 1 presents the data in greater detail with the impact on the Councils' reserves. This shows that for CDC and SNC (without building 100% of New Homes Bonus into the base budget) the councils will have run out of reserves by the end of 2015/16 for CDC and 2017/18 for SNC. For SDC the picture is slightly different with 100% of the NHB built into the base budget the table shows reserves reducing by growing amounts from 2016/17.
- 3.1.5 It should be noted that these figures are based on the medium term financial plans and budget strategies of the three Councils as of November 2014 and prior to agreeing the budgets for 2015/16. As such some changes should be anticipated to the data as budgets are set for the coming financial year.
- 3.1.6 It should also be noted that after the general election in 2015 further financial constraints are anticipated and as such new medium term financial projections will be required and may show increased medium term deficits. As such it is prudent to consider the projections below as a realistic scenario but not one that is likely to improve.

Figure2: Medium Term Financial Deficit by 2018-19

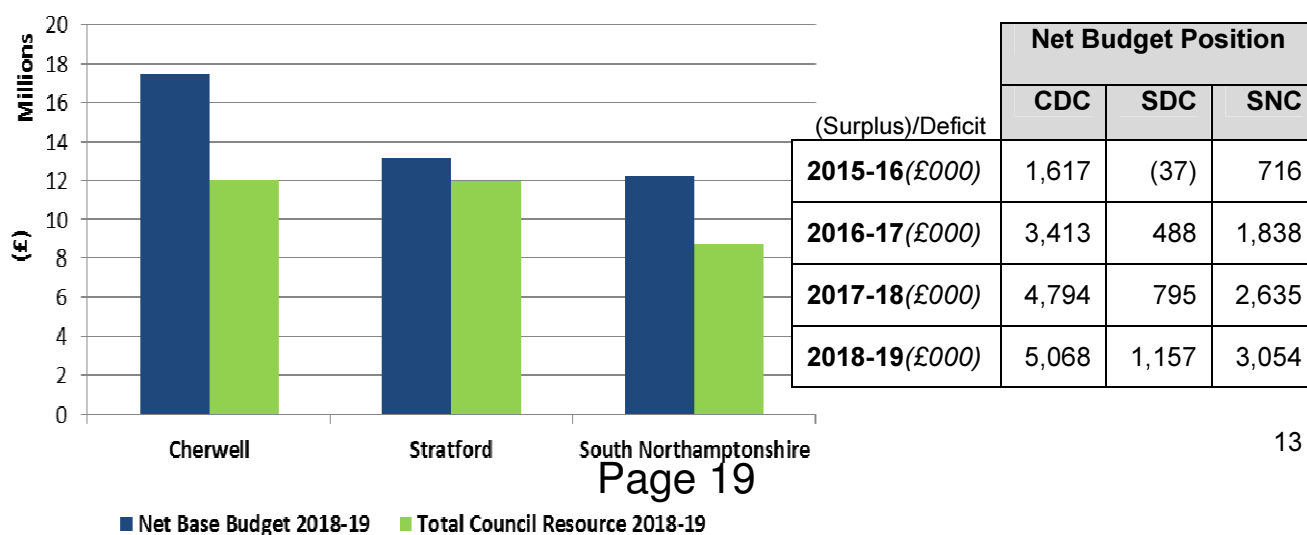


Table 1: Medium Term Financial Position- net budget and impact on reserves

Cherwell District Council	2015-16	2016-17	2017-18	2018-19	2019-20
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Base Budget	15,356	15,862	16,394	16,934	17,481
Financed by:					
Revenue Support Grant	2,629	986	0	0	0
Baseline Funding	3,493	3,587	3,684	3,783	3,886
Council Tax Freeze Grant	0	0	0	0	0
Other Specific Grant	0	0	0	0	0
New Homes Bonus	1,178	1,403	1,408	1,514	1,458
Council Tax	5,939	5,998	6,058	6,118	6,180
Retained Business Rates	400	400	400	400	400
Collection Fund Adjustment	100	75	50	50	50
Total Council Resources	13,739	12,449	11,600	11,865	11,974
(Surplus)/Deficit	1,617	3,413	4,794	5,069	5,507
General fund balances	1,011	606	4,019	8,813	13,882
Remaining General Fund Balances after (Surplus)/Deficit	606	4,019	8,813	13,882	19,389
South Northants Council	2015-16	2016-17	2017-18	2018-19	2019-20
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Base Budget	10,313	10,832	11,280	11,736	12,176
Financed by:					
Revenue Support Grant	1,370	514	0	0	0
Baseline Funding	1,725	1,772	1,820	1,869	1,919
Council Tax Freeze Grant	0	0	0	0	0
Other Specific Grant	0	0	0	0	0
New Homes Bonus	807	957	1,018	949	867
Council Tax	5,575	5,631	5,687	5,744	5,802
Retained Business Rates	120	120	120	120	120
Collection Fund Adjustment	0	0	0	0	0
Total Council Resources	9,597	8,994	8,645	8,682	8,708
(Surplus)/Deficit	716	1,838	2,635	3,054	3,468
General fund balances	3,690	2,974	1,136	1,499	4,553
Remaining General Fund Balances after (Surplus)/Deficit	(2,974)	1,136	1,499	4,553	8,021
Stratford on Avon District Council	2015-16	2016-17	2017-18	2018-19	2019-20
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Base Budget (*)	12,434	12,552	12,805	13,124	TBA
Financed by:					
Revenue Support Grant	1,790	1,258	1,006	761	
Baseline Funding	2,261	2,329	2,399	2,471	
Council Tax Freeze Grant	68	0	0	0	
Other Specific Grant	0	0	0	0	
New Homes Bonus	1,904	1,904	1,904	1,904	
Council Tax	6,248	6,373	6,501	6,631	
Retained Business Rates	200	200	200	200	
Collection Fund Adjustment	0	0	0	0	
Total Council Resources	12,471	12,064	12,010	11,967	
(Surplus)/Deficit	(37)	488	795	1,157	
General fund balances	4,006	4,043	3,555	2,760	
Remaining General Fund Balances after (Surplus)/Deficit	4,043	3,555	2,760	1,603	

(*) – the savings assumptions arising from shared services included in the budget in February 2014 have been removed for comparative purposes.

3.2 A Shared Track Record of Delivery

- 3.2.1 As a partnership the three District Councils share a track record of delivery of savings through joint working, value for money and efficiency programmes. Cherwell and South Northants Councils have delivered annual savings in excess of £3 million (£30m over a ten year period) through their joint working programme and a lean management and outsourcing strategy at Stratford has reduced its net budget by around £2 million (£20m over a ten year period) since 2010/11.
- 3.2.2 To date the Councils have successfully attracted TCA (Transformation Challenge Award) funding of just over £1 million. As part of their transformation programme the Councils have committed to developing three way shared support services and within the first six months of the programme have delivered a joint legal service, a joint ICT service and jointly procured a replacement financial management system.
- 3.2.3 Increasingly the partnership in its current form is seen as a pathfinder for joint working. Partners are frequently asked to support or host various events including a regional workshop on behalf of DCLG to support the Transformation Challenge Award (TCA) programme and appearing as a case study in the TCA prospectus.

3.3 More in Common than Boundaries

- 3.3.1 The three districts are set in the heart of England, strategically located between London and Birmingham and serving a population of just over 350,000. They share boundaries, cut across county council areas and as a sub-region the Councils share social, economic and historical ties. This central location provides an exceptional opportunity to create a strategic partnership that has the capacity to harness the potential of the areas in order to strengthen the local economies, improve economic resilience, protect and enhance the built and natural environments and so maintain a high quality of life for local residents.
- 3.3.2 The districts share many similar economic features, market towns with a rural hinterland, relatively low unemployment, high employment levels and a concentration of local companies in key sectors including high performance engineering, the visitor economy, food and drink, logistics and rural business services.
- 3.3.3 Successful local businesses are central to the high quality of life we seek to maintain in each District. Fundamental to the shape of our new local government arrangements will be the partnership we forge with our local business to ensure they grow and that we attract new investment into each District to provide the jobs for the future. A closer relationship with business to grow business rates as a source of income will require us to adopt an 'open for business' approach across all services.

Figure 3: Map of the area covered by CDC, SDC and SNC



- 3.3.4 The three Councils are covered by four Local Enterprise Partnerships (LEPs) established since the General Election in 2010. These are Coventry and Warwickshire (CWLEP), Northamptonshire Enterprise Partnership (NEP), Oxfordshire (OXLEP) and South East Midlands (SEMLEP). The benefits of enhanced strategic capacity through collaboration in terms of economic development has been fully considered as part of an extensive piece of work completed by Deyton Bell (national advisors on economic development) as part of an LGA funded project. The Deyton Bell project has been reviewed by the Members Transformation Joint Working Group and the papers are available.
- 3.3.5 As a result of this work all three Councils have committed to exploring the collaborative advantage and impact that can be gained from working together to grow the business economy in each District and to secure a stronger voice with LEPs and other agencies, to ensure the Councils' views are addressed, to positively influence strategies and secure infrastructure funding.
- 3.3.6 The three Councils have similar socio-demographic profiles and share the challenges associated with these. Each District also faces similar growth pressures and thus has a shared opportunity to secure benefits from the guided growth that each Local Plan will secure. The sensitive and appropriate development of market towns, managing and shaping growth within a rural environment, ensuring local residents can access services and responding to the needs of an aging population. Whilst the districts are relatively wealthy there are pockets of deprivation and affordability and access is a key issue for the shaping of future housing, transport policies to ensure young people can settle and thrive. These opportunities, together with the importance each Council places on good

design and high building standards are the key to long term sustainability and remaining great places to live work and visit.

Table 2: Socio-demographic overview of the districts

		CDC	SDC	SNC
Area		588.8km ²	977.9km ²	634.0km ²
Main Towns Villages (Populations greater than 10,000)		Banbury Bicester Kidlington	Stratford Upon Avon	Towcester, Brackley
Population (ONS 2013 mid-year estimate)		143,700	120,800	87,500
Life Expectancy (ONS 2010-12)	Male	80.1	81.0	82.2
	Female	83.7	84.9	84.4
Job Seekers Allowance Claimants (September 2014: % proportion of resident population of area aged 16-64)		0.6%	0.5%	0.6%
Top 3 employment sectors (ONS Business Register & Employment Survey 2013)		Retail Manufacturing Health	Professional Manufacturing Tourism	Professional Manufacturing Education
Economic Activity (July 2013-June 2014) % of those aged 16-64 who are economically active.		79.6	78.8	84.9

3.3.5 The profile of each of the three Councils is similar with Cherwell the slightly larger authority in terms of budgets, population and number of full time equivalent employees. Likewise the Councils share commonalities in terms of their corporate strategies, aims and priorities:

- CDC: a district of opportunity; safe, green, clean; thriving communities; sound budgets and a customer focused council.
- SDC: addressing local housing need; a district where business and enterprise can flourish; improving access to services; minimising the impacts of climate change
- SNC: Preserve what's special; protect our quality of life; secure a prosperous and sustainable future; enhance the council's performance.

Table 3: Overview of the Councils

	CDC	SDC	SNC
Full time equivalents	399	259	244
Councillors	50	53	42
Band D council tax(net of other income)	123.50	128.05	£170.37
Revenue Budget (2014/15)	£14,390,542	£12,456,646	£9,999,115
Spend per head of population	£101.13	£103.12	£117.09
NB:			
Spend per head of population is calculated from the shown revenue budget divided by the population figures in table 2. The number of Councillors at Cherwell will reduce to 48 in 2016 and at Stratford to 36 in 2015.			

3.4 A partnership at the forefront

- 3.4.1 District councils have been at the forefront of partnership working and a significant number are now working in a collaborative arrangements. Many of these include shared Chief Executives and joint management but few have explored the potential of alternative delivery models across a wider number of partners.
- 3.4.2 Districts across the country already have a wide variety of collaborative, joint working or shared service arrangements in place. These include Joint Chief Executives, shared senior management, and jointly owned local authority trading companies and a number of specific operational shared service arrangements.
- 3.4.3 The CDC, SDC and SNC partnership approach builds on these existing models and is leading the way in terms of how a group of liked minded district councils can work together in the future by looking at how collaborative working can enhance capacity and generate income as well as reduce the costs of service delivery.

PART 2: OPTIONS APPRAISAL

4. A Review of Governance Options

4.1 Analysis of Options

4.1.1 A series of alternative options have been considered in terms of how the gaps in the medium term financial strategies for each of the three councils could be met. A SWOT (strengths, weaknesses, opportunities, threats) analysis has been completed for each of these options and the full analysis is attached as Appendix B. A summary is given in table 4 below.

Table 4: Summary of Options

<p>Alternative 1</p>	<ul style="list-style-type: none"> • Status quo i.e. in-house efficiencies and budget reductions, some shared services: this approach would require each individual Councils to deliver services within the budgets that each receive whilst pursuing service by service business cases for joint working. • Summary of analysis: unlikely to make a significant contribution to the deficit identified in the Medium Term Financial Strategy (MTFS) without significant service reduction and reduction in staff numbers.
<p>Alternative 2</p>	<ul style="list-style-type: none"> • Shared Services with other partners: this approach would see shared services being developed within and outside of the current partnership. • Summary of analysis: offers potential for future savings but relying on attracting additional partners on a business case by business case basis may not deliver a significant contribution to the MTFS.
<p>Alternative 3</p>	<ul style="list-style-type: none"> • Shared Services CDC/SDC/SNC: under this approach shared services would be implemented across the current partnership without implementing the full confederation model. • Summary of analysis: savings could be delivered but not to the extent of a wider confederation approach. Flexibility is limited and income generation less deliverable.
<p>Alternative 4</p>	<ul style="list-style-type: none"> • Support budgets with asset / investment funding: this approach would proactively seek income opportunities through investment, asset development and trading activity to underpin the financial position of the Council(s). • Summary of analysis: relies on a growth strategy that may not meet the objectives of the Councils or communities but could and should be considered alongside the confederation proposals.

<p>Alternative 5</p>	<ul style="list-style-type: none"> • Individual council companies: this approach would involve the Councils looking to generate income from trading services on an individual basis. • Summary of analysis: potential for savings but also for greater complexity and potentially fewer opportunities for Member oversight.
<p>Alternative 6</p>	<ul style="list-style-type: none"> • Top down local government re-organisation: under this approach delivery of county and district council services would be combined into a single delivery body. These are generally based within County boundaries. A variation on this approach could be a locally driven re-organisation where local partners agree and drive a new local government structure. • Summary of analysis: not currently on the agenda nationally and devolution and city deals are higher profile in terms of national focus on local government delivery structures. Both national and local approaches would be unlikely to cut across county boundaries which would necessitate unpicking current sharing arrangements. Delivery timescales would not ensure a significant contribution is made to meet the MTFS pressure.
<p>Alternative 7</p>	<ul style="list-style-type: none"> • Outsourcing Services to Private Sector: this approach would transfer the delivery of public services to a private sector organisation through contracts or a form of partnership. • Summary of analysis: private sector companies will make profit through efficiencies with a proportion of the savings fed back to the councils. Local jobs may be moved out of the districts and there is potentially less Member control. The track record of whole scale service outsourcing (e.g. large public private partnerships and some joint ventures e.g. South West One) is patchy. Service by service outsourcing has a better track record but will still require client sides in each of the services contracted out.
<p>Alternative 8</p>	<ul style="list-style-type: none"> • Combined Authority: the exploration of a combined authority for the area to focus on system wide efficiencies and issues such as economic growth. • Summary of analysis: combined authorities will require co-operation at all tiers across the counties to agree an approach and negotiate with central government. As these discussions are not underway the development and implementation of any combined authority proposals will not meet the timescales required to make a significant contribution to the medium term financial gaps for any of the three councils.

Alternative 9	<ul style="list-style-type: none"> • Confederation Approach: a governance structure is developed that enables the councils to use a variety of service delivery vehicles owned and controlled by the partnership of three authorities. The structure would enable the councils to jointly commission services using a mixed economy approach and also enter into shared service arrangements. • Summary of analysis: A confederation approach provides governance flexibility as it enables trading and the use of a diverse range of service delivery options as determined appropriate by the councils. A confederation can accommodate elements of several of the alternatives above. The approach does require organisational transformation and could be superseded by top down local government re-organisation
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5. A Confederated Approach

5.1 Governance and Joint Working

- 5.1.1 A governance paper reviewed by the Joint Arrangements Steering Group and the Transformation Joint Working Group in January 2014 outlined the constraints associated with rolling out the arrangements currently in place at CDC and SNC to cover SDC. These constraints recognised that whilst arrangements for SNC and CDC may work they would be stretched to the limit if additional partners were brought on board both in terms of governance and the ability to access financial savings.
- 5.1.2 As a result of this paper, and supported by the three councils' successful bid for Transformation Challenge Award funding to deliver three-way joint working, a full review of potential governance arrangements was commissioned by the Joint Arrangements Steering Group. This review aimed to identify governance opportunities that could maximise potential savings, enable trading and be flexible enough to bring in additional partners if the three councils wished.
- 5.1.3 Whilst the Councils are actively pursuing shared working to reduce costs and increase resilience, there is inevitably a ceiling to the savings which can be achieved through this process. The ceiling will be reached when the councils have shared all the services which they wish or are able to and then no further savings can be achieved from this source.
- 5.1.4 Even if all services are shared the future financial requirements of the three councils cannot be met from this source alone. So far, the councils have followed a single form of shared service, that is whilst maintaining the sovereignty of the three Councils, the officers have become shared, with the officers of the employing authority being put at the disposal of the non-employing authority (so called section 113 arrangements).
- 5.1.5 Whilst the current governance arrangements using Section 113 arrangements (without an empowered joint committee other than for the recruitment, disciplinary and dismissal of Chief Officers) have provided adequate, if long and cumbersome,

governance arrangements for Cherwell and South Northamptonshire e.g. decisions require to be considered at Joint Arrangements Steering Group (informal), both Councils, Cabinet, Executive, both staff consultative committees and both personnel committees, this process can take around 6-8 months, which creates delay before any service improvements can be realised, uncertainty for staff affected and potential performance dips during the period of transition.

5.1.6 The current process has only been used on one three way business case to date, (legal services) and ICT is still going through the decision making process (at the time for writing the ICT staffing structure s undergoing staff consultation). Experience shows that the process is long, slow, resource intensive, difficult to manage and if any amendments are made to a business case by any of the councils it is necessary to start the process all over again. In summary the existing process is unlikely to work or enable effective governance on a three way basis and would become unworkable if this was increased to include any further councils.

Further constraints include:

- Complexity of governance arrangements resulting in a lack of transparency and complex and lengthy decision making pathways
- Difficulty in bringing on board additional partners (each time there is a prospect for a new partner the current programme of transformation is put on hold and the realisation of savings is delayed)
- Difficulty in trading or commercialising services
- A reduction in Management and Leadership capacity which is untenable when spread across three or more councils
- Slow pace of delivery and under realisation of benefits (i.e. savings)
- Harder to access the opportunities afforded by alternative models of service delivery
- There are three sets of HR policies, terms and conditions and job evaluation schemes which increase bureaucracy and costs. To address this within a shared service model a harmonisation of terms and conditions is required which if undertaken prior to joint working business cases will likely incur additional costs well before any savings are realised. If alternative delivery models are used some of these changes can be undertaken by a new entity rather than the councils.

5.1.7 The constraints do not make traditional top down shared services (i.e. shared management followed by shared services) impossible but they are likely to result in reduced strategic and operational capacity and a smaller magnitude of savings realised.

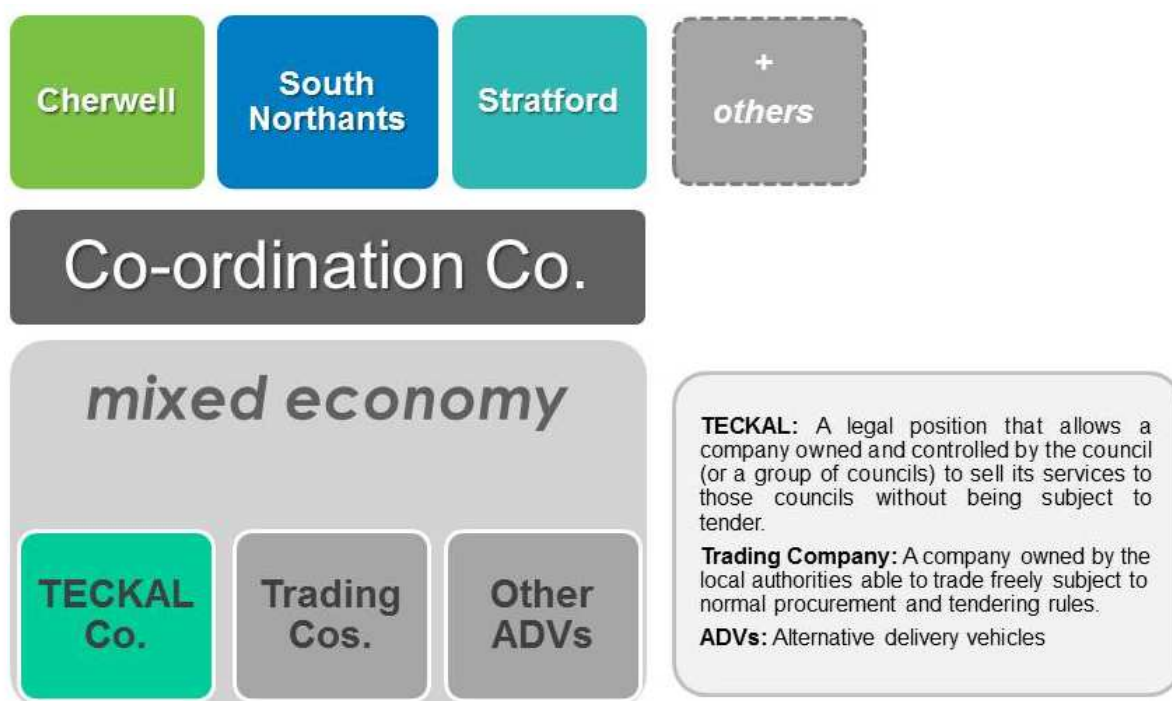
5.1.8 Following this analysis the Joint Arrangements Steering Group requested that alternative governance options were explored. Between February and September 2014 options were investigated under the guidance of the Transformation Joint Working Group (a sub-group of the Joint Arrangements Steering Group). This work included initial financial viability (undertaken with advice and support from KPMG LLP) and a full review of the legal position (undertaken by Trowers & Hamlins LLP) and funded as part of the Transformation Challenge Award.

5.2 A Confederated Governance Approach

- 5.2.1 At their meeting in July 2014 the Joint Arrangements Steering Group reviewed results of the options appraisal, legal position and high level financial modelling which set out a preferred model 'the confederated approach'. JASG requested that a business case was developed to assess the viability of the approach before any further work was undertaken.
- 5.2.2 The confederated approach is a way of establishing governance for joint working that addresses the constraints outlined in 5.1.2 above. It maximises flexibility by:
- Allowing for additional partners to join either by buying services or joining the partnership and participating in the commissioning of services.
 - Enabling a wide variety of service delivery models to be explored; e.g. sharing services, setting up local authority owned companies that may trade, trusts or outsourcing.
 - Maximising efficiencies through economies of scale, whilst retaining the individual sovereignty of the partner councils.
 - Taking advantage of the public sector Teckal exemption in the procurement of services.
 - Enabling effective and transparent governance (including exit arrangements) through the use of shareholders agreements, contracts and commissioning.
 - Establishing a partnership of district councils who by working together can retain strategic capacity to deliver the corporate objectives of the councils within increasingly constrained finances.
- 5.2.3 A confederation approach establishes a framework by which the councils could, over time, set up different types of working arrangements to deliver council services. These organisations would all be legal entities and different types of arrangements could include council owned companies (that could trade), not for profits or mutuals. A co-ordination company, (operating as a local authority company equally owned by the partners) would ensure that services commissioned from this 'mixed economy' perform to the standards set by the councils and would be charged back to the commissioning councils at the correct rate.
- 5.2.4 Figure 4 illustrates the proposed confederated approach; it shows three clear 'tiers' of operation, each with different purposes. At the top tier the founding partners remain sovereign councils with full responsibility for setting strategy, policy and commissioning services. Retained services at this level maybe operated as standalone council services or as joint/shared services with another council. Each council is responsible for setting its own budget, budget strategy and medium term financial plan.
- 5.2.5 Owned by the founding councils the co-ordination company provides a management function for the co-ordination of service delivery. It streamlines the complexity associated with collaborative working and drives the operational performance and delivery of commissioned services.

5.2.6 At the mixed economy level, leaner and flatter service companies deliver operations as specified by commissioning councils. Additional partners can buy in services at this level or seek to participate at a more strategic level if mutually beneficial. Figure 4 highlights the flexibility available at the lower tier. A full mixed economy with local authority owned companies able to deliver services as well as flexibility for outsourcing or establishing other entities (such as not for profits) if required.

Figure 4: A Mixed Economy Model for Service Delivery



- 5.2.7 The key differences between the traditional shared service model and confederation approaches are governance, the greater ability to trade and flexibility. Furthermore the confederation approach does not mean that shared services cannot also be put into place. Within confederated governance the founding councils are still able to enter into shared service or joint management arrangements and staff employed by any of the councils can be seconded to work in a collaborative capacity.
- 5.2.8 It should also be noted that confederated governance does not prevent outsourcing. Within this model councils could choose to outsource a service by commissioning individually or as a partnership with the co-ordination company taking on the client function.
- 5.2.9 Within the confederation new services may be set up as required and commissioned through the co-ordination company. Innovative services can be developed within the mixed economy where risk can be ring fenced. Services can be commissioned on a contractual basis with contracts set for appropriate durations.
- 5.2.10 The confederated approach set out here makes a number of changes to the ways the partner councils could operate. These changes specifically relate to the use of a wider variety of service delivery models and the establishment of a transparent partnership or shareholders agreement by which the commissioning of services would be undertaken. The framework is governed by contracts and Members have

roles at all levels within the confederation (section 13 sets out Member roles in more detail).

PART 3: FINANCIAL CASE

6. High Level Savings

6.1 Approach and Assumptions

- 6.1.1 Any form of joint working, whether traditional shared services or the use of alternative models of service delivery, offers a level of flexibility in terms of how savings and benefits can be realised. As such this section presents a number of scenarios as a way of indicating the magnitude of savings that could be achieved.
- 6.1.2 The approach taken has been to model potential savings over a ten year period. This reflects the Treasury and Department for Communities and Local Government (DCLG) requirements around business casing and has therefore been used as part of our application process for funding. The approach also enables us to model workforce changes, payback periods and provides a sense of how savings build.
- 6.1.3 Our cost modelling is prudent and takes into account the fact that joint working savings have already been delivered in many services in CDC and SNC and that SDC has already taken savings through its own approach to reducing tiers of management, outsourcing and other efficiency work.
- 6.1.4 The cost modelling is based around four scenarios. These each highlight a range of savings options which could be anticipated depending on the approach to collaborative working adopted with scenario 1 offering the smallest savings and scenario 4 offering the most. These scenarios are based on 2 elements. The scope of services to be included with potential collaboration and the governance approach used to establish the collaboration (i.e. traditional shared services or a confederation approach).

Scenario 1: Shared services approach	support services/back office only
Scenario 2: Shared services approach	all services in scope
Scenario 3: Confederation approach	support services/back office only
Scenario 4: Confederation approach	all services in scope

- 6.1.5 Section 6.2 outlines the four scenarios and savings associated with each in more detail. Table 5 lists the key assumptions and the rationale underpinning them.

Table 5: Assumptions underpinning cost modelling

Assumption	Scenarios to which applied	Rationale
Savings through reduced senior management	All (1-4), but greater reductions in models 2 and 4	All scenarios will result in fewer senior management roles.
Savings through ICT harmonisation	All (1-4)	A reduction in the number of business systems, duplication of current systems and a reduction in licensing costs, applicable to all scenarios.

Assumption	Scenarios to which applied	Rationale
Savings through reduction in staffing numbers	All (1-4), but greater reductions in models 2 and 4	Economies of scale and reduction in duplication applicable to all scenarios. A 5% reduction has been assumed.
Savings through reduction in controllable budgets	All (1-4)	Economies of scale and reduction in duplication applicable to all scenarios. A 2% efficiency saving has been assumed.
Savings in workforce costs (pensions)	3-4, with greater savings achievable in model 4	Only modelled in confederation scenarios where in the long term pension savings may be accessed via the utilisation of company structures.
Income	3-4, with greater income being generated under model 4	Only modelled in confederation scenarios where income generation is feasible. See section 7 and appendix c (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972) for an overview of opportunities
Additional running costs	3-4, with greater costs being incurred under model 4	An allowance for running costs of potential new entities has been included in the modelling.

6.1.6 In terms of the assumptions listed in the table 5 a number of features should be noted; points I-IV relate to all scenarios and points V to VII relate to the confederation approach only (i.e. scenarios three and four):

- I. **Savings through reduced senior management:** these have been held at the same level in scenarios 1 and 3 which include an assumption in the order of a 20% reduction in costs. This is felt to be a prudent assumption given previous experience of the delivery of shared services. Greater management savings are incorporated in scenarios 2 and 4 to reflect an opportunity to share more managers if all services are shared and the economies of scale that could come out of a confederated approach for all services.
- II. **Savings through ICT:** these are based on analysis resulting from the ICT harmonisation programme. Savings are held at the same level under each scenario as they are based on an approach to harmonisation that would hold true regardless of operating model. Implementation costs are not included within this business case to deliver these savings, the expectation being that as business cases are developed to harmonise systems implementation will be included at that stage and those projects will only proceed if it is demonstrated that each business case provides a payback period that is worth pursuing.
- III. **Savings through reduction in staffing numbers:** an assumption of 5% has been made based on previous experience of shared service delivery. The calculation has been made on average salaries. For scenarios 1 and 3 the calculated saving relates to 5% reduction in support service only and for scenarios 2 and 4 the saving estimate relates to an approach where all services are considered as in scope.
- IV. **Savings through reduction in controllable budgets:** a 2% efficiency saving has been assumed on the basis that ICT and staffing savings have already been

factored in to the analysis. Savings of 2% can be delivered through a mix of procurement, economies of scale and business process improvement.

- V. **Savings in workforce costs (pensions):** these savings are based on the assumption that new employees within a confederation would have different terms and conditions and that savings could be delivered particularly through the reduction in pension contributions for new employees of council owned companies. Existing staff are assumed to retain their current terms and conditions as part of TUPE transfer.

In this financial case this analysis has been made in relation to new starters as employees of the new entity they do not have any rights or protection afforded under TUPE to access the Local Government Pension Scheme. Therefore the financial implications have been calculated to reflect the potential that any new starter over the next ten years will be employed on the statutory minimum contribution required from an employer in relation to pension schemes i.e. 1%. This rate of 1% reflects the wider industry context however as part of the financial modeling scenarios have also been prepared which analyse the impact of a pension contribution rate of 1, 3 and 5%. Rates of turnover comparable to the current situation in each of the Councils have been used to help estimate the financial benefit that this could derive. However, it is accepted and taken into account in the estimates that there is a proportion of staff that do not leave our employment and therefore has been calculated in a reducing balance methodology.

Pension's savings of this type will only be realised in a confederation approach and then only apply to new employees appointed on the terms and conditions of the confederation company.

- VI. **Income:** a modest assumption of income generation has been made, assuming no income before 2019/20 and income levels increasing to £200k per annum at gradual increments between 2020/21 and 2024/25. The income rises to £300,000 under scenario 4.
- VII. **Additional running costs:** estimated costs of between £150,000 and £200,000 per annum for the running costs of any new company structures have been built into the model. It should be noted that these costs will only be incurred within a confederation approach. They have been included on the assumption that there may be new appointments at a senior level to a council owned company. However any new appointment could also be covered using existing posts via a secondment between the council(s) and any new confederation company. At this stage no assumptions have been made regarding the type or number of posts/roles to support confederation companies. As part of the prudent approach to developing this model £150,000 of annual costs has been assumed in scenario 3 and £200,000 in scenario 4. These costs have been included in the scenarios rather than as implementation costs as they may be incurred on an on-going basis. The savings associated with scenarios 3 and 4 take into account these potential additional costs.

6.2 Scenarios

6.2.1 The 4 scenarios outlined below have been developed and assessed by the Chief Finance Officers of Stratford on Avon and Cherwell and South Northants Councils. They have prepared a prudent assessment of potential savings that could be realised under four scenarios.

6.2.2 The scenarios contrast the difference between potential savings associated with shared services and confederated approaches and magnitude of savings based on the breadth of services included within the scope of joint working (either through shared services or a confederation).

6.2.3 The four scenarios provide a range of savings options which could be anticipated depending on the approach adopted with scenario 1 offering the smallest savings and scenario 4 offering the most:

Scenario 1: Shared services approach	support services/back office only
Scenario 2: Shared services approach	all services in scope
Scenario 3: Confederation approach	support services/back office only
Scenario 4: Confederation approach	all services in scope

Table 6: Assumptions applied to each saving scenario

	Assumption	Over 10 years	Total Saving
Scenario 1	• Management Reduced Senior	£3,637,312	£10,980,943
	• (harmonisation) ICT Savings	£2,601,290	
	• numbers Reduction in staffing	£4,323,032	
	• budget Reduction in controllable	£419,308	
Scenario 2	• Management Reduced Senior	£4,373,473	£18,806,504
	• (harmonisation) ICT Savings	£2,601,290	
	• numbers Reduction in staffing	£9,237,125	
	• budget Reduction in controllable	£2,594,616	
Scenario 3	• Management Reduced Senior	£3,637,312	£12,777,569
	• (harmonisation) ICT Savings	£2,601,290	
	• numbers Reduction in staffing	£4,323,032	
	• budget Reduction in controllable	£419,308	
	• (pensions) Workforce savings	£2,246,626	
	• Income assumption	£900,000	
	• Running costs assumption	£-1,350,000	

	Assumption	Over 10 years	Total Saving
Scenario 4	• Management Reduced Senior	£5,109,634	£27,038,278
	• (harmonisation) ICT Savings	£2,601,290	
	• numbers Reduction in staffing	£9,237,125	
	• budgets Reduction in controllable	£2,594,616	
	• (pensions) Workforce savings	£8,115,613	
	• Income assumption	£1,180,000	
	• Running costs assumption	£-1,800,000	

NB the income figures do not take into account taxation implications

6.2.4 The indicative split of the above savings is shown in table 7 below. The incidence of the savings attributable back to each authority has been calculated using the same assumptions being applied to the current budgets in place within each of the authorities. The savings are therefore the same proportionately, however, in cash terms vary in line with individual current budgets.

Table 7: Indicative level of savings for each Council (10 Years)

	Ten Year Savings Indicative Split			
	Cherwell £000	South Northants £000	Stratford £000	Total £000
Scenario 1	4,693	3,058	3,230	10,981
Scenario 2	8,928	4,825	5,054	18,807
Scenario 3	5,167	3,581	4,030	12,778
Scenario 4	12,167	7,112	7,759	27,038

6.2.5 As detailed previously the tables above highlight the ten year savings that could be delivered with the different scenarios that have been prepared. This is in line with the business case approach as set out by the Treasury and Department for Communities and Local Government. Annual, 3, 5 and 10 year savings have been presented in table 8.

6.2.6 The range of annual savings are highlighted in table 8 below for each of the different scenarios that have been prepared. The table shows the estimated annual savings in the first year, the estimated annual savings in year 2 and the estimated annual savings in year 10. The average estimated annual savings this column has been used to calculate the payback periods later on in this section. For scenarios 3 and 4 the savings include those associated with reductions in employer pension costs. The employer in these scenarios would be the company/entity and not one of the three councils. The employer will have the opportunity to make decisions regarding the pension scheme offered.

6.2.7 The assumptions adopted in relation to the savings are prudent. It is expected that if the business case is implemented these could be improved upon. For forecasting purposes they demonstrate a level of saving that could realistically be achieved.

Table 8: Summary of Estimated Savings

	Annual Savings				Predicted savings 3,5 & 10 years		
	2015-16 £000	2016-17 £000	2024-25 £000	Average £000	3 Years £000	5 Years £000	10 years £000
SCENARIO 1:							
Cherwell	182	501	501	469	1,185	2,187	4,693
South Northants	96	329	329	306	754	1,412	3,058
Stratford	109	347	347	323	802	1,496	3,230
Total	387	1,177	1,177	1,098	2,741	5,095	10,981
SCENARIO 2:	2015-16	2016-17	2024-25	Average	3 yrs	5 yrs	10 yrs
	£000	£000	£000	£000			
Cherwell	392	948	948	893	2,289	4,186	8,928
South Northants	176	516	516	482	1,209	2,242	4,824
Stratford	192	540	540	505	1,272	2,352	5,054
Total	760	2,004	2,004	1,880	4,770	8,780	18,806
SCENARIO 3: SAVINGS	2015-16	2016-17	2024-25	Average	3 yrs	5 yrs	10 yrs
	£000	£000	£000	£000			
Cherwell	197	480	616	517	1,169	2,219	5,167
South Northants	112	310	452	358	745	1,459	3,581
Stratford	132	340	513	403	831	1,631	4,030
Total	441	1,130	1,581	1,278	2,745	5,309	12,778
SCENARIO 4: SAVINGS	2015-16	2016-17	2024-25	Average	3 yrs	5 yrs	10 yrs
	£000	£000	£000	£000			
Cherwell	469	1,056	1,513	1,217	2,644	5,078	12,167
South Northants	230	580	931	711	1,435	2,832	7,112
Stratford	256	623	1,021	776	1,555	3,075	7,759
Total	955	2,259	3,465	2,704	5,634	10,985	27,038

6.2.8 The one area which has been tested through a sensitivity analysis relates to the assumptions surrounding the pension arrangements which would be open to new starters within a confederated approach. The working assumption is that all new starters would not be admitted into the Local Government Pension Scheme, however, they would be provided with the statutory minimum employers' contributory scheme of 1% (as is the case in many private sector services providers). The current pension contribution within the three authorities is around 13.7%.

6.2.9 Tables 9a and 9b identify the impact upon Scenario 3 and Scenario 4 on two further assumptions. These being that the employer's contribution rate is either 3% or 5% and not the 1% included within Table 9.

Table 9a: Sensitivity Analysis #1 Pension Costs at 3 & 5% Scenario 3

	Annual Savings				Predicted savings 3,5 & 10 years		
	2015-16 £000	2016-17 £000	2024-25 £000	Average £000	3 Years £000	5 Years £000	10 years £000

SCENARIO 3: SENSITIVITY ANALYSIS	2015-16 £000	2016-17 £000	2024-25 £000	Average £000	3 Years £000	5 Years £000	10 years £000
Assumed Employers Contribution @ 3%							
Cherwell	195	475	601	507	1,156	2,187	5,069
South Northants	109	305	435	347	731	1,426	3,475
Stratford	128	334	489	388	810	1,583	3,880
Total	432	1,114	1,525	1,242	2,697	5,196	12,424
Assumed Employers Contribution @ 5%							
SAVINGS	2015-16	2016-17	2024-25	Average			
Cherwell	192	471	585	497	1,142	2,156	4,970
South Northants	107	300	418	337	717	1,392	3,369
Stratford	124	327	466	373	790	1,536	3,731
Total	424	1,098	1,469	1,207	2,649	5,084	12,070

Table 9b: Sensitivity Analysis #2 Pension Costs at 3 & 5% Scenario 4

SCENARIO 4: SENSITIVITY ANALYSIS	Annual Savings				Predicted savings 3,5 & 10 years		
	2015-16 £000	2016-17 £000	2024-25 £000	Average £000	3 Years £000	5 Years £000	10 years £000
Assumed Employers Contribution @ 3%							
Cherwell	457	1,033	1,433	1,166	2,576	4,918	11,663
South Northants	222	564	875	676	1,387	2,720	6,758
Stratford	246	604	954	734	1,498	2,942	7,339
Total	925	2,201	3,263	2,576	5,461	10,580	25,760
Assumed Employers Contribution @ 5%							
SAVINGS	2015-16	2016-17	2024-25	Average			
Cherwell	445	1,010	1,354	1,116	2,507	4,758	11,159
South Northants	213	548	820	640	1,339	2,607	6,404
Stratford	236	584	888	692	1,441	2,809	6,919
Total	894	2,142	3,062	2,448	5,287	10,174	24,482

6.3 Costs (implementation and on-going)

6.3.1 Implementation costs will be incurred to some extent regardless of the approach to joint working pursued (e.g. traditional shared services or a confederated approach).

The following costs have been estimated at this stage:

- Redundancy costs (these vary greatly depending on each individual's age, length of service and membership of the local government pension scheme).

Without knowing which individuals may be affected by new operating models it is not possible to present specific implementation costs. As such a range of is presented at table 10).

- Early retirement costs – only a very broad estimate can be provided at this early stage
- Programme management costs
- Professional advice (pension, actuarial and tax advice) - Scenarios 3 and 4 only (i.e. confederation approaches)
- Initial marketing and promotional campaign – Scenarios 3 and 4 only (i.e. confederation approaches)
- Recruitment and advertising costs – Scenarios 3 and 4 only (i.e. confederation approaches)
- Staff re-training and development – Scenarios 3 and 4 only (i.e. confederation approaches)
- Company set up and registration costs – Scenarios 3 and 4 only (i.e. confederation approaches)
- Contingency

The following costs have not been included at this stage:

- Costs associated with the harmonisation of ICT applications. These will be included in the individual business cases as they come forward for harmonisation.
- Cost of additional tax liability (will only be known when advice commissioned)
- Cost of Pension Fund deficit or impact (will only be known when advice commissioned).

6.3.2 A range of implementation cost models have been formulated highlighting an estimate of the minimum costs, average and maximum costs expected under each of the scenarios.

6.3.3 One area that needs to be considered is the redundancy policies and therefore payments applicable for individuals leaving the authorities. All three authorities use the statutory redundancy tables to calculate the number of weeks compensation to grant to an individual who is made redundant. The Stratford policy then multiplies the resulting figure by a factor to calculate the actual payment made. This means that staff leaving under these proposals will receive different redundancy packages based on the authority they currently work for.

6.3.4 It is suggested that any costs associated with redundancy are split across the three councils on the basis of the CDC/SNC policy (which has no multiplier) and that if Stratford Members wish to retain the existing policy and multiplier for their staff these multiplier costs are met by Stratford. In this way the three councils retain their own policies but also share a proportion of implementation costs.

6.3.5 Scenarios have been prepared to estimate the costs if current policy is applied at each authority, if the Stratford policy is adopted across all three councils and if the SNC/CDC policy is adopted across all three councils. The table below assumes

that the current policies apply across all three authorities. If it was determined that the premium of the Stratford Policy is covered in its entirety by Stratford this would increase the implementation costs for Stratford and reduce those for South Northants and Cherwell. Consequently, this would increase the payback period for Stratford and reduce the payback period for the other two authorities, although the overall payback period would stay the same.

6.3.6 Additional implementation costs for Stratford would be incurred depending on the extent to which SDC employees are affected by redundancy. At this stage only a range of additional implementation costs can be estimated of between:

- zero (where no SDC staff member is affected by redundancy) and £401,000 as the worst case scenario. For scenarios 1 and 3.
- zero (where no SDC staff member is affected by redundancy) and £854,000 as the worst case scenario. For scenario 2.
- zero (where no SDC staff member is affected by redundancy) and £886,000 as the worst case scenario. For scenario 4.

The implementation costs have been split in proportion to the savings expected from each of the proposals in order to equalise the payback periods for all authorities and to ensure an equitable split of implementation costs are borne by each authority.

Table 10: Implementation Costs (see para 6.3.1 for an explanation of how the min-max ranges have been developed)

Implementation Costs	Minimum	Average	Maximum
	£000	£000	£000
Scenario 1	1,230	2,376	3,311
Transformation Challenge Award	(900)	(900)	(900)
	330	1,476	2,411
Scenario 2	1,295	3,268	5,006
Transformation Challenge Award	(900)	(900)	(900)
	395	2,368	4,106
Scenario 3	1,753	2,898	3,833
Transformation Challenge Award	(900)	(900)	(900)
	853	1,998	2,933
Scenario 4	1,971	4,030	5,828
Transformation Challenge Award	(900)	(900)	(900)
	1,071	3,130	4,928

6.3.7 The successful bid for Transformation challenge Award will fund the first £900,000 of implementation costs as shown in the table above.

6.3.8 For scenarios 1 and 2 (i.e. shared service without confederation approaches) there are unlikely to be any significant additional on-going or running costs as both approaches utilise traditional management arrangements albeit in a shared capacity. However, the governance constraints outlined in 4.1.2 associated with

shared services across more than two partners mean that additional committees (potentially joint committees) may be required with associated costs incurred.

6.3.9 For scenarios 3 and 4(i.e. shared service with confederation approaches) running costs associated with new operating models (i.e. use of company structures) have been estimated (as set out in 6.1.5 vii). It should be noted that these costs are estimates and there is currently little comparative information available within the sector to provide any more than estimated figures. It should also be noted that these costs would be the running costs of the new companies rather than the councils' direct costs and in the early years of the approach could also be covered through secondment arrangements. The companies would be expected and incentivised to minimise their running costs through contracts and service level agreements.

6.4 Return on Investment and Payback Periods

6.4.1 The implementation costs are split in proportion to the savings expected to be derived from the proposals. This has the effect of equalising the payback periods for all authorities which appears to be an equitable way of determining how they implementation costs should be funded.

6.4.2 As a result the split of implementation costs will vary depending on the scenario that is adopted. The split of costs for each scenario is set out in the table below:

Table 11: Split of implementation costs

	Cherwell	South Northants	Stratford	Total
Scenario 1	43%	28%	29%	100%
Scenario 2	47%	26%	27%	100%
Scenario 3	40%	28%	32%	100%
Scenario 3	45%	26%	29%	100%
Average	44%	27%	29%	100%

The principle of how the costs will be split needs to be set out at the start of the process so there is clarity on how they are shared and to avoid further debate later in the process. To this end, and for simplicity, it may be appropriate to use the average of the four scenarios to set how the implementation costs are split. This will deliver broadly equal pay back periods.

Table 11 pulls together all of the information on the anticipated costs and savings of each of the proposals to provide a return on investment and overall payback period for each of the models:

Table 12: Return on Investment and Payback Period

Scenario 1	Minimum	Average	Maximum
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Overall - Average Annual Estimated Savings	1,098	1,098	1,098

Overall - Estimated implementation Costs	330	1,476	2,411
Overall - Payback period (Years)	0.30	1.34	2.20
Overall - Payback period (Months)	3.6	16.1	26.3
Cherwell			
Cherwell - Average Annual Estimated Savings	469	469	469
Cherwell - Estimated implementation Costs	141	631	1,030
Cherwell - Payback period (Years)	0.30	1.34	2.20
Cherwell - Payback period (Months)	3.6	16.1	26.3
South Northants			
South Northants - Average Annual Estimated Savings	306	306	306
South Northants - Estimated implementation Costs	92	411	671
South Northants - Payback period (Years)	0.30	1.34	2.20
South Northants - Payback period (Months)	3.6	16.1	26.3
Stratford			
Stratford - Average Annual Estimated Savings	323	323	323
Stratford - Estimated implementation Costs	97	434	709
Stratford - Payback period (Years)	0.30	1.34	2.20
Stratford - Payback period (Months)	3.6	16.1	26.3
Scenario 2	Minimum	Average	Maximum
	£000	£000	£000
Overall - Average Annual Estimated Savings	1,881	1,881	1,881
Overall - Estimated implementation Costs	395	2,368	4,106
Overall - Payback period (Years)	0.21	1.26	2.18
Overall - Payback period (Months)	2.5	15.1	26.2
Cherwell			
Cherwell - Average Annual Estimated Savings	893	893	893
Cherwell - Estimated implementation Costs	187	1,124	1,949
Cherwell - Payback period (Years)	0.21	1.26	2.18
Cherwell - Payback period (Months)	2.5	15.1	26.2
South Northants			
South Northants - Average Annual Estimated Savings	483	483	483
South Northants - Estimated implementation Costs	101	607	1,053
South Northants - Payback period (Years)	0.21	1.26	2.18
South Northants - Payback period (Months)	2.5	15.1	26.2
Stratford			
Stratford - Average Annual Estimated Savings	505	505	505
Stratford - Estimated implementation Costs	106	636	1,103
Stratford - Payback period (Years)	0.21	1.26	2.18
Stratford - Payback period (Months)	2.5	15.1	26.2

Scenario 3	Minimum	Average	Maximum
	£000	£000	£000
Overall - Average Annual Estimated Savings	1,278	1,278	1,278
Overall - Estimated implementation Costs	853	1,998	2,933
Overall - Payback period (Years)	0.67	1.56	2.30
Overall - Payback period (Months)	8.0	18.8	27.5
Cherwell			
Cherwell - Average Annual Estimated Savings	517	517	517
Cherwell - Estimated implementation Costs	345	808	1,186

Cherwell - Payback period (Years)	0.67	1.56	2.30
Cherwell - Payback period (Months)	8.0	18.8	27.5
South Northants - Average Annual Estimated Savings	358	358	358
South Northants - Estimated implementation Costs	239	560	822
South Northants - Payback period (Years)	0.67	1.56	2.30
South Northants - Payback period (Months)	8.0	18.8	27.5
Stratford - Average Annual Estimated Savings	403	403	403
Stratford - Estimated implementation Costs	269	630	925
Stratford - Payback period (Years)	0.67	1.56	2.30
Stratford - Payback period (Months)	8.0	18.8	27.5

Scenario 4	Minimum	Average	Maximum
	£000	£000	£000
Overall - Average Annual Estimated Savings	2,704	2,704	2,704
Overall - Estimated implementation Costs	1,071	3,130	4,928
Overall - Payback period (Years)	0.40	1.16	1.82
Overall - Payback period (Months)	4.8	13.9	21.9
Cherwell - Average Annual Estimated Savings	1,217	1,217	1,217
Cherwell - Estimated implementation Costs	482	1,408	2,218
Cherwell - Payback period (Years)	0.40	1.16	1.82
Cherwell - Payback period (Months)	4.8	13.9	21.9
South Northants - Average Annual Estimated Savings	711	711	711
South Northants - Estimated implementation Costs	282	823	1,296
South Northants - Payback period (Years)	0.40	1.16	1.82
South Northants - Payback period (Months)	4.8	13.9	21.9
Stratford - Average Annual Estimated Savings	776	776	776
Stratford - Estimated implementation Costs	307	898	1,414
Stratford - Payback period (Years)	0.40	1.16	1.82
Stratford - Payback period (Months)	4.8	13.9	21.9

6.4.2 The information above is summarised in table 12 and the following bar chart. The chart demonstrates that, after taking into account the Transformation Challenge Award of £900,000 and the re-allocation of implementation costs to reflect the expected benefit all options payback the initial outlay within two and a half years even if the worst case implementation costs apply. If the average (most likely) implementation costs apply then the payback period is within 1.6 years for all authorities under option 3 but less for all other options.

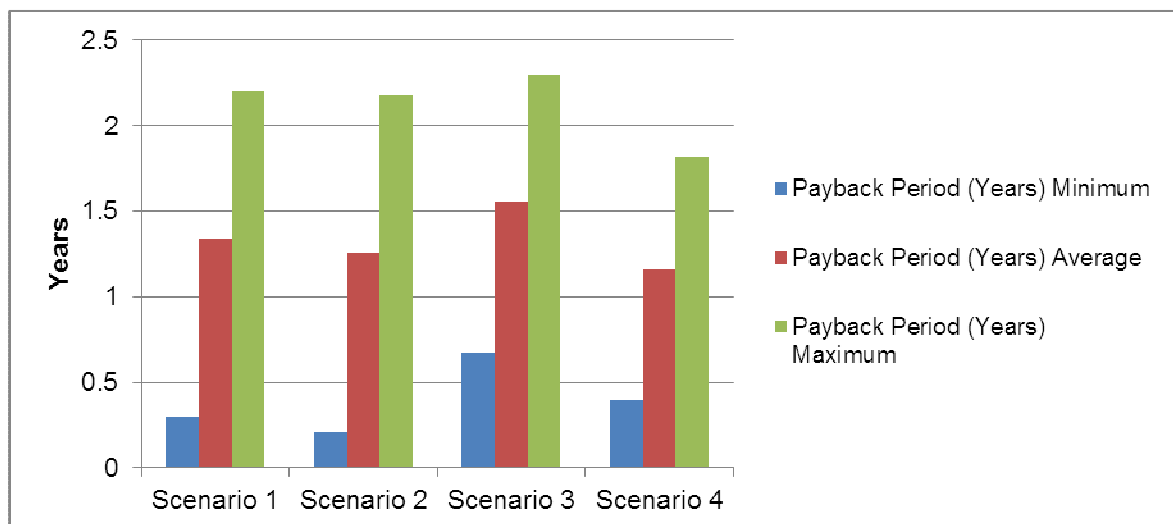
6.4.3 Any project that repays the investment made within the life of the medium term financial plan is worth considering. All of these options repay significantly within the medium term financial planning period for all authorities.

Table 13: Summary of Estimated Payback Period

		Payback Period (Years)		
		Minimum	Average	Maximum
Scenario 1	Overall	0.30	1.34	2.20
Scenario 2	Overall	0.21	1.26	2.18
Scenario 3	Overall	0.67	1.56	2.30
Scenario 4	Overall	0.40	1.16	1.82

As the implementation costs have been split in proportion to the savings expected to be achieved by each authority, the payback periods have been equalised and therefore are the same for each Council.

Figure 5: Estimated Payback Period for all Councils (Years)



6.5 Medium Term Revenue Plan Scenario Forecast

6.5.1 Medium term financial plans are dynamic and are updated on a regular basis. The last plans that were presented publicly were in July 2014 at Cherwell and South Northamptonshire and in February 2014 at Stratford. It should be noted that budget analysis will have developed since these plans were presented and all three authorities are considering proposals to produce a balanced budget for 2015-16.

6.5.2 Earlier in the business case, the latest publicly available medium term revenue plan was presented (3.1). This information is now represented, for each council, taking into account the four scenarios. The information is presented as if there were no other changes in the financial plans that are being worked on, although in reality the proposals contained within this business case represent a contribution

to closing the medium term financial deficits and should not be considered in isolation but as part of a suite of proposals that are emerging that will seek to close the deficits going forward.

Table 14: Medium Term Revenue Plan Scenario Forecast (at November 2014)

Cherwell	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	£000	£000	£000	£000	£000	
Medium Term Revenue Plan Deficit – Scenario forecast as at November 2014	1,617	3,413	4,794	5,069	5,507	20,400
Scenario 1 – Five Year Savings	182	501	501	501	501	2,186
Scenario 1 – Forecast MTRP	1,435	2,913	4,293	4,568	5,006	18,214
Scenario 2 – Five Year Savings	392	948	948	948	948	4,184
Scenario 2 – Forecast MTRP	1,225	2,465	3,846	4,121	4,559	16,216
Scenario 3 – Five Year Savings	197	480	492	503	546	2,218
Scenario 3 – Forecast MTRP	1,420	2,933	4,302	4,566	4,961	18,182
Scenario 4 – Five Year Savings	469	1,056	1,119	1,175	1,259	5,078
Scenario 4 – Forecast MTRP	1,148	2,357	3,675	3,894	4,248	15,322
South Northants	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	£000	£000	£000	£000	£000	
Medium Term Revenue Plan Deficit – Scenario forecast as at November 2014	716	1,838	2,635	3,054	3,468	11,711
Scenario 1 – Five Year Savings	96	329	329	329	329	1,412
Scenario 1 – Forecast MTRP	620	1,509	2,306	2,725	3,139	10,299
Scenario 2 – Five Year Savings	176	516	516	516	516	2,240
Scenario 2 – Forecast MTRP	540	1,322	2,119	2,538	2,952	9,471
Scenario 3 – Five Year Savings	112	310	323	335	379	1,459
Scenario 3 – Forecast MTRP	604	1,528	2,312	2,719	3,089	10,252
Scenario 4 – Five Year Savings	230	580	624	664	733	2,831
Scenario 4 – Forecast MTRP	486	1,258	2,011	2,390	2,735	8,880
Stratford	2015-16	2016-17	2017-18	2018-19	2019-20	Total
	£000	£000	£000	£000	£000	£000
Medium Term Revenue Plan Deficit – Scenario forecast as at November 2014	(37)	488	795	1,157	TBD	TBD
Scenario 1 - Five Year Savings	109	347	347	347	347	1,497
Scenario1 – Forecast MTFP	(146)	141	448	810	TBD	TBD
Scenario2 - Five Year Savings	192	540	540	540	540	2,352
Scenario 2 – Forecast MTFP	(229)	(52)	255	617	TBD	TBD
Scenario3 - Five Year Savings	132	340	359	376	424	1,631
Scenario3 – Forecast MTFP	(169)	148	436	781	TBD	TBD
Scenario4 - Five Year Savings	256	623	675	722	798	3,074
Scenario 4 – Forecast MTFP	(293)	(135)	120	435	TBD	TBD

TBD when budget is published in Stratford on Avon (January 2015)

6.6 Income

- 6.6.1 The potential financial benefits of the confederated approach are in the reduction in costs through driving down running costs, efficiencies, economies of scale and workforce savings and the potential to generate income which may be used to reduce the costs of service delivery for the three partner councils.
- 6.6.2 Given the current operating size of the Councils and their services it is unlikely that trading any additional capacity will alone provide a significant contribution to the medium term financial outlook. As such income generation is seen as a medium to longer term goal with the primary function of ensuring council services are delivered as cost effectively as possible; by trading with others the partner Councils reduce the costs of their own services.
- 6.6.3 A confederation approach will enable trading and provide an environment where if a new service was developed that was highly valued by the market, trading could take place freely with the company owned by the local authorities. Any trading company within the confederation will be subject to corporation tax and if Members decide to pursue this approach further guidance will be required as trading entities are established to ensure that any tax liabilities are dealt with legally and efficiently.
- 6.6.4 It should be noted that any trading undertaken by a Teckal company would need to be substantially (at least 80% of turnover) with the founding partners. Trading with customers (either public or private) beyond this limit would require the establishment of a non-Teckal trading company which would have to compete with other companies and providers to supply services to customers, via the public procurement regime and the Councils' own internal procurement rules.

7. Market Appraisal

7.1 National Trends

- 7.1.1 Appendix C (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972) sets out a review of national trends for the commercialisation of council and other public services. This review has been undertaken by KPMG and notes the breadth of options available for commercialisation, areas of success and examples of failure. The report highlights lessons and success criteria a summary of which is set out below:

Success factors

- Partnership established prior to drive to trade widely, trading seen as a medium term goal
- Incubation of new companies
- Established purpose and brand (e.g. public services for public sector)
- Stable revenue stream (i.e. term of contract) from 'home' councils to enable company to establish
- The importance of strong employee relations and staff development

- Clarity on operating model and the rationale behind it
- Robust business plan
- Choice of partners, shared vision and aims, all supporting and contributing, trust
- Investment in technology to underpin long term objectives

Risk Factors

- Limited market research or analysis conducted to determine service viability as a traded service
- No initial period of 'incubation' for new service
- Business plan drawn up too late or included overly optimistic or ambitious forecasts.
- Business plan produced to suit a pre-determined outcome rather than to critically appraise options
- Reliance on 'potential' rather than guaranteed contracts
- No bottom-up buy-in of staff members –i.e. those providing the service
- Poor leadership and communication
- No clear roles and responsibilities of partners

7.1.2 The review also notes a number of key features worth considering within the context of any confederation approach. These include a consideration of the number of councils tending to work together in this type of operation (commonly between one and four and up to eight) and the types of services spun out (most frequently support services, health and social care, education, legal and specialist technical services).

7.2 Market Opportunities – Strategic Growth of the Confederation

7.2.1 The confederation approach can commercialise and grow in two ways; at the strategic or the service level. Prospective partners may wish enter into a strategic relationship with the confederation and seek to join the co-ordination company by becoming shareholders. In this scenario they would seek to commission services from the confederation's mixed economy by looking at their own in-house services and potentially transferring staff into the confederation trading company(ies) and commissioning a specified service from them. See sections 12.3 and 12.4 on the transfer of staff.

7.2.2 The growth of the confederation to include additional strategic partners would be subject to the founding partners (i.e. CDC, SNC and SDC) agreeing and extending the shareholders agreement. CDC, SNC and SDC may choose to protect benefits by establishing a 'golden shareholders' arrangement. The addition of further strategic partners is likely to be limited to similar types of organisations (e.g. district councils and small or medium sized public or voluntary sector agencies) who share the same financial constraints, values and strategic goals as the founding partners. Likewise the number of additional strategic partners cannot be so great as to stretch financial benefits too thinly or present untenable conflicts or levels of complexity through competing priorities.

7.2.3 There is clear potential to grow the confederation at the strategic level is strong. National policy is pushing districts to share services, commissioning, pooling budgets and collaboration is driving the growth of alternative models of service delivery as set out in section 7.1. A strategic partnership almost as set out in this business case is already being explored by the 'GO' partnership (West Oxfordshire, Cotswolds, Cheltenham and the Forest of Dean) as an operating model. 'GO' has been successful in securing TCA funding to support the development of their approach and a number of other councils are exploring similar approaches.

7.2.4 Appendix C (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972) provides a full overview of a wide variety of models currently being used across the sector. Whilst many of these are not being led by district councils, district councils are participating in several of them as partners. Examples include local authority owned trading companies where staff have been transferred and joint venture companies between the public and private sectors. Examples of specific relevance to this business case include:

- A company jointly owned by Cheltenham Borough Council and Cotswold District Council to provide environmental services including waste collection, recycling, and street cleansing back to its founding partners. The company was set up initially to save the councils £700k a year in running costs. The entity has done significantly better than this in its first two years with savings of £1.3m achieved in 2012/13 against a target for the year of £503k.
- An example of a successful employee mutual is 3BM launched in April 2013 and the first mutual to spin out from local government. This innovative hybrid company was founded by staff of the Hammersmith & Fulham (H&F), Kensington and Chelsea and Westminster Boroughs of London and is owned by a joint venture partnership between employees (75.1%) and another private sector company, Prospects (24.9%). 3BM was one of the first recipients to be awarded funding from the £10m mutual support programme. The entity was created to supply support services to schools. This includes finance, budgetary, building development, curriculum and tech support.
- A community owned Interest Company spun out by Wycombe District Council. The contract with the Council is worth £157,000 in the first year. This equates to about 80% of the estimated annual costs of the organisation, which are about £200,000 per year. These include salaries, insurance, IT, professional services and other general running costs of the business. The additional 20% will be met from earned income delivering a range of services to schools, businesses and other landowners. The income from the contract drops to about 60% of the operating costs by year 5 so the proportion of the income from other commercial or grant funded operations will need to rise accordingly.

7.2.5 Where districts have successfully implemented shared services without exploring alternative models of service delivery there has been a clear trend of workforce integration. In these councils workforces have been integrated to serve two authorities, this includes harmonised terms and conditions and in some cases a move to a single council office and even joint committee meetings (examples

include the Vale of the White Horse and South Oxfordshire and Babergh and Mid Suffolk District Councils. Likewise in the case of Bromsgrove and Redditch councils almost all services have become shared and in the case of Adur and Worthing councils the democratic decision making arrangements and offices have also been merged. The governance model for these types of shared services is a joint committee. This arrangement has been successful in terms of facilitating two way shared services but it has not yet successfully been deployed across more than two districts and it is not a model designed to facilitate income generation or flexibility to bring on board additional partners.

- 7.2.6 Site visits for Members and staff will be arranged during any consultation period to learn about different forms of collaborative working from the experiences of other councils.

7.3 Market Opportunities – Commercialisation of Confederation Services

- 7.3.1 Partners may also wish to procure the services offered by the confederation without participating at the strategic level. An example of this may be a Town Council procuring the advice of the confederation's legal partnership or a Police and Crime Commissioner contracting with the confederation to buy human resources services.

- 7.3.2 Since CDC, SDC and SNC have started exploring collaborative working the partnership has received approaches from district councils interested in exploring opportunities for joint working in a number of areas both in terms of support and frontline services. Likewise the three way joint Legal Services business case explored and identified opportunities within the local market for selling services (reflecting requests for services that are already received from town and parish councils).

- 7.3.3 A small survey of local organisations has been undertaken to ascertain any potential opportunities to deliver services locally. This survey targeted parishes, town councils, public sector and voluntary sector organisations to identify any opportunities are barriers to selling services within the local market. The survey focused on business support services: human resources, organisational development and training, payroll, accountancy and financial services, legal services, market research / customer surveys, ICT, print and design

Keys findings:

- Of the support services considered over 50% of respondents were buying in the following: Human Resources, Organisational Development and Training, Legal Services, ICT, Print and Design. This highlights a local market in public and voluntary sector business support services.
- In answer to the question 'If local authorities offered business support services at competitive rates would you consider using them?' 78% of respondents answered yes.
- For each business support service respondents were asked if they agreed or disagreed with the following statement 'We may consider using

an external provider but not a local authority'. For every service included within the questionnaire a significant majority disagreed with the statement.

Other learning points included:

- Local voluntary and public sectors do not necessarily see themselves as businesses so a 'public to public model' may be the most appropriate marketing strategy.
- If the councils are to successfully sell services they will have to be competitively priced as other voluntary and public agencies are also facing budget reductions.
- There is scope for offering services such as shared finance directors to some small organisations
- Potential customers would need to be convinced that buying local authority services is sustainable and that service would not be reduced or ceased due to council policy change or cuts.
- The survey sample was quite small (20 respondents), but our research has identified in excess of 400 public and voluntary sector customers across the three districts (for support services only).

7.3.4 A review of current services has identified three priorities for potential commercialisation; business support services, public realm services and regulatory services.

- **The Support Services Portfolio** support services such as Legal, ICT, HR, Customer Services, and Accountancy are accepted as having the widest market potential. Opportunities for trading with Parish Councils, Housing Associations, Health and Educational sectors are clear because of the universal need for these support functions. This market is already competitive with a number of national organisations operating and evidence from our market appraisal work (see appendix C (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972)) suggests that the most successful public sector spin outs are clear in their strategy targeting like-minded customers rather than directly competing with the commercial sector for public or private customers.
- **The Public Realm Portfolio** includes Refuse and Recycling, Street Cleaning/Sweeping, Grounds maintenance/Landscape services including Arboricultural services, Leisure services. Related activity such as commercial vehicle maintenance/repairs/MOT would also be included within this portfolio. From the review undertake managers believe that there are real trading opportunities for each of these services in both the private and public sectors. Again private companies are already well established in some of these sectors and so the success or otherwise of future trading will be determined by the confederation's ability to provide services at competitive rates

- **The Regulatory Portfolio** those services which are generally enshrined within legal frameworks and include services which councils are obliged to provide by law. This portfolio includes, Building Control, Planning, Environmental Health, Dog Warden, Parking Enforcement, CCTV, Housing and Homeless services, Community Safety. Trading in these services is seen as being predominately but not exclusively, with other Local Authorities. Areas such as Building Control are provided on a commercial footing currently and compete against private suppliers for business. Private operators already deliver Food Hygiene, Health and Safety Audits for commercial operations. There are other related but non-statutory services such as Pest Control, Food Hygiene/Health and Safety Training, Ecology/Biodiversity services which also provide some opportunities.

As part of the research for this report a copy of a report which was produced by a County Council in 2013 and which examines the potential trading opportunities for Regulatory Services was reviewed. The analysis in this report suggest a market penetration rate of 1% could result in trading income of £100,000 with paid for advice/support provided to between 100-150 customers.

7.4 The role of income generation within the confederation

- 7.4.1 As set out in this case one of the key opportunities a confederation approach provides is the ability to commercialise or sell services. If Members decide to take this approach the following choices will need to be considered:

Options for consideration include:

- Which services could trade and generate a worthwhile surplus
- Which services could be charged for or could generate added value that could be charged for
- Are there services that the partners would want to provide as part of a public good (for example business support services to local business start-ups) and therefore deliver on a not for profit basis recognising that income may come in the form of increased business rates

- 7.4.2 Given these options a commercial strategy will need to be developed by any co-ordination company to ensure that commercialisation, trading and income generation meets the strategic requirements of the Councils. These include ensuring that any commercial activity does not push out local businesses; that income generated is used to reduce the running costs of the partner councils and protects frontline services. Any choice to move services into a commercial environment would be undertaken by Members on a business case by case basis.

- 7.4.3 It should also be noted that whilst working within a confederation of three councils the opportunity to trade income is generated through the commercialisation of any excess capacity. For many of the Councils' current services there is little excess capacity and trading income is unlikely to be of significant quantity. For each service business case a cost benefit analysis will need to be undertaken to

establish whether it is preferable to take any excess capacity as a saving or to use excess capacity to generate income. In some business cases there may be potential to protect (or even in the longer term grow) capacity to generate income.

PART 4: STRATEGIC CASE

8. Sustainability

8.1 Sustainable Governance

- 8.1.1 The proposed confederation approach is sustainable in design. It retains the sovereignty of the founding councils, can be implemented incrementally thereby minimising risk, it can facilitate trading over time and grow to accommodate additional partners. The approach does not require councils to immediately decide to put all services into alternative delivery vehicles and provides an opportunity to review and develop on a service by service basis.
- 8.1.2 Strong governance arrangements can be developed to oversee this approach and there are clear roles for Members in all areas of the confederation's operation.
- 8.1.3 The use of shareholders agreements, contracts, commissioning and Members as Board Directors will ensure that decision making is both streamlined and transparent.

8.2 A Confederation that can grow

- 8.2.1 The confederation is able to grow. Whilst unlimited numbers of partners at the strategic level (i.e. participating in the co-ordination company) are likely to stretch decision making and benefits too thinly research suggests that the model can flex to include several additional partners (see appendix C exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972)). Additional partners are likely to include those with aligned strategic requirements such as but not limited to district councils. There is potential to include larger local voluntary sector agencies and other public service providers.
- 8.2.2 Whilst growth at the strategic level may be limited to around 5/6 partners the only limits to trading are capacity and the ability to successfully bid for work.
- 8.2.3 A key benefit of the approach is that if any growth were to occur it could happen at any time in the life of the confederation and that current services and plans would not be put on hold whilst growth happens.

8.3 The Benefits of Scale

- 8.3.1 As noted in other areas of the business case scale supports sustainability. Services operated in this way will have greater resilience and it is unlikely that a single point of failure will exist in services delivered by the confederation. The approach provides opportunities for economies of scale, savings through joint procurement (especially beneficial in terms of ICT procurement), and increased operational and strategic capacity (some of which may be traded).

- 8.3.2 Scale provides other opportunities to modernise working practices including the potential to reduce tiers of management and adopt spans of control seen in private sector companies.
- 8.3.3 A larger scale also supports ICT investment. With more partners (and potentially clients) investing in the service the ability to implement new technology is enhanced through both greater buying power and the capacity of the team to roll out development and potentially provide services to others. An example of this is the current service provided to South Staffordshire District Council by the SDC/SNC/CDC three way joint ICT team.
- 8.3.4 As with ICT investment scale brings the opportunity to look at how the partner councils can work together to get the most out of their assets. At the time of drafting this business case a review of assets was being undertaken at each of the three councils and any potential opportunities for asset management could form part of a future work programme if Members decided this course of action would be beneficial.
- 8.3.5 A final opportunity accessed through scale is the ability of the partnership to 'punch above its weight'. As a group of small district councils a greater range of strategic expertise may be retained, the span of the confederation representing a sub-region of significant economic importance and the innovative nature of the model may also serve to enhance the reputations of the founding councils.

9. Flexibility and Opportunity

9.1 Flexible Business Models

- 9.1.1 A key benefit of the confederation approach is its flexibility. The governance can accommodate many kinds of service delivery structure. These include in-house services delivered by a single partner council, a traditional shared service delivered for all the partner councils and the establishment of companies (whether they be profit making or not for profit). This means that the best delivery model can be used for the service. For example a trading model for support services a consultancy model for business advisory services, a not for profit model for community services.
- 9.1.2 Currently all three councils use combinations of all of these approaches a so-called 'mixed economy'. A confederation approach will enable the partner councils to extend this flexibility across the partnership and provide an alternative option for the delivery of services from the traditional 'in-house' or outsourced model.
- 9.1.3 The opportunity exists for the Councils to set up a company structure up before it is required so as to provide flexibility in the future if and when the decision is made to spin out a service. Having diverse service delivery models available creates an option for service procurement which would otherwise not exist or there would be an excessively long lead in time to create the company, which with limited warning of Government settlements could prove to be unachievable if not already set up.

9.2 Opportunity to Trade and Develop New Services

- 9.2.1 The confederation option allows a greater opportunity for income generation to the Councils than otherwise is present. Setting up an appropriate company from within a confederation would 'ring fence' potential financial elements minimising the exposure of the individual partners. This in itself would reduce reputational risk to the Councils over the use of public money and if operated successfully provide a positive outlook for local residents and stakeholders on the way the Council operates.
- 9.2.2 Under the Localism Act 2011 Councils (permitted bodies) can make a request to the Secretary of State to take on functions currently provided by other public sector bodies in their geographical area. It should be noted that this is very different from the Councils or confederation providing a service on behalf of another local authority. In the case of taking on a function the responsibility for providing the service transfers, in the case of providing a service the responsibility for the function remains with the authority in which it is legally vested. In the event of a move to a confederation model the ability to request to take on a service would not transfer to the Confederation but would by law remain with the individual councils. If one or more of the councils that owned the confederation wished to take on a service (e.g. waste disposal, registrars or libraries) currently provided by another public body, it would be up to them to decide whether to do so and if they were then granted the service it would be up to the Council to decide how they were going to commission that service, that is via commercial procurement, directly themselves or through commissioning it from the confederation.
- 9.2.3 Whilst a confederation does not change this ability, it does provide greater opportunities e.g. the confederation could at their request provide a service for multiple authorities therefore creating a viable business unit, which if an individual council was to take on a function themselves this could prove difficult. It should be noted that in the case of taking on a service the risks associated with providing that service including responsibility transfer to the Council taking on that responsibility, including any inherited shortfall of funding. The risk here would remain with the council and not the confederation, with this in mind Councils should be extremely cautious of taking on further responsibilities which would be likely to expose the Councils to considerable reputational, financial and legal risk.

10. Service Quality

10.1 Protecting Current Services

- 10.1.1 The confederation approach aims to protect and enhance the services valued by local residents and businesses currently offered by the three councils by driving down costs, increasing resilience, accessing economics of scale and utilising service delivery models that enable the generation of income.
- 10.1.2 It is essential that the highest priority frontline services are protected as much as possible as budgets reduce. The commissioning councils will specify which

services are priorities and through the pricing mechanism will ensure support services are delivered at the most cost effective level possible.

10.2 Value for Money

10.2.1 As part of their strategic commissioning role the councils will be able to specify service levels and the budget available for the delivery of the service. Any confederation company supplying services will be contractually bound to deliver performance within a budget. The process of specifying and commissioning services will ensure value for money is a key part of the culture of the confederation with an incentive to drive efficiencies through business improvement in the same way a private sector company would have to.

10.3 Service Priorities and Development

10.3.1 The commissioning function of the partner councils is key to the success of the confederation model. A client side that is strategic and focused on the councils' long term ambitions will ensure service priorities are delivered; as such the client side will need to be closely linked into the business planning role for each authority.

10.3.2 Where new services are required the councils' may choose to set up their own delivery arrangements or use the co-ordination company to develop, cost and potentially source proposals on their behalf. It is for each partner Council to decide on and commission the level of service they individually require, but they may choose to do this in partnership. This would include the setting of service standards and particular political imperatives e.g. a corporate strategy priority.

10.3.3 A further role for the co-ordination company is scoping best practice within the sector and exploring the potential for new service delivery models. It is possible that the co-ordination company is given the scope to bring proposals to the councils for the development of new or the improvement of existing services.

11. Transparency

11.1 Commissioning, Pricing and Performance

11.1.1 Within the confederation the co-ordination company will be tasked with ensuring open and fair pricing. Its key role is to source the required services commissioned by the councils and ensure there is no transfer pricing or cross subsidy.

11.1.2 Each partner will be able to specify the level of service they require and will be charged on the basis of this. This will enable councils to retain their independence and the local focus of services.

11.1.3 The co-ordination company will have a requirement to manage and report performance reflecting the objectives and priorities of the commissioning council.

11.2 Enhancing Public Transparency

- 11.2.1 The opportunity to create a publicly owned company which mixes the best of the commercial/private sector and the openness of the public sector is both innovative and potentially ground breaking. While there are always matters that would be confidential during their consideration it would be possible for the Councils to set up the confederated approach with a key aim of meeting public sector transparency objectives. This could include both financial and service elements, which would act as a way of marketing the confederation as a by-product.
- 11.2.2 The councils may require the confederation to publish annual reports and performance/corporate information as required. The councils will continue to publish their own financial, complaints and performance information including information from any service commissioned from the confederation.

PART 5: GOVERNANCE IMPLICATIONS

12. Legal Considerations

12.1 A Full Review of the Legal Implications

12.1.1 The Councils commissioned Trowers & Hamlins LLP to carry out a legal assessment of the proposed confederation approach, alternative options for addressing the constraints outlined in 5.2 and the legal risks associated with the approach.

12.1.2 Trowers & Hamlins completed a full review and presented their findings to the Transformation Joint Working Group in May and June 2014 and the Joint Arrangements Steering Group in June 2014.

12.1.3 Appendix D (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972) is an Executive Summary of the Trowers & Hamlins analysis, the full report is also available (120 pages and not attached as an appendix).

12.2 Summary of Legal Position

12.2.1 The review concluded that subject to a number of factors the Councils have the necessary powers to set up the Co-Ordination Company and the Confederation, and contract with it for the provision of transferred services. The factors for consideration and/or action include:

- Undertaking appropriate consultation with stakeholders
- A review of the services to be provided through the Co-Ordination Company
- The Founding Councils reviewing and approving a detailed business plan supporting the establishment of the Co-Ordination Company and the Confederation

12.2.2 In addition to the factors above the legal advice also suggested that at the point of any establishment of a confederation a shareholders agreement and exit arrangements are set out.

12.2.3 If the confederation is established the legal report has also noted that the Founding Councils will need to review their internal governance arrangements to ensure that these are appropriate to manage their rights under the shareholders' agreement and the extent of the retained client function in connection with the management and monitoring of the services provided through the Co-Ordination Company. Likewise the Councils may want to consider how internal governance

arrangements may be streamlined to simplify the operation of the services contract and the overall management of the relationship with the Co-Ordinating Company.

12.2.4 Following this comprehensive review the legal guidance has been used to inform the development of this business case.

12.3 Staffing/Employment Implications (in scenarios 3 and 4)

12.3.1 The business case sets out an assumption that over time the majority of staff of all three councils would transfer into the confederation (in scenarios 3 and 4), or any one of the alternative companies/entities that would stem from the confederation. It is therefore important to outline the implications of such a transfer.

12.3.2 Where a decision is made to transfer an economic entity (which in most cases individual groupings of staff providing a particular service to external and/or internal customers would comprise) the Transfer of Undertakings (Protection of Employment) Regulations 2006 as amended (TUPE) applies.

12.4 Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE)

12.4.1 In its simplest form TUPE serves to protect employees when a business transfers to a new owner/employer. The effect of the regulations is such that they are designed to protect employees by enabling them to continue to enjoy the same terms and conditions (except for pensions), as they had before the transfer. As a matter of fact, any dismissals solely or principally arising from, or connected to a TUPE transfer are automatically unfair.

12.4.2 The issue in relation to pension provision arising from a TUPE transfer is inevitably viewed as a sensitive subject, and raises questions of uncertainty for staff. However, if, as in the case of SNC, CDC and SDC, the previous employer/s was in the public sector and provided a pension scheme (LGPS) the new employer is required under a Cabinet Office Statement of Practice to provide some form of *broadly comparable* pension arrangement for employees who were eligible for, or who were members of the old employer's scheme. It will not have to be the same as the arrangement provided by the previous employer (although it can be subject to the transferee entity securing admitted body status with the LGPS) but will have to be of a comparable standard usually specified via an actuary's certificate. The detailed provision of a comparable pension scheme would be determined as part of any subsequent business case recommending the transfer of staff to a new employer/company and would form part of the detailed staff and union consultation arrangements required at the time.

12.4.3 In addition to taking on the terms and conditions of employment of the transferring employees the transferee (incoming employer) is also required to take over the liability for all statutory rights, claims, and liabilities arising from the contract of employment, for example liabilities in relation to unfair dismissal, equal pay and discrimination claims. The only exception to this is criminal liabilities.

12.4.4 Where a decision is made to transfer a service, the transferor (outgoing employer) is statutorily required to conduct full and meaningful consultation with employees and their representatives at the earliest practicable time, ahead of the actual transfer. Failure to do so properly can result in the award of compensation of up to 13 weeks' pay per employee.

12.4.5 It is however important to clarify that if members of the three councils are minded to support the principle of this business case and invite wider public and other key stakeholder consultation (including staff and union representatives) before making a final decision in relation to the proposed confederation model, such staff and trade union consultation would not, at this stage, be representative of that required under TUPE. Any consultation requirements arising from TUPE would take place with each detailed business case that may be subsequently recommended to each of the three councils at the appropriate time, and which would outline the specific staffing implications. If the three councils subsequently agreed to transfer staff into a new company, employees and their representatives would at that time be properly consulted in accordance with the requirements of TUPE.

13. Role of Members

13.1 Strategic Commissioners

13.1.1 As with any new way of working there will be changes to the way that the councils operate and the way decisions are made. The councils will move from the role of service providers to that of service commissioners; assessing the needs of communities, setting the vision and priorities and then commissioning services to meet these needs and objectives.

13.1.2 These changes will not happen immediately but will be incremental when the new model is implemented and evolve over time as the confederation develops. It should also be noted that as Members decide which services they wish to commission they may wish to retain some services as directly delivered in house whether in partnership or as a single authority.

13.1.3 It has been a frustration of many elected Members that when services are outsourced or housing stock transferred they lose influence over that service. This model aims to not only to preserve the role and influence of elected Members but to enhance it. Through the creation of the confederation each council together with the other founding partners could maintain 100% ownership of services and the delivery mechanism, ensuring accountability, the ability to respond to community needs and deal with service issues and complaints.

13.2 Members roles within the Confederation

13.2.1 Members would make up the majority of the members of the board of the confederation, with equal representation from the founding partners. There would be roles for both Executive and non-Executive Members on the boards of the confederation and the companies it owns. Members would be fully voting and

decision making, and this would help to address many of the criticisms of the Cabinet/Executive arrangements where decision making power has been mainly consolidated in the hands of a few Members.

13.2.2 Additionally it would allow members to once again develop expertise that was in evidence on service committees e.g. leisure services and housing services and also to contribute their own skills and knowledge.

13.2.3 Some aspects of the roles of elected Members will not change such as representing their ward, full council, standards, planning and licensing. Whilst these roles will not change, councillors carrying out these functions are likely to be working with staff who are employed by the confederation. There are likely to be more as opposed to fewer roles for elected Members through adopting a commissioning and confederation model and it is envisaged that members will have greater opportunity to use their experience and develop their interests in different services.

13.2.4 Whilst it is difficult to be specific due to the incremental move to any confederation model, there are a number of likely trends that can be identified:

- The role of the Personnel Committees at Cherwell and South Northamptonshire will reduce as staff are transferred to the confederation and its companies, at Stratford most personnel decisions are already delegated to the Head of Paid Service so there will be less change. Decisions formerly taken by Personnel Committees would be taken by the Boards of Directors for the company which employs the staff. Similarly the role of employee consultative meetings will shift from the councils to the Confederation.
- Performance and risk management will become more strategic with many operational and lower level risks owned and managed by the Boards of Directors instead of the Councils.
- Whilst the respective Council, Executive and Cabinet will still take strategic and policy decisions, operational decisions and some lower level decisions may transfer to the Confederation.
- There will a change of emphasis where staff employed by the confederation will no longer directly work for Members, but will work with elected members collaboratively.

13.2.5 A full overview of Members roles within a Confederation approach is attached at appendix E (parts 1 and 2). This covers Overview and Scrutiny, new roles in more detail, the Joint Commissioning Function, how shared Management and shared posts will be overseen, the role of Members as Company Directors and Member development.

13.2.6 With two, three-way shared services in place and other opportunities being explored, some form of shared decision making arrangement will be required to remove these obstacles and streamline the governance process. This is best achieved through the creation of a three-way Joint Commissioning Committee; the

proposed terms of reference are set out in Appendix E (pt 2). In the event that scenarios 1 or 2 (in section 6 i.e. shared services) were selected as a future governance model, decisions about shared services and the management of shared services could be through this committee.

13.2.7 The joint committee would essentially provide services commissioned by the three councils in order to meet the requirements of the strategic plan and objectives. Similarly it is recommended that joint overview and scrutiny arrangements need to be adopted, with similar terms of reference to the proposal set out in Appendix E in order to streamline the process. In the case of the creation of a confederation (scenarios 3 and 4 in section 6) it is again recommended that a joint commissioning committee and a joint overview and scrutiny committee is created, as set out in appendix E.

14. Risk Assessment

14.1 Risks associated with the proposal for a confederation approach

14.1.1 This section includes an overview of the risks associated with pursuing a confederated approach. The risks associated with alternative options and a 'status quo' approach are outlined in section 14.2 below.

RISKS	MITIGATION
<p>Market Availability: ability to sell services may be limited</p>	<p>Each service must complete a business case and carry out market research before setting out the sales and marketing plan for selling services. They will need to adopt a delivery model best suited to the running of that service whether on a commercial basis or not.</p>
<p>Failing Companies: companies may fail to trade or deliver savings</p>	<p>Implementation of lessons from the market appraisal as set out in appendix C (exempt from publication by virtue of paragraph 3 of Schedule 12A of Local Government Act 1972)</p>
<p>Insufficient skills: to implement and successfully operate a confederation</p>	<p>An organisational development strategy will be produced as part of any full and final business case. This will be evidence based utilising approaches such as skills audit. A full workforce transformation plan is needed.</p>
<p>Increased costs or reduced performance: due to lack of oversight</p>	<p>Clear strategic client side capacity and capability retained at council core. Co-ordination company to procure and source (obligation to deliver value)</p>

<p>Spun out too early: services are forced into a competitive position or operating model before they are ready</p>	<p>Parameters to ensure services are ready for spin out will be developed.</p>
<p>Not enough time for new service company to develop and develop savings: service not incubated and supported by council</p>	<p>Contractual period and/or period of shared service operation will support incubation of new companies</p>
<p>Direct and Indirect Taxation: Although initial advice has been received detailed consideration of these points needs to be undertaken before any final decisions are made</p>	<p>Further review issues to determine whether there are any potential liabilities which are unaware of. To be reflected in full and final business case.</p>
<p>Crystallisation of Pension deficits: All three authorities have deficits in relation to the pension scheme. All have recovery programmes in place which are designed to rebalance the pension fund over a period of upto 30 years. There is a risk that if a substantial number of paying members are removed from Council employment then this could effectively trigger a “closure” of that part of the fund and that the deficit position would need to be met at that time.</p>	<p>Government are being requested to review the position in relation to the closure of pension schemes. It is unlikely that this risk would materialise in the short term.</p>

14.2 Other Risks

14.2.1 Moving towards a confederation approach entails risk and a full business case will include a detailed risk register. But it is also important to note that alternative courses of action also hold risk. The list below identifies some of the risks associated with alternative approaches such as outsourcing or awaiting a nationally or regionally led approach to local government re-organisation.

<p>Financial Risks</p>	<ul style="list-style-type: none"> • Outsourced services give the contractor the opportunity to take efficiency savings as profit which cannot be accessed by the council. • Financial savings may not be accessed quickly enough if the Councils choose to pursue an alternative approach which is not yet in train (e.g. awaiting a combined authority). • Implementation costs of alternative approaches may exceed the costs of those modelled in the financial scenarios in this case as there may be greater workforce reductions. • Implementation costs of alternatives have not been modelled but if large scale local government organisation (e.g. a top down unitary approach) was pursued transitional costs (in addition to redundancy costs) such as project management, organisational development, ICT and systems change should be assumed.
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Risks to Political / Social / Economic Outcomes	<ul style="list-style-type: none"> • Alternative options may result in reduced organisational independence and/or sustainability. • Alternative options may also result in a lesser focus on district and/or local level concerns if district functions were delivered by a larger entity operating across a wider region. • Outsourcing may result in less control of service delivery and quality.
Risks To Customer / Service Delivery / Operational Outcomes	<ul style="list-style-type: none"> • If savings are not realised quickly (or deeply) enough there may be a requirement to cut frontline services negatively impacting on customer satisfaction and experience.

14.2.2 There are also risks associated with a status quo approach:

Financial Risks	<ul style="list-style-type: none"> • Failure to bridge the deficit in the medium term financial strategy • Exhaustion of council reserves • Inability to meet statutory duty to balance budget without significant cuts • Costs associated with workforce reduction (i.e. redundancy) without the ability to sustain services
Reputational Risks	<ul style="list-style-type: none"> • Failing to deliver against TCA grant conditions • Failing to deliver against corporate / strategic priorities • Loss of reputation locally (with partner agencies) as financially sound and able to make challenging decisions.
Risks to Political / Social / Economic Outcomes	<ul style="list-style-type: none"> • Disinvestment in the districts including major capital projects • Lack of strategic capacity • Lack of organisational sustainability and independence • Reduction in capacity to deliver strategic objectives and influence the wider political environment results in a reduction in the quality of life and/or the built and natural environment of the districts.
Risks To Customer / Service Delivery / Operational Outcomes	<ul style="list-style-type: none"> • Reduction in service quality • Cessation of services due to lack of funding • Reduction in customer satisfaction • Failure to capitalise on new opportunities such as trading / income generation • Reducing staff morale as services are cut resulting in a degradation of customer service, innovation and quality of service delivery

PART 6: Conclusion

15. Conclusion

15.1 The recommended approach

15.1.1 This business case sets out a proposal to implement a confederated approach to joint working. It sets out the potential for a new way of working that can deliver significant savings over the long term. These savings are based on a number of factors including reducing senior management costs, efficiencies, ICT harmonisation and savings through a reduction in the size and costs of the workforce.

15.1.2 In addition to financial savings the proposed confederation approach provides an opportunity to generate income through trading. The trading model will also enable council owned companies to innovate and ring fence any risks associated with new service models.

15.1.3 A confederation approach will protect the strategic and commissioning functions of the councils and section 13 outlines the roles of Members within this model.

15.1.4 A full legal review has been undertaken and has established that the councils have the necessary powers to implement this approach.

15.1.5 Alternative options have been explored. Many of these options can still be utilised within a confederation approach. Likewise the confederation approach can also flex to include additional partners on either a strategic or transactional basis.

15.2 Outstanding Issues

15.2.1 There are several outstanding issues that have been identified within this draft business case that need to be addressed in any full and final case if Members decide to move to prepare a more detailed business case. These issues are:

- If Members decide to proceed to a full business case additional legal, pensions and tax advice will be required.
- The scope of services to be included within a confederation approach has been set out as all services in principle. But any form of shared or collaborative services will be subject to a Member decision in the form of a business case for each service or group of services.
- Some training and development will be required for Members and employees.
- Each partner council will wish to consider any implications in terms of internal governance
- The costs associated with an essential workforce transformation plan must be estimated

- Further advice on pension fund deficits relating to transferring staff needs to be sought and fully understood.

15.2.2 Actions to address these outstanding issues will be undertaken if Members decide to proceed to a full and final business case.

15.3 An Alternative Approach

15.3.1 This business case sets out a financial and strategic case for establishing a confederated approach to collaborative working. The savings, flexibilities and opportunities associated with this approach will help to meet the gaps in the medium term financial strategies of the three councils.

15.3.2 Section 5 outlines some potential alternatives to pursuing a confederation and the financial case sets out savings associated with a traditional shared service approach. This analysis set alongside the financial projections clearly shows that doing nothing is not feasible without cutting frontline services and significantly reducing staffing numbers and strategic capacity.

15.3.3 Given the risk assessment in section 14 and the medium term financial projections an 'as is' or status quo model is not recommended. However, there are risks associated with a confederation approach and these are reviewed in section 14 with potential actions to mitigate. Other potential reasons for not pursuing a confederation approach are not strictly risks but may be considered from a policy choice perspective:

- **Reluctance to commercialise public services:** if Members do not wish to commercialise services through either trading or adopting private sector working practices a confederation approach may not be appropriate, regardless of the benefits it offers. Savings could be accessed through whole-sale shared services, joint outsourcing and the use of joint committee structures for governance purposes. The magnitude of savings would not be as great but they would still contribute to the medium term financial deficit.
- **The risks of being a pathfinder:** the legal advice clearly sets out the powers by which the councils can embark on moving towards a confederation. And the alternative delivery vehicles considered (such as the use of council owned companies) are all well used across the sector. However, the use of a co-ordination company and the wider confederation partnership approach has not been used by district councils to date (although others are currently considering similar approaches). As such Members may feel being an early adopter of this type of approach carries too great a risk to the reputations or profiles of the authorities.

15.4 Future Scenarios for Local Government

15.4.1 A recent research report published by INLOGOV and Grant Thornton (LLP) (November 2014) outlines five potential scenarios for the future of local government. The most positive scenario 'adaptive innovation' is where councils seize the opportunities facing them and collaborate to shape and redefine their

role. The four remaining scenarios range from just keeping services going, becoming increasingly vulnerable to any external change, becoming totally reactive and eventually losing the capacity to deliver services (or being taken over). The 'do-nothing' scenario risks a future of decreasing capacity, sustainability and ultimately local relevance, and the midpoint scenarios focus on just keeping existing services going.

15.4.2 The strategic case in part 4 sets out how a confederation approach can flex to include a variety of service delivery models, generate income and bring in like-minded partners. It is this combination of potential savings, sustainability and flexibility outlined in this document that sets out a compelling case for a confederation approach, a future where the partner councils have the capacity and ability to adapt and innovate and the profile and critical mass to access savings and shape the long term strategy for the districts.

15.5 Next Steps

15.5.1 The document sets out a clear overview of the financial position and sets out the risks of continuing with the status quo. In response to these challenges this draft business case has set out a series of scenarios that can be developed to realise savings through collaborative working. The scenarios differ in terms of scope of services to be considered for potential collaborative working and governance arrangement by which to undertake any collaboration.

15.5.2 It is recognised that each of the 4 scenarios would require significant change and for this reason any move towards collaborative working should be undertaken on a case by case basis.

15.5.3 Likewise if Members chose to pursue a confederation approach any move to the use of alternative service delivery models would be undertaken on an incremental basis and therefore services are likely to be shared first (as per scenarios 1 and 2) and moved into a confederation (as set out in scenarios 3 and 4) only in the medium term. In this way the financial benefits of collaboration can be reviewed by Members at each critical milestone.

15.5.4 The next step to develop collaborative working is to take a draft business case to the December Council meetings for each partner and to establish an 'in principle' policy decision to collaborate (via shared services and/or ultimately a confederation). This would be subject to public consultation and a full business case for Councils to consider in February.



Appendix A: Confederation model description

What is the Confederation Model?

The Confederation model is a way of organising how we (as a group of three councils) could undertake collaborative working. There are many ways of organising ourselves so we can work together. These include sharing services, setting up joint committees, secondments, joint procurement and partnerships. All of these have strengths and weaknesses and at times all three councils have used these mechanisms to undertake collaborative working.

What these models don't give us is much flexibility. If another partner joins us we need to set up new arrangements to accommodate them, this results in a 'freeze' on progress whilst we negotiate with another party. These approaches do not allow us to trade or act on a commercial basis. And, if we wish to undertake significant sharing of services, the governance becomes increasingly complex and the inevitable consequence is a requirement for the councils to undertake time consuming and costly harmonisation of terms and conditions.

The Confederation model currently being considered sets out a framework by which the councils could, over time set up different types of organisations, formal partnerships and arrangements to deliver council services. These organisations would all be legal entities and different types of arrangements could include council owned companies (that could trade) or simple shared services arrangements.

The Confederation approach may also establish a co-ordination group that ensures services working within the Confederation charge each council for what they use fairly, that performance targets are met and that the services are meeting the strategic needs of the councils in a legal way.

The diagram overleaf gives an overview of the potential Confederation model. With the founding sovereign councils at the top and a wholly joint council owned co-ordination company serving the founding councils underneath. This co-ordination company would be responsible for sourcing councils' services from a mixed economy. Within this mixed economy the councils have the opportunity to establish any type of legal entity (company, trust etc.) that they wish. The councils retain control of all owned entities.

Why are we considering this approach?

The financial outlook for local authorities remains challenging and all three councils are facing deficits of millions in their medium term financial position. Government policy is pushing district councils to share services and in the wider public sector outsourcing, budget pooling and alternative forms of service delivery (including commercialisation) are all being

progressed. We believe the Confederation model gives us a good opportunity to make savings and remain flexible and sustainable as sovereign district councils in the long term.

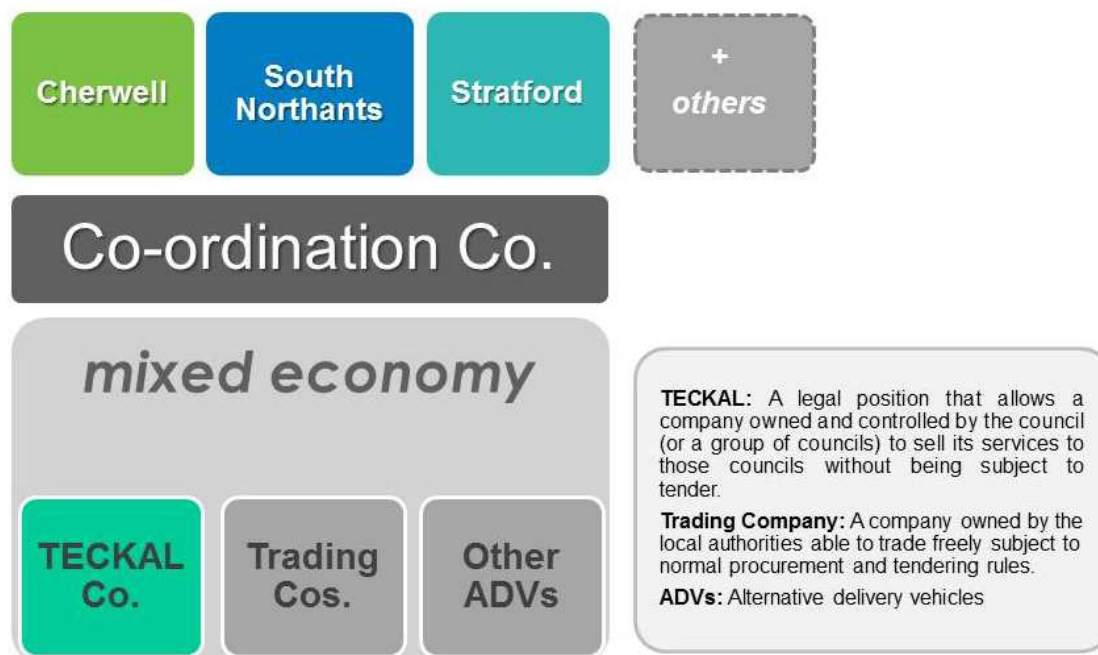
In summary:

- The model gives us maximum flexibility
- We can pick the best organisational structures for our services
- We can trade within a set of rules that means the councils can contract with the companies without the cost of procurement (the teckal rules)
- We can clearly decide which services to put into this arrangements and which to retain
- If the companies are very successful they can trade and generate income (following normal contracting and procurement regulations)
- We would move towards a Confederation model incrementally. We can decide on a limited number of services to put into a council owned company and work over a number of years to develop and sell this company's services.
- At any time others can join us at either the co-ordination level (subject to the agreement of the founding partners) or by trading with us. We can avoid whole council merging of terms and conditions and staffing structures
- We retain our individual sovereignty and local focus as district councils

Are there any downsides?

Any change poses challenges and this is no different. As we explore the potential of this approach, we will need to help staff adjust to new working arrangements and we will need to become more commercially minded. We will need new scrutiny arrangements for Members and as Members will sit on the boards of any council owned companies additional training will be required.

The Confederation Model



Appendix B: Alternative Options for meeting the Medium Term Financial Deficit

Local Government is facing a number of challenges to the funding streams that are available to provide key services. The survival of Local Government will depend on a combination of its ability to maximise the efficiency of the services provided and/or commissioned and on maximising the income that can be generated from the various assets and opportunities at the disposal of the council.

The fundamental purpose of councils' remains regardless of what collaborative arrangements and delivery options are used: sovereign bodies who act to set the long term strategy for the district, deliver and commission services that meet local needs, support local business and the quality of life for local residents.

The analysis below expands upon the alternatives options considered in the business case.

Alternative 1
<ul style="list-style-type: none"> • Status quo i.e. in-house efficiencies and budget reductions, some shared services: this approach would require each individual Councils to deliver services within the budgets that each receive whilst pursuing service by service business cases for joint working. • Summary of analysis: unlikely to make a significant contribution to the deficit identified in the Medium Term Financial Strategy (MTFS) without significant service reduction and reduction in staff numbers.

Strengths	Weaknesses	Opportunities	Threats
Can be delivered within existing governance arrangements	As staff numbers reduce resilience becomes an issue	Reducing accommodation requirements increase the potential to sub-let office space	Breakdown of services due to reduced resources.
Simplifies service reviews	Does not take advantage of economies of scale		Lack of strategic capacity reduces the ability of the councils to influence
Savings can be quickly delivered	The resource reduction required limits capacity for innovation, improvement and variation of services		Future spending review announcements may develop into a continuing cycle of reduction.
			Fails to meet TCA funding requirements
			Contributes to a culture of malaise and decline

Alternative 2
<ul style="list-style-type: none"> • Shared Services with other partners: this approach would see shared services being developed within and outside of the current partnership. • Summary of analysis: offers potential for future savings but relying on attracting additional partners on a business case by business case basis may not deliver a significant contribution to the MTFS.

Strengths	Weaknesses	Opportunities	Threats
Some geographic services may be more suited to sharing with neighbouring authorities	Lack of willingness of neighbours to share services	Could offer more efficient service provision than current arrangements	May not deliver cost savings required
Partnerships within County may be more identifiable to residents	Limited scalability	Improved resilience	Inertia
	Governance can be difficult and difficulties increase as the number of partners expand	Partnering with county councils may pre-empt cross tier policy changes	Resource overhead for senior managers/members to “court” prospective partners
	It can be difficult to drive savings from some geographic based services	“Best fit” approach of partner and service	Extends delivery time scales

Alternative 3
<ul style="list-style-type: none"> • Shared Services CDC/SDC/SNC: under this approach shared services would be implemented across the current partnership without implementing the full confederation model. • Summary of analysis: savings could be delivered but not to the extent of a wider confederation approach. Flexibility is limited and income generation less deliverable.

Strengths	Weaknesses	Opportunities	Threats
Does not involve the complications involved in establishment of company structure	Limited scalability	Could offer more efficient service provision than current arrangements	May not deliver cost savings required
Reduced risk of company failure	Governance can be difficult and difficulties increase as the number of partners expand	Improved resilience	Remains “local government” with limited potential for trading
Established approach	It can be difficult to drive savings from	Economies of scale	

	some geographic based services		
Builds on the shared service work undertaken to date.	Fails to instil a commercial ethos limiting the scale of cultural change	Management cost savings	
Staff transfers are simplified via secondments			

Alternative 4
<ul style="list-style-type: none"> • Support budgets with asset / investment funding: this approach would proactively seek income opportunities through investment, asset development and trading activity to underpin the financial position of the Council(s). • Summary of analysis: relies on a growth strategy that may not meet the objectives of the Councils or communities but could and should be considered alongside the confederation proposals.

Strengths	Weaknesses	Opportunities	Threats
Strong investment income can support key services	Asset based income is generally proportionate to risk	Preferential Local Government borrowing rates can be used	Failure of investments
Investments can be used to support social value	Investment income is not guaranteed	Some assets could generate more income	Project overspends
Proactively maximises return on existing council assets	Opportunities limited by most risk adverse partner	Can help with place shaping and regeneration which can deliver further income	Assets do not deliver required income levels
	Requires a pro-growth strategy	Combined asset optimisation can fund further investment	Income levels do not exceed borrowing rates

Alternative 5
<ul style="list-style-type: none"> • Individual council companies: this approach would involve the Councils looking to generate income from trading services on an individual basis. • Summary of analysis: potential for savings but also for greater complexity and potentially fewer opportunities for Member oversight.

Strengths	Weaknesses	Opportunities	Threats
Profits from trading services can be used to support key services	Partner councils could end up competing against each other for work	Company could provide useful services to community and generate income	Competition for private sector and other Councils challenging profit margins
Company strategy set by a single	Not all services will be suitable for	Can be branded as "local" where	Failure of companies that are established

council	trading	appropriate	
Current teams used as basis for traded service	Need to identify customers for the traded services		Taxation
	Duplicates commercial expertise at each Council		

Alternative 6

- **Top down local government re-organisation:** under this approach delivery of county and district council services would be combined into a single delivery body. These are generally based within County boundaries. A variation on this approach could be a locally driven re-organisation where local partners agree and drive a new local government structure.
- **Summary of analysis:** not currently on the agenda nationally and devolution and city deals are higher profile in terms of national focus on local government delivery structures.
Both national and local approaches would be unlikely to cut across county boundaries which would necessitate unpicking current sharing arrangements. Delivery timescales would not ensure a significant contribution is made to meet the MTFs pressure.

Strengths	Weaknesses	Opportunities	Threats
Single point of contact for residents	District Council services get subsumed within larger organisation	Potential Cost Savings	Pressures imposed by Children's services and adult social care
Councils remain identifiable to residents	Loss of recognition of local issues	Efficiencies through joining up related services	May necessitate undoing shared services work to date
	County Councils are generally less efficient at delivering services	New organisation provides a "big Bang" opportunity to change	Increases timeline for delivery of savings
		Enables genuinely integrated services, policies etc.	

Alternative 7

- **Outsourcing Services to Private Sector:** this approach would transfer the delivery of public services to a private sector organisation through contracts or a form of partnership.
- **Summary of analysis:** private sector companies will make profit through efficiencies with a proportion of the savings fed back to the councils. Local jobs may be moved out of the districts and there is potentially less Member control. The track record of whole scale service outsourcing (e.g. large public private partnerships and some joint ventures e.g. South West One) is patchy. Service by service outsourcing has a better track record but will still require client sides in each of the services contracted out.

Strengths	Weaknesses	Opportunities	Threats
Established method of delivering services	When contracts are signed there is often limited opportunity to reduce service without cost	Taking advantage of private sector expertise	Contract costs tends to rise year on year due to inflation clauses
Relatively low implementation costs	Loss of flexibility in service delivery	Reduced staff costs	If large part of revenue budget is committed to contracts further cuts may not be able to be met
	Everything gets charged for		Loss of employment within districts
	TUPE of staff requires time		Loss of democratic accountability
	Complexity of governance if three way contracts are let		Success is reliant on the quality of commissioning and contract management skills

Alternative 8

- **Combined Authority:** the exploration of a combined authority for the area to focus on system wide efficiencies and issues such as economic growth.
- **Summary of analysis:** combined authorities will require co-operation at all tiers across the counties to agree an approach and negotiate with central government. As these discussions are not underway the development and implementation of any combined authority proposals will not meet the timescales required to make a significant contribution to the medium term financial gaps for any of the three councils.

Strengths	Weaknesses	Opportunities	Threats
Simplifies cross region delivery	Limited to specific areas of operation	Potential devolved powers for the sub-region from central government	Requires approval by all local government organisations within the area
In-line with national policy	Does not address wider service transformation	Opportunity to pool resources on a key issues (e.g. economic development) for the benefit of a wider sub-region	Requires a statutory instrument from the Secretary of State to set one up
	The Localism Act 2011 does not allow combined authorities to provide statutory services on a commercial basis	May provide opportunities for alternative governance	Unlikely to cover the same area as he CDC/SDC/SNC partnership and may require unpicking of joint arrangements
	Lengthy negotiation process which has not commenced		

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Business Support Services Local Market Survey Topline Results

The survey was emailed to various organisations in the three districts on 21st October 2014.

The types of organisations that were forwarded a questionnaire included non-County Council controlled educational establishments, housing associations, town councils and large parish councils. 65 were identified across the three council areas. In addition, SDC were able to forward details, via the Voluntary Action Stratford-upon-Avon (VASA) email newsletter, which went to 480 voluntary groups.

On the day of the closing date (7th November) a reminder email was sent out giving a deadline extension of one week. Further to this on 14th November and 17th November those not responding were contacted by telephone.

23 completed questionnaires were received. Three other organisations responded but did not want to complete the survey.

Part 1: About You

Name of your organisation - 22 of the 23 respondents provided a name

Type of work you do (for example parish council, education provider)

22 of the 23 respondents provided a response

- Advice and information provider
- Advice services, voluntary sector
- Art Gallery
- Charity
- Charity managing village assets and residents association
- Community Project Manager
- Education provider
- Housing
- Mental health support
- Parish Council
- Parish Council
- Parish Council
- Parish Council
- Provision of county wide support to Young Carers aged 6- 25
- Run a weekly coffee morning in the village and occasional outings
- Short Breaks Disabled children, young people and adults
- Social Enterprise Support
- Sports Club
- Town Council
- Town Council
- Town Council
- Town Council

Size of organisation (approximate number of people you employ)

22 of the 23 respondents provided a response – these are not grouped together as this shows the breadth of response

- | | | |
|-------------|----------------|--------|
| • Voluntary | • 6 | • 20 |
| • None | • 10 | • 20 |
| • 3 | • 12 | • 65 |
| • 3 | • 13 | • 70 |
| • 3 | • 14 | • 160 |
| • 4 | • 15 | • 1200 |
| • 5 | • 3 & 13 Cllrs | |
| • 6 | • 20 | |

Q1	Business support services your organisation currently uses.	Yes, we have an in-house team/service	Yes, we buy this service in when we need it	No, we don't need this service
		Human Resources	3 (16%)	11 (58%)
Organisational Development and Training	5 (28%)	10 (56%)	3 (17%)	
Payroll	10 (45%)	8 (36%)	4 (18%)	
Accountancy / Financial Services	9 (41%)	10 (45%)	3 (14%)	
Legal Services	5 (24%)	14 (67%)	2 (10%)	
Market Research / Customer Surveys	7 (39%)	7 (39%)	4 (22%)	
ICT	7 (33%)	11 (52%)	3 (14%)	
Print and Design	6 (29%)	13 (62%)	2 (10%)	

Part 2: Access to Business Support Services

Q2	Accountancy and Financial Services - these types of services include accountancy, financial strategy, budget monitoring, preparation of business cases and options appraisals for projects.	Agree	Disagree
		It is easy to access accountancy services locally that provide what we want	17 (89%)
If the Councils provided this service at a low cost we might consider using it	12 (63%)	7 (37%)	
We provide this service in-house and would not consider asking a third party to provide it for us	6 (30%)	14 (70%)	
We may consider using an external provider but not a local authority	5 (29%)	12 (71%)	

Q3	Payroll Services - running payroll, production of payroll reports and distribution of payslips.	Agree	Disagree
		It is easy to access payroll services locally that provide what we want	16 (94%)
If the Councils provided this service at a low cost we might consider using it	9 (47%)	10 (53%)	
We provide this service in-house and would not consider asking a third party to provide it for us	8 (47%)	9 (53%)	
We may consider using an external provider but not a local authority	6 (33%)	12 (67%)	

Q4	Human Resources and Organisational Development Services - including employment law advice, managing grievances, disciplinary hearings, employee relations, recruitment, retention and drafting policy. Organisational development includes training, support to employees (for example coaching) and managing organisational change.	Agree	Disagree
		It is easy to access human resources locally that provide what we want	15 (83%)
It is easy to access organisational development services locally that provide what we want	12 (71%)	5 (29%)	
If the Councils provided this service at a low cost we might consider using it	13 (68%)	6 (32%)	
We provide this service in-house and would not consider asking a third party to provide it for us	6 (33%)	12 (67%)	
We may consider using an external provider but not a local authority	2 (12%)	15 (88%)	

Q5	ICT and Web Services - including network infrastructure and desktop support, maintenance of major IT systems, setting up and hosting websites.	Agree	Disagree
		It is easy to access ICT services locally that provide what we want	18 (95%)
It is easy to access web services locally that provide what we want	15 (83%)	3 (17%)	
If the Councils provided this service at a low cost we might consider using it	14 (74%)	5 (26%)	
We provide this service in-house and would not consider asking a third party to provide it for us	3 (18%)	14 (82%)	
We may consider using an external provider but not a local authority	2 (12%)	15 (88%)	

Q6	Print Services - for example regular or ad-hoc high volume printing.	Agree	Disagree
		It is easy to access print and design services locally that provide what we want	20 (100%)
If the Councils provided this service at a low cost we might consider using it	18 (86%)	3 (14%)	
We provide this service in-house and would not consider asking a third party to provide it for us	4 (22%)	14 (78%)	
We may consider using an external provider but not a local authority	1 (6%)	16 (94%)	

Q7	Consultation and Research Services - including survey design and analysis, local consultations, focus groups and community engagement and research reports.	Agree	Disagree
		It is easy to access consultation and research services locally that provide what we want	11 (61%)
If the Councils provided this service at a low cost we might consider using it	13 (65%)	7 (35%)	
We provide this service in-house and would not consider asking a third party to provide it for us	3 (18%)	14 (82%)	
We may consider using an external provider but not a local authority	4 (22%)	14 (78%)	

Q8	Legal Services - for example litigation, contracts, conveyancing, employment and planning law.	Agree	Disagree
		It is easy to access legal services locally that provide what we want	19 (95%)
If the Councils provided this service at a low cost we might consider using it	16 (80%)	4 (20%)	
We provide this service in-house and would not consider asking a third party to provide it for us	2 (11%)	16 (89%)	
We may consider using an external provider but not a local authority	3 (17%)	15 (83%)	

Part 3: Your view of local authorities as service providers

Q9	If local authorities offered business support services at competitive rates would you consider using them?		
	16 (80%)	Yes	If you answered no, what are your concerns?
4 (20%)	No		
3 responses			
<ul style="list-style-type: none"> Reliability is always an issue - when the budget cuts are made it is always the last tier of local Government office that suffer from the removal of these services which is why we either do them ourselves or rely on external sources rather than the principle councils. e are not a business. e have worked with our current providers who continue to offer services at a negotiated rate for charities. 			

Additional Comments

- We would be particularly interested if the local authority could provide a part time Financial Director
- In some cases it's difficult to say whether we can access all the service we need locally - of course we have external support organisations that provide specialist services or services that can be tailored to meet our specific needs. We have not used any local authority services so far - and the only area I would be concerned about would be minimising any potential conflict with the organisation having funding streams to deliver services from the local authority. I am not aware of the scope or breadth of the current services that are offered - however I would be interested in finding out - such as payroll support etc.
- We have already used the services of SDC to help us formulate and analyse a residents survey so would be very happy to use any other services, particularly IT if this available and local.
- Sorry it is not appropriate for us.
- I think this is very interesting but should say that perhaps our idea of "low cost" might be quite a bit lower than yours. We get some services subsidised by local firms who want to help us and so I suspect that we pay

relatively small amounts for some services. However we do have aspects of project work where there is a reasonable budget provided e.g. for research and for printing - so these might be of use.

Appendix E (p1): Potential Role of Members within a Confederation

This document sets out the potential implications for Members if the councils were to move to a confederation model.

1. The Role of Elected Members

- 1.1 As with any new way of working there would be changes to the way that the founding councils operate and the way decisions are made. The founding councils would move from the role of being service providers to that of service commissioners, with the role of assessing the needs of communities, setting the vision and priorities and then commissioning services to meet these needs and objectives.
- 1.2 These changes would not happen immediately but would be incremental when the new model is implemented evolving over time as the confederation develops.
- 1.3 It has long been a frustration of elected Members that when services are outsourced or housing stock transferred there is a loss of influence over that service. This model aims to not only preserve the role and influence of elected Members but to enhance it. Through the creation of the confederation each council together with the other founding partners would maintain 100% ownership of services and the delivery mechanism, ensuring accountability, the ability to respond to community needs and deal with service issues and complaints.
- 1.4 Members would make up the majority of the Members of the board of the confederation, with equal representation from the founding partners, voting thresholds and procedures would be set out in the shareholders agreement. The board of directors would be comprised of non-executive directors (members and officers appointed by the founding partners) and executive directors who would be the senior managers employed by the confederation (e.g. Managing Directors). There would be roles for both Executive and non-Executive Members on the board(s) of the confederation and the companies it owns, with very few prima facie conflicts of interest. Directors would be fully voting and decision making, and this would help to address many of the criticisms of the Cabinet/Executive arrangements where decision making power has been mainly concentrated in the hands of relatively few Members.
- 1.5 Additionally the confederation would allow Members to once again develop specialist expertise that was in evidence on service committees in the past e.g. Leisure Services Committee at CDC and Community Services Committee at SNC, or Housing Services at SDC but also to contribute their own skills and knowledge.
- 1.6 Some aspects of the roles of elected Members would not change such as representing their ward, full council, standards, planning and licensing. Whilst these roles would not change, councillors carrying out these functions are likely to be working with officers who are employed by the confederation as opposed to their Council. There are likely to be more as opposed to fewer roles for elected Members through adopting a commissioning and confederation model and it is envisaged that Members will have greater opportunity to use their experience and develop their interests in different services.
- 1.7 Whilst it is difficult to be specific due to the evolutionary nature of the transfer to the confederation model, there are a number of likely trends that can be identified in terms of the roles of elected Members.

- The role of the Personnel Committees at Cherwell and South Northants would reduce as staff are transferred to the confederation and its companies. At Stratford most personnel decisions are already delegated to the Head of Paid Service so there will be less change. Decisions formally taken by Personnel Committees would now be taken by the Boards of Directors for the company which employs the staff. Similarly the role of employee consultative meetings would shift from the councils to the confederation.
- Performance and risk management would become more strategic with many operational and lower level risks owned and managed by the confederation instead of the Councils.
- Whilst the Executive and Cabinet would still take strategic decisions, operational decisions and some lower level decisions would transfer to the Confederation. This may overtime lead to a reduction in the size of some of the Cabinets/Executive as the role is refocused to strategic with responsibility for staff and operational aspects transferring to the confederation.
- There would be a change of emphasis where staff employed by the confederation will no longer directly work for Members, but will work with elected Members collaboratively.
- Whilst the work of developing policy and budget strategy would continue at each of the three councils, with high levels of member engagement, in the case of budget strategy this focus would evolve over time to a commissioning role? and the costs involved in commissioning services as opposed to consideration of line items, cost centres and savings exercises based around arbitrary percentage savings on services and directorates.

2. Overview and Scrutiny

2.1 Individual Council Overview and Scrutiny functions would continue as at present in terms of reviewing and developing policy, holding the Cabinet/Executive to account and scrutinising matters externally to the council. There would be a need for some additional scrutiny both at the transition stage in deciding to and moving to a confederation and subsequently in respect of performance review if the Confederation is agreed.

2.2 Work supported by the Centre for Public Scrutiny (following a successful bid) is taking place with Members to develop what this joint scrutiny might look like and the project plan is set out in the annex to this document. It is envisaged this would look at the performance of the confederation and the commissioning role of the councils on a three-way basis. In order to manage this additional work it is envisaged that some refocusing of internal scrutiny would take place to prevent duplication of effort and to reflect the new commissioning role of the council. Suggested terms of reference for the Joint Commissioning Scrutiny Committee are set out below:

Joint Commissioning Scrutiny Committee

- I. To receive and scrutinise reports from the Joint Commissioning Officer Group detailing the performance against targets that are included within the Contract and Commissioning Plan and otherwise relating to the services provided by the Confederation and its delivery units, other major shared contracts, and to be able to challenge external providers and hold their senior managers publicly to account.

- II. To receive and scrutinise reports from the Joint Commissioning Officer Group detailing the financial performance of the confederation against savings targets detailed in the Budget and Medium Term Financial Strategies.
- III. To receive and scrutinise change requests and contract variations between the Shared Services Joint Committee and external service providers to include (but not be limited to) the introduction of new key performance indicators, delivery of new commissions via the external delivery units, changes required due to new legislation and commercial development opportunities.
- IV. To engage with partner organisations, other relevant public sector bodies, private sector organisations, trade unions, local residents or any other appropriate witnesses when fulfilling the overview and scrutiny role in relation to the monitoring of contracts for services provided by external service providers.
- V. To scrutinise decisions of and services reporting to the Shared Services Joint Committee including the Joint Commissioning Group.

2.3 All of these changes are likely to require future constitutional change such as changes to committee terms of reference and the officer scheme of delegation. In addition member role profiles which are already in use at Stratford would be refreshed and reintroduced for elected Members and in particular Executive and Cabinet Lead Members and Committee Chairmen. Additionally role profiles would be created for Members who are nominated by the councils to serve as Directors.

3. New roles

3.1 There would be a number of new roles for elected Members on the board of the confederation and its subsidiary companies, on the joint commissioning functions of the councils (similar to the current Joint Arrangements Steering Group) and joint overview and scrutiny as discussed above.

3.2 It is likely that the Independent Remuneration Panels would need to consider the remuneration for the new roles on overview and scrutiny and joint commissioning and there may need to be consideration to the creation of a Joint Independent Remuneration Panel to look at joint functions. In the case of the Board of Directors of the confederation and its subsidiary companies, whilst the councils will nominate representatives it would be up to the confederation to consider whether remuneration should be paid and at what level. It would be in order for the confederation to have regard to the remuneration paid pursuant to the recommendations of remuneration panels and the amounts paid to equivalent posts such as Cabinet/Executive Members in considering the level of remuneration.

3.3 In terms of the time commitment of elected Members it is envisaged that for those involved in the Joint Commissioning and Joint Scrutiny it would be similar to current involvement in the Transformation Working Group or Joint Arrangements Steering Group, most likely with bi-monthly meetings. For those nominated as Directors it is anticipated that the level of commitment would vary but in local authority terms is likely to be similar, but most likely slightly less than that of a Cabinet/Executive Member or committee Chairman such as Planning Committee. It is anticipated that Board meetings would take place monthly or bi-monthly with a maximum duration of 3 hours and that there would also be briefings held monthly or bi-monthly. Documents would be succinct and meetings conducted in a way which is business like and focuses on outcomes and decisions. In addition Board Members would spend around the equivalent 1 to 2 days per month on company business, when the confederation is up and running, but this is

likely to be higher in the early stages where there would be a greater intensity of work and where Directors are becoming familiar with their role.

- 3.4 As there are fewer legal restrictions on companies than councils it is intended wherever possible to use technology to assist Directors in their role including virtual meetings, (Skype, Microsoft Lync, video conferencing etc.) and electronic documentation with paperless meetings.

The Joint Commissioning Function

- 3.5 Whilst each Council would have a separate contract with the companies of the confederation, in order to provide economies of scale, prevent duplication and reduce the administrative burden on the confederation it is envisaged that there would be a joint commissioning function. The joint commissioning function would consist of two elements a slim joint commissioning officer group and a Joint Commissioning Committee, that would together act as an intelligent client. The shared joint commissioning officer group would manage the contracts on behalf of the councils, carrying out performance and contract management operating as the principal interface with the confederation at the contract management level. The second element of the joint commissioning function would be a joint Member body; it is proposed that a joint committee would be the best form for this body.
- 3.6 It is suggested that a Joint Commissioning Committee is established pursuant to an agreement between Cherwell District Council, Stratford-on-Avon District Council and South Northamptonshire Council. The Joint Committee's remit is to have overall responsibility for the provision, to the Councils, of shared services arrangements both through services it has direct responsibility for and as the councils' interface with the confederation. It is understood that joint committees can have both Executive and non-Executive functions (legal clarification is being sought) based on this the Joint Commissioning Committee would have the functions as set out in Appendix E (pt II).

Company Directors

- 3.7 Whilst the role of being a company director is different to that of a councillor, there are also many similarities and there are a significant number of Members who have or are currently directors in a private capacity. Whilst becoming a Director may be daunting at first, many officers and Members who have held these positions have described it as 'valuable' 'liberating', 'extremely rewarding' whilst at times 'challenging'.
- 3.8 One of the key differences to the role of being a councillor is that Directors have personal liability and are likely to be sitting alongside fellow decision making Directors who may be officers. It should be noted that Councillors did have some degree of liability prior to the introduction of the Local Government Act 2000.
- 3.9 To support Directors, role descriptions will be developed for Director posts, also it is proposed that following the recent experience of Cherwell, in setting up the Graven Hill companies that Directors be allocated specific roles based on mapping skills and experience e.g. Finance, Operations, Sales and Marketing, Governance / Management and Technical. Whilst Directors would be non-executive e.g. that is they would not be individually empowered to take decisions they would maintain regular links with their area of responsibility. Directors would be insured and indemnified both by their Council and the confederation for carrying out their role

4. Training and Development

4.1 It is key that Directors have the required knowledge and training in their role and together with the Confederation the Councils would ensure that high quality training and development is available in terms of legal, risks and responsibilities and generic training on the role of a Director. Some training has already been delivered in the context of Cherwell's Graven Hill work but as an indication the following is suggested:

- Specific portfolio role training
- Generic Director training on roles and responsibilities (including liability)
- Commercial awareness
- Company awareness

5. Roles and Responsibilities

5.1 It is clear that the role of Director would be very different for Members and officers who take up Director posts. Unlike a councillor Directors carry personal responsibility and liability, with one of the key differences being the legal duty of loyalty to the company. The Companies Act 2006 sets out the following duties for Directors:

- to act within powers in accordance with the company's constitution and to use those powers only for the purposes for which they were conferred
- to promote the success of the company for the benefit of its Members to exercise independent judgement
- to exercise reasonable care, skill and diligence
- to avoid conflicts of interest
- not to accept benefits from third parties
- to declare an interest in a proposed transaction or arrangement

5.2 These statutory duties cannot be seen in isolation because in addition a director will be subject to a wide range of regulation and legislation including the Insolvency Act 1986, the Company Directors' Disqualification Act 1986, the Health and Safety at Work etc. Act 1974, the Corporate Manslaughter and Corporate Homicide Act 2007 and the Bribery Act 2010. Councillors who are appointed as Directors will be required to abide by the member code of conduct, save where it is in conflict with the duties owed to the company as a director in which case it must be subservient to this.

5.3 Directors may be liable to penalties if the company fails to carry out its statutory duties, incur personal liability, both civil and criminal, for their acts or omissions in directing the company. The court may also require a director to make a contribution to the company's assets if, in the course of the winding up of a company, a director was knowingly a party to the carrying on of the company's business with the intent to defraud the creditors.

Additionally Directors may be disqualified if the following apply:

- the director has been guilty of three or more defaults in complying with companies legislation regarding the filing of documents with the Registrar of Companies during the preceding five years;
- he or she is, or was, a director of a company that has at any time become insolvent and that his/her conduct as a director of that company makes him/her unfit to be concerned in the management of a company;
- the director is found to be guilty of wrongful or fraudulent trading as defined in the Insolvency Act 1986

6. Conflicts of Interest

6.1 6.1 There would be very few restrictions on which Members could serve on these Boards as situations where potential conflicts of interest might militate against this would be likely to be rare. Advice and guidance would be provided for Members on dealing with the potential conflicts that could arise in their role as an elected member and their role as a company director. Officers would work with Members to develop the new relationship that will be required between the councils and the confederation. Where conflicts do occur the councils have developed an ethical walls policy to manage officer level conflicts which would be the basis for managing conflicts that occurred between different functions e.g. planning and economic development or the role of a member as Councillor and Director.

Appendix E (pt2): Joint Commissioning Committee

The Joint Commissioning Committee would be established pursuant to an agreement between Cherwell District Council, Stratford-on-Avon District Council and South Northamptonshire Council. The Joint Committee's remit would be to have overall responsibility for the provision, to the Councils, of shared services arrangements both through services it has direct responsibility for and as the councils' interface with the confederation (if established). It is understood that joint committees can have both Executive and non-Executive functions (legal clarification is being sought) based on this the Joint Commissioning Committee would have the following functions:

- To have responsibility for and to take any decisions (other than those delegated to officers), for any shared service including the confederation that is created for the above councils.
- To ensure that any shared service meets the requirements of the councils in furthering the objectives of their corporate plans.
- Through the Joint Commissioning Group to manage (on behalf of the councils) their contracts for service delivery with the confederation.
- To set and monitor performance standards for shared services, including those provided by the confederation, providing intervention where required.

Shared Management

In the case of a decision to appoint a shared management team:

- To act as the interviewing panel for the Head of Paid Service (Chief Executive), making recommendations to all three councils for formal appointment.
- To act as the interviewing panel and appoint Strategic Directors and Heads of Service working across all three Councils (NB. Anyone involved in the decision for a particular post must be present throughout the entire interview process).
- To appoint an Appraisal Subcommittee comprised of 6 councillors, 2 from each authority, who will be responsible for carrying out the appraisal of the Head of Paid Service (Chief Executive). The Leaders of all three councils will not be part of the subcommittee but must be invited to participate.
- To appoint the designated independent person where a complaint of misconduct requires it to be investigated against a Head of Paid Service, Monitoring Officer or Section 151 Officer where working across all three Councils.

Shared Posts

- To agree posts to be declared 'at risk', dismissal, including compulsory or voluntary redundancy and the exercise of discretionary awards to any post where costs are shared or are going to be shared.
- Determination of the terms and conditions of employment of any posts where costs are shared or are going to be shared.

- Determination and review of all policies affecting the employment of staff in posts where costs are shared or going to be shared.
- Approval of the creation of new posts where costs are shared or are going to be shared.
- Approval of any restructuring of teams where costs are shared or are going to be shared.

Appendix F: Scope and Implementation

This document provides a short summary of the implications and key principles for scope and implementation associated with each of the scenarios reviewed in the business case.

Scope

The financial scenarios presented in the business are based on two different approaches to scope. The inclusion of back office or support services only, in scenarios 1 and 3, and the inclusion of all services within scope for potential joint working in scenarios 2 and 4.

- | | | |
|---------------|--------------------------|-----------------------------------|
| • Scenario 1: | Shared services approach | support services/back office only |
| • Scenario 2: | Shared services approach | all services in scope |
| • Scenario 3: | Confederation approach | support services/back office only |
| • Scenario 4: | Confederation approach | all services in scope |

Clearly greater financial savings can be accessed if all services are considered within scope (within either a traditional shared service or a confederation approach). However it must be noted that putting all services within potential scope is not a decision to undertake any form of joint working in all services. Rather it provides an opportunity to consider potential for collaboration in any service area with any decisions to progress subject to a further business case for consideration by Members.

Implementation

The following bullet points outline key requirements/considerations in terms of implementation and give potential timelines:

- If Members wish to pursue a confederation approach public consultation will be required and a full and final business case developed to reflect any issues emerging from this consultation.
- If consultation is required it will take place between the councils' meetings in December and the end of January 2015.
- If Members receive a full and final business case it will be at the councils' meetings in February 2015.
- If Members decide to pursue a confederation in February 2015 it has been recommended that any change is implemented on an incremental basis.
- If Members wish to pursue the confederation approach it has been recommended that business cases are brought forward for support/back office services first. This is due to the fact that there is a well-developed track record of joint working and alternative service delivery models in these areas with opportunities to learn from best practice and that these services are not front facing and therefore change has a lower impact on local residents/service users.
- All decisions to undertake collaborative working in any service area will be made by Members on a service by service basis with service specific business cases to be developed.

- Members will take the final decision on how services will be delivered. If it is decided that some form of alternative delivery model (e.g. a local authority owned company) is used it has been recommended by our legal and financial advisors (Trowers & Hamlins and KPMG) that to minimise risk services should be delivered in a joint/shared service environment before being spun out into an alternative operating model. This decision to spin out could also be subject to further Member review via a business case. A set of criteria will be developed which will ensure that no joint/shared service is spun out before it is ready.

Appendix G

Glossary

Term	Meaning
Alternative Service Delivery Vehicle / Model ADV/ADS	A term used to describe a council service that is delivered by setting up a different type of structure or organisation. Examples include setting up a council owned company to run a service or outsourcing the service to a different provider (who may be a private sector contractor or another council). The term covers many different ways of delivering services such as Trusts (for example Leisure Trusts), employee mutuals and arm's length organisations.
Business Case	A document which outlines the costs, savings and benefits of a proposal. Proposals may include sharing services, buying a new piece of ICT equipment or a major business system or process change. Members base their decisions on the way forward on this document.
Business Plan	A plan to develop an organisation, service or business area. Includes priorities, objectives and performance targets. All services should have some form of annual service or business plan mapping out targets for the coming year. For services that have just implemented joint working the business plan should map out new targets, improvement priorities and how business processes will be harmonised.
Collaboration	Two or more parties working together to undertake a project, complete a task and achieve shared goals. Collaboration can be short term, for the duration of a specific project or longer term such as two councils jointly letting a major contract, sharing a management team or a single post.
Confederation	A long term partnership between a group of councils (or other bodies) to work together with the aim of ensuring local council services are delivered as cost effectively as possible. Councils in the Confederation remain independent and sovereign but can opt to participate in joint working; they may share senior officers or jointly commission a service.
Commission	To set out a service that the council requires and decide how that service will be provided. For example agreeing that the council needs a waste collection service, deciding how that waste will be collected (weekly/daily/boxes/bins) and then looking at options for the best way to deliver that service, for example in house or contracted out.
Co-ordinating Entity/Company	A body that has been authorised by the Councils to source and manage the delivery of services that the councils which to collaborate on. This entity could be established in a number of ways including being set up as an arm's length company or as a council committee.

Term	Meaning
Culture	Often described as ‘the way we do things here’ organisational culture is the term used to describe normal and expected behaviours, values, attitudes and practices within a team or organisation. Transformation or change programmes usually aim to disrupt, amend or set out new values. An example of this could be a new focus on the customer or shifting to a mindset that is focused on quality or reducing cost.
Democratic Accountability	Councils doing things in response to what residents want and being subject to an election as judgement on their performance to continue in their role.
Feasibility Study	An assessment of the practicality of a proposed plan or method, for example a short review exploring whether joint working in a specific service area is possible.
Governance	<p>The system of rules, practices, authorisations and processes by which the council is directed and controlled.</p> <p>Governance is also used in relation to programmes and projects and again means the rules by which the project is delivered.</p> <p>The rules, practices and processes we establish to run the councils or major projects must be compliant with the law.</p>
Harmonisation	<p>Adjustment of differences and inconsistencies to make them uniform or mutually compatible. Often used in relation to ICT for example ‘harmonising business systems’ which means partner organisations moving towards using the same software. By using the same software and business processes we can save money initially by buying the software or system as a group and sharing training and implementation costs. Further cost savings can be achieved by having the same processes for dealing with tasks e.g. applications.</p> <p>Harmonisation can also refer to more general working practices, processes and terms and conditions. For example when councils move towards joint working issues such as different working hours or flexi polices have to be considered.</p>
Incentivising	To provide an organisation, team or individual with a good reason for wanting to do something. For example performance related pay, discounts for prompt payment.
Innovation	A new idea to significantly improve a service or offer a new service or product. Innovation includes ideas generation AND the process by which that idea is implemented.
JASG	Joint Arrangements Steering Group. A working group comprised of five Councillors from each partner Council who shape the direction for joint working. The group meets approximately six times a year, rotates location and is chaired by one of the council leaders. The group is not a formal decision making body but reviews business cases and opportunities for joint working and makes recommendations to the Councils for consideration.
Options appraisal	A review of the different options available and a consideration of the pros and cons of the different options.

Term	Meaning
Outsourcing	The contracting out of a service to a third-party. For example paying a company to collect waste on behalf of the council.
Procurement	The process of obtaining or buying products, goods or services.
Public Sector Mutuels	'Public Service Mutuels' are organisations that have left the public sector but continue delivering public services. They are usually employee and service user-led.
SLA	A Service Level Agreement is part of a service contract where the service provided is formally defined so that the client knows what they will receive and the service knows the standard at which they must work.
Sovereignty	Retained authority and independence or power. Important when councils are working together. Each council retains power over its policies, budgets and strategies and can choose to collaborate with another council to deliver its services.
Spin-out	If a service is 'spun-out' it becomes an independent and different type of organisation. It may have a contract with the council but is also allowed to have contracts with other councils and provide services to other organisations. The council could retain a share in a spun out service.
TCA	Transformation Challenge Award – funding from central government to support transformation projects. As three councils we were successful in receiving funding (£366k) to establish our transformation programme in 2013.
Teckal	A legal position that allows a company owned and controlled by the council (or a group of councils) to sell its services to those councils without being subject to tender.
Tender	Part of the procurement process where the council(s) specify a service or product that they would like to buy and invite bids from providers. The buyer evaluates the bids and awards a contract taking into account price and quality.
TJWG	Transformation Joint Working Group. The board for the three way Transformation Programme, made up of two Executive/Cabinet Members from each of the three Councils. The group does not make formal decisions on behalf of the councils but ensures that all the work undertaken by the Transformation Team is in line with Member expectations.
Transformation	A significant change to the way an organisation conducts all or part of its business.
TUPE	Stands for Transfer of Undertakings (Protection of Employment) Regulations, which guarantee employees' terms and conditions during a transfer of ownership.

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Agenda Item 6

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