

Executive

Cherwell/South Northamptonshire Building Control Shared Service Proposals

6 December 2010

Report of Head of Building Control and Engineering Services

PURPOSE OF REPORT

To consider whether it is appropriate and beneficial to Cherwell and South Northamptonshire Councils to merge their Building Control services into a jointly managed operation.

This report is public

Recommendations

The Executive is recommended:

- (1) Subject to the endorsement of the Cabinet of South Northamptonshire Council who are concurrently considering this report, to agree in principle to implementing joint management arrangements for the Building Control services of Cherwell and South Northamptonshire.
- (2) To instruct the Head of Building Control and Engineering Services, and Head of People and Improvement to carry out the recruitment of the joint Building Control Manager and Team Leaders for each of the Councils as set out in this report and its appendices.

Executive Summary

Introduction

- 1.1 The joint management arrangements proposed for the Building Control services of the two Authorities are not dependent on those being considered for their joint corporate management. The proposals set out in this report are viable without such corporate arrangements, and equally if such corporate arrangements are put in place the two Building Control services could continue to exist as entirely separate operations.
- 1.2 The work of a Local Authority Building Control (LABC) service comprises two elements. Firstly, it receives and handles applications under the Building Regulations. This accounts for typically 65% to 75% of a LABC's workload. In addition LABC's are tasked with various administrative duties such as the registration and collation of development information and they also have to accept applications which are exempt from building control fees, mainly adaptations for the disabled.

- 1.3 Other peripheral services are also often housed in a LABC environment. For example, in Cherwell there is the role of Access Officer which provides advice on accessibility within the built environment. In South Northamptonshire there is the Council's service which names new streets and assigns addresses to new properties.
- 1.4 For the past 20 years or so LABC's have had to compete with private sector "Approved Inspectors" who can receive Building Regulation applications, and approve these and inspect the resultant works as if they were in the public sector. Approved Inspectors charge their customers for this work as do Local Authorities. Each Local Authority sets a scheme of fees and charges which are in direct competition to those set by Approved Inspectors.
- 1.5 This competition is increasingly putting LABC's at risk and in order to meet the challenge many now have joint management arrangements or have merged completely. This has given those LABC's increased resilience and efficiency and has allowed them to become much more commercially focused than they would otherwise have been through the development of marketing skills and strategies.

Proposals

- 1.6 It is proposed that the Building Control services of Cherwell and South Northamptonshire are brought together under single management. With effect from 1 April 2011 there would be a team of practitioners in each Authority lead by Team Leaders reporting to a joint Manager.
- 1.7 The Building Control Manager and two Team Leader posts will be new positions for which interviews would be held over the winter. The Head of People and Improvement has identified four incumbent officers, two in each Authority, who would be ring fenced to apply for these three new positions.
- 1.8 The Building Control Manager would report to a joint Service Head or two Service Heads if the joint corporate management proposal does not proceed. The Building Control Manager's remit would not only be to manage the shared service on a day to day basis but also, and importantly, to develop the shared service into an organisation that is strong enough to resist increasing market pressures in a way that the services cannot do individually.
- 1.9 Although it is not proposed that on 1 April 2011 there will be a single team resourcing both Districts, the shared service will create the opportunity for this to evolve organically and under the leadership of the new Manager. When appointed he will be charged with developing a vision whereby this could occur and in an appropriate timescale and if circumstances warrant.
- 1.10 The paper and appendices attached to this report provide the background to this proposal.
- 1.11 Appendix 1 shows that there are strong business reasons for the shared service joint venture as it would significantly enhance the ability of both Building Control services to face future pressures. The financial case, particularly for Cherwell, is less compelling and in the short term, benefits occurring in this regard only in the medium to long term. It is considered that this "spend to save" policy is the only one that will assure a long term future for both Authority's Building Control services.

- 1.12 Appendix 2 shows the proposed staff structure most appropriate to the shared service, and the reasons for it. It also details the measures that will have to be taken to achieve this staff structure.
- 1.13 Appendix 3 sets out how governance would be applied to the new shared service. A Management Board comprising Members and Senior Officers of both Authorities have been considered but on balance Cherwell's Democratic Services Manager came to the clear view that management and reporting through a conventional officer hierarchy is all that is needed in this case.

Conclusion

- 1.14 The shared service first started to be investigated some 6 months ago since when the appendices to this report have been prepared and agreed with South Northamptonshire. The South Northamptonshire Cabinet will receive its version of this report together with all its appendices at the same time as Cherwell. The initiative cannot proceed unless endorsed by both our Executive and their Cabinet.

Background Information

- 2.1 A background paper has been prepared explaining the detailed financial and non-financial aspects of the shared service proposal. These have been agreed by Cherwell's Portfolio Holder and by South Northamptonshire. The paper goes into specific detail on the business case for forming a shared service, the governance arrangements under which it will operate, and the proposed staffing implications and structure of the shared service.

Key Issues for Consideration/Reasons for Decision and Options

- 3.1 The key reasons for proposing this venture are that it will give both Cherwell and South Northamptonshire Building Control Services a more assured future and over a relatively short period of time the revenue costs borne by both Authorities to fund the non fee element of building control work will decrease.
- 3.2 This is an imperative more for South Northamptonshire than Cherwell at present as South Northamptonshire have suffered more in recent times as a result of competitive forces. However, even though Cherwell has held its own until now it is unrealistic to think that the competitive pressures will not increase. As such alliances are formed in and around Oxfordshire and Northamptonshire it is appropriate that this joint venture should not be delayed.
- 3.3 The alternative is that both Cherwell and South Northamptonshire will continue to stand alone in this service for as long as can be sustained. That will leave it vulnerable to becoming a third or fourth partner in an already formed alliance, or to its becoming only a Building Control Authority of last resort, picking up only non fee earning work or work which the private sector do not want.
- 3.4 The benefits that this shared service will bring to both Authorities are:
- It will increase the resilience and flexibility of both Authorities to respond to increasing demands and competitive pressures on its Building Control services.
 - It will place in the newly created post of Building Control Manager a clear responsibility to develop the shared service through strong marketing and other strategies so that competition can be resisted and market share maintained or even increased.
 - It will allow direct comparisons and exchanges of management and working practices across both Authorities from which can be selected the best.
 - With the flexibility that will come about, it will enable a single pool of technical knowledge and excellence including specialism's which can be shared across the two Authorities and marketed to other LABCs or LABC groupings.
 - It will facilitate the prospect of a better resourced long term business plan and succession strategy.
- 3.5 There will be immediate financial benefits accruing in Cherwell. Because South Northamptonshire would be entering the shared service from a worse financial position they would be seeing such benefits far earlier in the process. Cherwell would have to be prepared to stand still in this regard for two-three years until South Northamptonshire caught up before realising its financial benefits further down the line.

The following options have been identified. The approach in the recommendations is believed to be the best way forward

Option One Adopt the shared service approach contained and recommended in this report.

Option Two Not to form a shared service but for each Building Control service to continue to operate entirely separately. The risk of this do-nothing approach is that each service would continue to struggle in the face of increasing private sector competition, losing flexibility and resilience, and perhaps unable to recruit replacement staff effectively. This would hasten a decline to each service becoming one of last resort and without the ability to contribute effectively to other relevant services of both Councils. Cherwell would probably have to seek shared service elsewhere where it might have to become the third or fourth partner in an already formed and established alliance,

Option Three To agree to a joint venture in principle but to delay bringing it about. There is a strong prognosis that if conditions change for the two services they will worsen. The reasoning behind a shared service would be less compelling and the net benefits may be lost if a decision to proceed is delayed.

Consultations

Financial: The financial implications are detailed in full in the business case background paper in Section 5 and within Appendix 4 and 5.

For Cherwell this proposal is not being recommended on financial grounds but should be seen as an investment in the service in order for it to develop, grow and make it more resilient following a management departure.

The additional costs can be offset against the building control reserve corporate change reserve. The financial model shows an improved position for Cherwell financially and although revenue is expected to increase this has not been built in to the financial model. The one off implementation costs will be funded through the corporate change reserve and using all scenarios payback will be within 1 year.

Comments checked by Karen Curtin, Head of Finance, 01295 221551

Legal: There are routine legal implications arising from this proposal in respect of joint working, cross border issues and professional indemnity. However, the Head of Legal and Democratic Services is satisfied that these issues pose no practical or legal impediments to the proposal. There are very many such joint arrangements that operate

up and down the Country from which advice can be taken if needed.

Comments checked by Nigel Bell, Solicitor 01295 221687

Risk Management:

Not forming a shared service will in time put Cherwell's Building Control Service at greater risk of competition from the private sector and its long term viability would thus be questionable. The business and operating model suggested in this report is already tried and tested at many Authorities in the Country. The main residual risk is that of Cherwell and South Northamptonshire not being able to operate together due to irreconcilable differences in cultures and priorities. However, a management structure has been designed to mitigate this as much as possible.

Comments checked by Rosemary Watts, Risk Management and Insurance Officer 01295 221566

Efficiency Savings

Clear efficiency savings to both Cherwell and South Northamptonshire are identified in the Business Case and detailed in Appendix 4 and section 5.

Comments checked by Karen Curtin, Head of Finance, 01295 221551

Wards Affected

All wards.

Corporate Plan Themes

A District of Opportunity
A Value for Money District

Executive Portfolio

Councillor Michael Gibbard
Portfolio Holder for Planning and Housing

Document Information

Appendix No	Title
Appendix 1	Cherwell and South Northamptonshire District Councils – Business Case for a Shared Building Control Service
Appendix 2	Service Performance Data
Appendix 3	Existing Costs 2010/11
Appendix 4	Projected Costs 2011/12
Appendix 5	Implementation Costs
Appendix 6	Proposed Staffing Structure
Background Papers	
None	
Report Author	Tony Brummell, Head of Building Control and Engineering Services
Contact Information	01295 221524 tony.brummell@Cherwell-dc.gov.uk

**CHERWELL AND SOUTH NORTHAMPTONSHIRE DISTRICT COUNCILS:
BUSINESS CASE FOR A SHARED BUILDING CONTROL SERVICE**

1.0 Executive Summary

- 1.1 The two Council's Building Control services face serious issues that affect their viability, in terms of finances, resilience and ensuring a level of resourcing that will continue to deliver the Councils' priorities at an affordable cost.
- 1.2 The cost profile of the 2 Councils is very different - Cherwell District Council income is twice that of South Northamptonshire, direct costs are lower as a % of income and support costs charged to the building control service are also lower. On the basis that Cherwell District Council has taken an annual management saving of ~ £20,000 in 2010/11 and has a building control reserve of approx £50,000 it is proposing to invest this in order to develop a shared service with South Northamptonshire.
- 1.3 The output being a competitive, resilient, cost effective service, reduction in costs to South Northamptonshire with effect from April 2011 and a commitment that Cherwell District Council position within 3 years should be on a par with 2010/11 projection.
- 1.4 The business case in this paper proposes and assumes a shared service commences on 1 April 2011. It considers the projected individual financial positions of each service during 2010/11 and the combined positions at the end of 2011/12 and 2012/13, taking account of the opportunities for saving and efficiencies. The assumptions are financially conservative – it may be possible, and would be intended where feasible, cost-effective and appropriate – to make the savings sooner. It is envisaged that the proposals will reduce the overall costs to the two Councils by a minimum of £120,000 by the end of 2012/13, create a resilient building control service which will be competitive in the open market therefore potentially leading to additional income generation
- 1.5 The Councils are required to provide certain statutory building control functions (such as enforcement, the collection of data and statistics for transmission to DCLG, and giving technical advice to other Council services such as development control and conservation) which cannot be charged. But they may also provide other services (related to Building Regulation applications) on a commercial basis. The latter are required to break even, but (especially in recent years for South Northamptonshire) make substantial losses, and are under pressure from aggressive private sector competition.
- 1.6 Addressing this issue requires a serious adjustment to the services' cost base, in parallel with re-positioning in marketing terms to maintain and re-build the client base. These issues were evident, to differing degrees, in both Councils a couple of years ago, but the recession has exacerbated them significantly. The two Councils therefore need to address these issues in any event. But the financial pressure that both now face means that urgent action cannot be delayed.
- 1.7 However, if the two Councils sought to reduce costs independently, there is a real risk that the remaining resource would not be sufficient to contribute to an integrated approach to development services. It would also become more difficult to maintain existing market share, thus triggering a business 'spiral of decline' in the face of private sector competition. Sharing resource and expertise should reduce costs in a way that enables service resilience, marketability and efficiency improvements. This will lead to better long-term prospects for recruitment and retention, and better ability to cope with future financial pressures as a result of greater flexibility.

- 1.8 This paper therefore sets out a business case for developing a shared building control service. The aim is to ensure a financially viable (not loss-making) commercial part of the service, by facilitating a single, more realistically resourced team of technical excellence which will have the resilience and flexibility to work to a more appropriate long-term business plan and marketing/charging strategy.
- 1.9 The business case envisages a single service manager supported by two teams, one for each district, but which are capable of supporting each other across the whole area. It assumes a rapid but controlled evolution from the two current independent services to one that is jointly managed but with two separate teams, leading to one that is still jointly managed and team-based but where the teams routinely cover for each other and share specialist and non-specialist resource. It envisages early reduction in staffing of one post, with at least one further post being lost as soon as practicable thereafter (the timing to depend on further consideration of the practical transitional arrangements by the new service manager).
- 1.10 This business case is separate from the wider discussions between the two Councils about shared senior management arrangements. The issues underlying it need to be addressed by both Councils in any event, and the opportunity for a joint service was identified and initial work to investigate its potential was in hand some time before the wider opportunity was identified. This proposal could therefore proceed irrespective of any decision to adopt shared senior management arrangements. However, some details of the proposal would need to be different dependent on the outcome of those wider discussions (reporting lines to senior management); and proposals in relation to staff terms and conditions have been deliberately framed to ensure nothing is done in implementing this proposal which is prejudicial to the wider opportunity.

2.0 Background: How Local Authority Building Control is Funded

- 2.1 Local Authority Building Control (LABC) operations receive funding from two sources. When Building Regulation applications are received from builders or members of the public they are accompanied by a fee. Typically, this fee earning work accounts for about 65% to 75% of the total workload of a LABC operation. The remaining work comprises other statutory functions such as enforcement, the collection of data and statistics for transmission to DCLG, and giving technical advice to other Council services such as development control and conservation.
- 2.2 When performing the fee earning element of its work, each LABC Service is in competition with the private sector. Licensed "Approved Inspectors" have set themselves up as private enterprises to bid for and receive applications under the Building Regulations and deal with them in all respects as if they were the LABC.
- 2.3 Each LABC has to have set a schedule of fees and charges through which it derives the external income which it wins. In Cherwell and South Northamptonshire these fees and charges are reviewed annually. Inevitably, the fees and charges currently set by Cherwell and South Northamptonshire differ. It will be the intention of the shared service to converge these at the earliest possible opportunity, being mindful also that retaining competitiveness is paramount at all times.
- 2.4 There is clearly a balance between maximising external income and keeping the scale of fees and charges sufficiently competitive to attract the required workload. Each LABC is notionally tasked by DCLG to break even in this regard. But whereas in the past the break even requirement may have been of less concern for a Council than delivering its priorities (in other words, councils might have been willing to accept a loss for non-financial reasons), in the current financial climate that position is now untenable. This implies that charging aims and the supporting fee structures need to change, within the framework imposed by the market context.

- 2.5 The cost of the statutory operations not funded by external income is what is termed in this report “Internal Regulatory Supplement” or IRS. The IRS is the cost to the Council (i.e. the draw on its revenue resources) of providing an effective regulatory Building Control service. This cost to the Council of the Building Control service may then be increased if it incurs a loss on the discretionary aspects of the service (i.e. when the costs of the chargeable parts of the service exceed its income) or reduced if a surplus is made.

3.0 Key Issues facing the services

(i) Cherwell and South Northamptonshire Recent Financial Performance

- 3.1 For the work carried out in direct competition with the private sector over the last two complete years Cherwell had posted deficits of £32,000 and £28,000, representing some 9% and 8% of turnover. This followed several years of similar surpluses.
- 3.2 For South Northamptonshire the deficits over the same period have been £135,000 and £166,000, representing of 67.5% and 88% of turnover. These figures may be comparatively high because of the Council’s allocation of corporate and departmental overheads. These have been recently reviewed and will be considerably less in 2010/11. However, the point remains that there has been a substantial deficit of costs over income which reflects high ‘unit costs’ when measured in terms of case-work productivity. South Northamptonshire’s deficit has been commented upon by the Audit Commission, which has made a specific reference about the statutory requirements to break even not being met, and advised that action should be taken to address this.
- 3.3 South Northamptonshire clearly needs to take steps to address this deficit. It is questionable whether this can be achieved without a step change in the way its Building Control service is operated. To avoid a downward spiral where increasing fees would inevitably lead to a reducing market share, the only alternative option to a shared service would seem to be a positive action not to seek any external work and thus become simply a Building Control service of last resort.
- 3.4 Likewise, Cherwell is not in a position where continued surpluses in its Building Control trading account can be taken for granted. It too is in need of an innovative stimulus to ensure its long term future.

(ii) Resilience

- 3.5 The Building Control shared service has been promoted not only on the basis of the necessity for both Councils to make savings in order to address their current market positions (and the levels of deficit being incurred on their fee earning accounts) but also because making the essential savings together will provide a stronger overall basis for continuing with commercial services. Working together will provide more stability and resilience to a service which is coming under increasing threat from private sector competition. It seems clear that service delivery, marketability and efficiency improvements should result from sharing expertise and increasing resilience. These should also result in better prospects for recruitment and retention of professional staff, and through greater flexibility the service should be better able to cope with future pressures. An important consideration for Cherwell in this context is the need to address an imminent management ‘gap’ in the service.

(iii) Delivering the Objectives and Priorities of both Councils

- 3.6 A key issue of the shared arrangements is having certainty that a shared service would deliver the objectives and priorities of both Councils. An important area, from both Councils' viewpoints, is ensuring that sharing does not prejudice the objective of integrating Building Control closely with other development services such as development control and planning enforcement. This was an important aspect of South Northamptonshire's "organisation design review". At a headline level South Northamptonshire and Cherwell organisational structures for the services are relatively similar, so on the face of it the two Councils' overall priorities are aligned.
- 3.7 It is also essential to ensure that the two Councils have a shared vision at all levels on which to deliver future Building Control services. Key issues in ensuring a unified approach are:
- Service standards e.g. speed and timeliness of response, level of detail and frequency of advice given;
 - The nature and detail, and level of pro-activity, in giving advice to builders etc. to promote accessible and sustainable development approaches to construction;
 - The level of involvement of Building Control (at planning application and pre-application advice stages) in development control, to ensure problem-free construction as a result of planning decisions and to promote accessible and sustainable development approaches to building design; and
 - The role of Building Control in supporting planning enforcement (as Building Control officers often see new buildings at the early stages of construction they are able to see emerging problems from a planning viewpoint and by close liaison could help prevent those becoming serious enforcement issues).
- 3.8 All these issues need some further work to ensure the professional staff have a similar view about how they would address them, and are confident they have the necessary skills and experience to cover such work across both districts. Understanding clearly the perspectives of both Councils, and their professional staff, is essential if a correct choice is to be made about a future approach.

4.0 The Business Case Proposal

(i) Overview

- 4.1 This Business Case is predicated on the organogram shown at Appendix 1A, which may be compared to the existing organograms for the two Councils at Appendices 1B and 1C. It assumes a joint Building Control Manager with strong business management and business development skills, as well as extensive technical skills and experience in Building Control, who will be responsible for two teams, one in each Council.

- 4.2 Initially the proposal to merge the service will concentrate on bringing the teams together in as straightforward an approach as possible. The proposed structure means that there will be a Building Control presence in each Council office, a continuing presence in each office is considered essential as the service has strong links to development control, and its customers, who would expect a local presence, are often also concurrently those of other services of each Council. In turn, this will allow the main staff structure in each Council to be retained. Each service receives a combined administration function (shared with other Council services), so the business case has deliberately not looked at the sharing of administration functions at this stage. This, however, could follow in due course.
- 4.3 The Business Case assumes a rapid but controlled evolution for the two independent services that exist at present, to one jointly managed but with two separate teams, and then to one still jointly managed and team-based but where the teams routinely cover for each other and where there is a sharing of specialist and non-specialist resource. At this point the administrative boundary between Cherwell and South Northamptonshire becomes largely irrelevant.
- 4.4 With this evolution, but inevitably at a less rapid pace, will come a convergence of working practices and business culture and in the personal terms and conditions of those involved in the service.
- 4.5 However, crucially, there will need to be a very early convergence of the fees and charges for Building Control applications. DCLG directed all Local Authority Building Control bodies to review and publish by 1 October 2010 new fee scales to reflect the outcome of their recent consultation on adopting a more risk-based approach to charging. From 1 October 2010 Cherwell and South Northamptonshire have set different fee scales based on their differing service costs. However and importantly, the methodology behind each scale has been the same, and with some minor recalculation it will therefore be possible to publish a unified scale on 1 April 2011 or very soon after. That will be the intention of the joint service.
- 4.6 The Business Case is therefore based on a single set of fees applicable equally in South Northamptonshire and in Cherwell.

(ii) Governance and Reporting Lines

- 4.7 The joint Building Control Manager will report to Head of Service level. In the event that a shared senior management approach is adopted by the two Councils, he would report to whichever Head of Service is deemed to be the appropriate manager for the service under the new arrangements (which may become clearer in early 2011). In the event that a shared senior management approach is not adopted, he would report to the relevant Head of Service of each Council (there would be a dual reporting line) and the two Heads of Service would be jointly responsible to their Directors and Portfolio Holders for the service on behalf of their respective Councils.
- 4.8 However, if the shared senior management approach did not proceed, it will be appropriate to consider the need for a specific formal partnership agreement which covers issues such as recruitment, termination, dispute resolution, indemnities, budget setting and suchlike. Those details have not been considered at this stage, to avoid wasted work since (at the time of drafting this paper) it seems likely to be unnecessary.

- 4.9 In either case, the relationship of Building Control Manager to Head(s) of Service is a purely operational one. In the view of both Councils' Monitoring Officers, therefore, it does not require Member involvement in the governance arrangements. It would be for each Council to decide on its own Member-level monitoring arrangements for assessing the performance and effectiveness of the joint arrangements.

(ii) Work Processes

- 4.10 There are inevitably current differences in the working practices and cultures of Cherwell and South Northamptonshire which are reflected in their respective Building Control services. These differences are also inevitably reflected in the costs of the respective services and emerge at two levels.
- 4.11 Firstly, the day-to-day routines of processing applications and dealing with customers and their queries are different in each Authority. While the beginning and end points are the same the means of getting there varies. That is not to say that one Authority is wrong and the other right. Indeed, the most effective means probably lies somewhere in between the two. It will be for the Building Control Manager to assess the processes of each office, select the best practices from each and then blend them into a single transferable process.
- 4.12 Similarly there are differences in the way customer care is approached in each Authority. Building Control is a business which is reliant not only on external income but on balancing the books. It will be for the Building Control Manager to converge the cultures of each organisation so that a sustainable balance of customer care and profitability can be achieved.
- 4.13 The internal technical support provided by Cherwell and South Northamptonshire also differs at present. It is logical and sensible that under a shared service and unified management these should in time be brought into alignment. However, that will be a matter for a future exercise and it is not considered here in any detail.
- 4.14 South Northamptonshire's Building Control service includes its service to name streets and number properties on new developments, and to provide new and maintain existing street nameplates throughout its district. This service fits well beside Building Control and therefore Cherwell will realign its address management service similarly.
- 4.15 Cherwell is currently developing the role of Access Officer within its Building Control service. Through this it will discharge Cherwell's responsibilities under the equalities legislation that relates to the built environment, which can be reinforced by South Northamptonshire's existing expertise in this area. Other areas of mutual aid will be developed as part of the shared service.

(iii) Convergence of Cultures, Customer Care and Business Approach

- 4.16 A successful shared service will be measured not only on its financial performance but also on its ability to progress as one integrated service rather than two disparate ones, which offer a high but affordable level of customer care. Such a vision requires the adoption of a single culture and set of standards.
- 4.17 Appendix 2 shows the key data taken from 2008/09 and 2009/10. This provides a comparison between each Council's operation, from which the following are evident.
- The value of the average commission won by Cherwell is some 34% higher than by South Northamptonshire.

- The cost of processing each commission is 24% higher in South Northamptonshire than in Cherwell. This is due in large part to the fact that South Northamptonshire's Building Control Officers make 14% more site visits to each application site than their Cherwell counterparts.
- Each Cherwell Surveyor deals with 22% more applications than his South Northamptonshire counterpart.
- Cherwell employs an external structural engineer (amounting to 0.6 FTE) to check relevant submissions whereas South Northamptonshire do not.
- Market share in Cherwell is some 10%-15% higher than in South Northamptonshire.
- Satisfaction ratings in South Northamptonshire are marginally higher than in Cherwell (although up to date ratings for SNC are not available)

- 4.18 The conclusion of these headline statistics is that despite each South Northamptonshire commission being of lower value than Cherwell's, South Northamptonshire are putting more resource into each. South Northamptonshire's clients clearly appreciate this high level of service but whether they will continue to do so, and be prepared to pay higher fees to reflect the true costs of a high quality service at a time of increasing financial pressure for them in an increasingly competitive market, is questionable.
- 4.19 Private sector competition is very active in the South Northamptonshire area, which probably accounts for their lower market share. However, as markets and margins become tighter it would be unrealistic to think that such inroads in Cherwell will not be made sooner or later unless action is taken to rebut them. There is already evidence of this in Cherwell's inability to secure the Building Control commission for the prestigious Sainsbury's development in Bicester. Winning that would have earned fees approaching £30,000, close to 10% of Cherwell's annual income from applications.
- 4.20 The challenge facing a joint venture would be for both services to move to a more financially sustainable position. Clearly South Northamptonshire has further to go in this regard and it is not realistic to think that their journey would be with no compromise to their high customer care culture. For Cherwell, the marginal efficiencies brought about by a shared service would probably negate the need for such a step culture change.
- 4.21 The key question for South Northamptonshire in considering this proposal is therefore whether the Council and its customers are prepared to accept this compromise and reduction in service quality. The alternative would be the imposition of higher fees and/or a severe reduction in costs and therefore service quality in order to meet the DCLG's break even requirement, which would in turn inevitably lead to a reduction in its client base. The process would then become self-propagating.
- 4.22 For the South Northamptonshire service to be sustainable in isolation a balance would have to be struck. If the DCLG requirement of driving up fees is to be avoided, a severe reduction in costs and a probable reduction of service quality has to take place. At least under the scenario of a shared service, an element of control over the situation could be achieved with careful management and communication with South Northamptonshire's remaining clients.

5.0 Financial considerations

5.1 The existing financial positions of the Building Control services of each Council are shown in Appendix 3.

5.2 Appendix 4 shows the projected position as at 2011/12 split between the two Authorities.

5.3 The following assumptions are made throughout the financial modelling:

- There are no increases in individual salary costs (i.e. no index linked salary increases).
- The migration of the two existing organograms to a single streamlined one will entail a reduction in the salary of at least one member of staff and/or redundancies. The Business Cases shown in the appendices assume that any pay protection and redundancy payments are outside it.

5.4 In Appendix 4 it is assumed that:

- There is agreement that there is a 60%/40% split of both costs and income - 60% in favour of Cherwell and 40% in favour of South Northamptonshire.
- There is agreement that savings from the reduction in posts is split 60% in favour of Cherwell and 40% in favour of South Northamptonshire.
- The level of support costs is limited to £296,800 in 2011-12. SNC will charge a maximum of £145,000 to the unit and CDC £151,800. These costs will be capped at this amount for the next three years to provide certainty for the unit.
- The 10% premium for a building control manager is included and based on total costs.
- Although support costs are expected to reduce over the period due to medium term financial strategy of both authorities no consideration is built into the model for such further reductions.
- Income is expected to increase as a result of the shared service but for the purposes of the financial model – the 2010/11 projected income is used consistently across the years.
- No inflation adjustments are considered in the model.
- Consultancy costs remain at their present level, but it is appreciated that there is scope to reduce these and the Building Control Manager will be tasked to investigate this as soon as the shared service commences.
- The Internal Regulatory Supplement is the budget incurred by both Authorities to meet the costs of the regulatory element of the Building Control service net of any surpluses or deficits made on the operation funded by external fee income.
- Cherwell District Council will use their existing building control reserve to fund their additional costs over the period with the aim of having an internal regulatory supplement which is equal to or less than the 2010/11 projection.

- 5.5 Naturally, if and when redundancies or staff retirements occur there should be a presumption that overheads will be shed proportionately.
- 5.6 The recruitment of the Building Control Manager and the two Principal Surveyors leading the teams in each Authority will leave an existing Principal or Team Leader without that role. There will then be a skills audit of the remaining personnel in the team and one post will be deleted no later than 1st July 2011 generating a saving across the 2 councils of £40,000 annually.
- 5.7 A further post will be deleted by March 2012 – generating a further reduction of £40,000 across the 2 councils.
- 5.8 The financial model assumes that a further reduction in direct costs is required to be actioned by March 2013 in order to reduce costs by a further £40,000.
- 5.9 In considering this planned timetable consideration has been given to continuing service delivery. Moreover, should market conditions improve to the point where the income/workload increases there is an opportunity to be flexible and review the staffing levels.
- 5.10 The range of redundancy/retirement costs on the basis of 3 deleted posts is between £54,042 and £83,040 with an average of £68,541. However, it should be noted that there is a significant risk that an adequate level of service delivery could not be maintained if three posts are deleted.
- 5.11 On the basis of the direct staff reductions and cumulative savings of £120,000 this would equate to a payback of between 0.45years and 0.69years. This is detailed in Appendix 5.
- 5.12 The range of redundancy/retirement costs on the basis of 2 deleted posts is between £41,658 and £69,100 with an average of £55,379.
- 5.13 If the building control service gains additional income as a result of its competitive position then the direct costs reduction could be compensated for by an increase in income of the same £40,000. If this is achieved then payback would improve to between 0.35yrs to 0.58 years.
- 5.14 All implementation costs will be split 50% to Cherwell, 50% to South Northamptonshire on the basis that Cherwell District Council is using a building control reserve to offset the additional costs it will bear in the initial years and on the basis that South Northamptonshire will generate savings from April 2011. It is proposed that both Councils will use an earmarked reserve to fund these payments.

Financial Effect on Cherwell

- 5.15 The primary reason for Cherwell progressing this project is to take advantage of the opportunity to make the service more competitive commercially and therefore to grow the business and to provide greater resilience for the service as a result previous management reductions.
- 5.16 Appendix 4 details the following investments required from Cherwell to progress this proposal:
- | | |
|---------|---------|
| 2011-12 | £56,498 |
| 2012-13 | £26,498 |
| 2013-14 | £2,498 |

- 5.17 Total costs over the next three years £85,494
- 5.18 These costs will be funded using earmarked reserves with up to £50,000 coming from the Building Control Reserve and the balance coming from the corporate change reserve.
- 5.19 However, it should be remembered that £20,000 per annum of management costs has already been taken from the base budget in 2010-11 and over the period 2011-12 to 2013-14 £60,000 will have been saved as a result of this previous budget reduction.
- 5.20 Therefore the net cost of this proposal over the three year period is £25,494.
- 5.21 If, as anticipated, the service does grow or the market picks up and income increase then 60% of that additional income, regardless of where it is generated will flow back to Cherwell.
- 5.22 There has been no account taken of this increase in income, as it is unknown at this stage, in the business case. A modest increase in demand or indeed fees could meet this shortfall but that cannot be relied on upon this stage.
- 5.23 For Cherwell, therefore, this proposal is not being recommended on financial grounds but should be seen as an investment in the service in order for it to develop, grow and make it more resilient following a management departure.

Financial Effect on South Northamptonshire

- 5.24 As well as the anticipated service benefits the financial benefits are attractive for South Northamptonshire and can be summarised as follows:

2011-12	£ (86,498)
2012-13	£ (106,498)
2013-14	£ (122,498)

- 5.25 On the face of it these are significant savings but as part of the discussions with Cherwell it has also been agreed that the level of recharge to the Building Control account will be reduced by approximately £55,000 and on the grounds that unless there are support reductions (and there will be some as a result of other budget proposals progressing) these will have to be charged elsewhere within the authority then these costs need to be netted off the savings stated above reducing each year by £55,000. The 'real' savings as a result of this proposal is therefore as follows:

2011-12	£ (31,498)
2012-13	£ (51,498)
2013-14	£ (67,498)

One-off costs

- 5.26 The one off costs are detailed in appendix 5 and range from £42,000 to £83,000.
- 5.27 It has also been agreed to share these implementation costs on a 50:50 basis between the two Councils. These will be funded using the Partnership Working Earmarked reserve at SNC and a Corporate Change Earmarked reserve at Cherwell.

6.0 Marketing and Retaining Market Share

- 6.1 The threat of losing fee income and market share to the private sector is an issue that has affected the South Northamptonshire service in recent years but will inevitably apply also to Cherwell. To date the response by both Councils to this has been largely passive, which is not untypical of the way many LABC operations have reacted.
- 6.2 It is, however, worth noting that in the experience of both Cherwell and South Northamptonshire the relationship between price, quality and market share is not straightforward.
- 6.3 Nevertheless, a joint service will provide an opportunity to avert any potential decline, and one of the responsibilities placed on the new Building Control Manager will be to design and implement a strategy to raise the profile of the service in the face of increasing competition, to both halt and indeed reverse the loss of business in the existing client sectors where the Councils' core business currently exists and also to secure new business.
- 6.4 The best tool for this will be the closeness of the shared service to the Development Control service of each Authority and therefore access to the weekly planning application (and pre-application enquiry) lists. This is one of the major reasons why it is important for the shared service to retain its presence within the planning environments of each Authority.
- 6.5 More generally, addressing private sector competition will require a focused approach to market development. A shared service will release some of the resource of the Building Control Manager to find innovative ways of marketing the joint service, perhaps by holding development forums with major clients, providing pre-application advice in liaison with Development Control colleagues, and generally meeting potential clients either to retain their allegiance to the public sector or wooing them back to it.

7.0 Conclusions

- 7.1 The financial models shown in Appendix 4 are achievable, being based on the current financial position of each Authority and with realistic year-on-year savings targets.
- 7.2 Appendix 4 shows these savings in comparative terms and vindicates the proposal to enter into this shared service. In summary it suggests that the two Councils will save a minimum of **£120,000** by the end of 2012/13 and that the commercial Building Control service will be resilient and complete. The overall positions for both authorities will have improved from 2010/11 projection and the building control service will be competitive, resilient and financially viable.
- 7.3 Appendix 6 (with Appendix 1A) sets out more detail on the proposed staffing structure, including the underlying rationale and related human resources issues
- 7.4 The key issues for South Northamptonshire to consider may be summarised as follows:
- It is doubtful whether the South Northamptonshire operation could exist independently in the medium to long-term without significant financial savings, unless the Council were to accept continued major deficits.
 - One option is for the Council to provide only a statutory level of service, and abandon any involvement in the discretionary commercial aspect of the current service.

- Assuming the Council wishes to maintain a full service, because of the benefits that provides to wider corporate objectives, achieving those savings would inevitably come at a cost to its current high customer care culture.
- The question for South Northamptonshire therefore comes down not to whether its Building Control service is prepared to make this compromise, but – if it is to survive in its present form – how it is prepared to make that compromise. This compromise will need to be made with or without Cherwell or any other partner.

7.5 There are three options here:

- Keep its Building Control Service independent of any others. This will involve a serious reduction in costs (staffing levels), and then attempting to deliver the best service possible within the resources made available. In reality, the result would be a service that is very stretched, has limited resilience and could rapidly trigger a business 'spiral of decline'.
- Re-open negotiations with other Northamptonshire neighbours. In this context, previous negotiations with one authority in the county concluded that there were serious differences in culture and working practices that a shared service approach was unlikely to be successful; and starting negotiations with another neighbour would take time to bring to fruition.
- Progress a shared service arrangement with Cherwell. The work done to develop this business case suggests that differences in working practice and cultures between South Northamptonshire and Cherwell do not seem to be so wide that with goodwill and effort from both sides they cannot be bridged in a reasonably short time.

7.6 The key issues for Cherwell to consider may be summarised as follows:

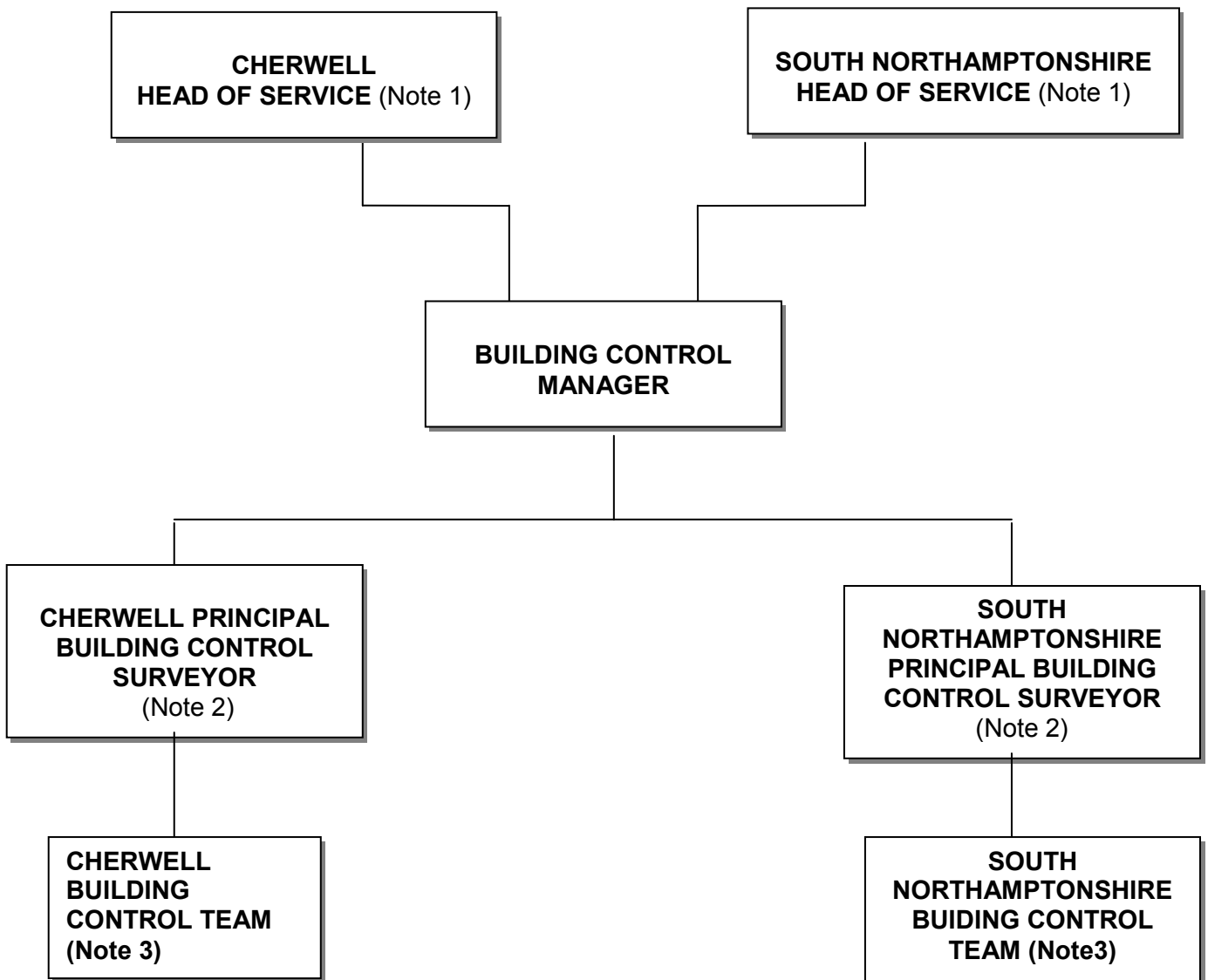
- Under increasing threat from a diminishing market and from growing private sector predators, Cherwell cannot afford to take a neutral position. Alliances have already been formed between West Oxfordshire and Cotswold, and South Oxfordshire and the Vale of White Horse Districts, and therefore its options have already become limited.
- On the basis that Cherwell District Council has taken an annual management saving of ~ £20,000 in 2010/11 and has a building control reserve of approx £50,000 it is proposing to invest this in order to develop a shared service with South Northamptonshire.

7.7 If it cannot form a shared service with South Northamptonshire it too has the following alternatives.

- The first is to keep its Building Control service independent of any others and prepare for a steady decline which will eventually result in its becoming a service of last resort having little resilience and no ambition.
- The second is to join an existing alliance as a third or fourth partner and therefore be constrained to the working culture and practices that have already developed within that partnership.

APPENDIX 1A

**CHERWELL/SOUTH NORTHAMPTONSHIRE BUILDING CONTROL SHARED
SERVICE:
PROPOSED STAFF STRUCTURE**

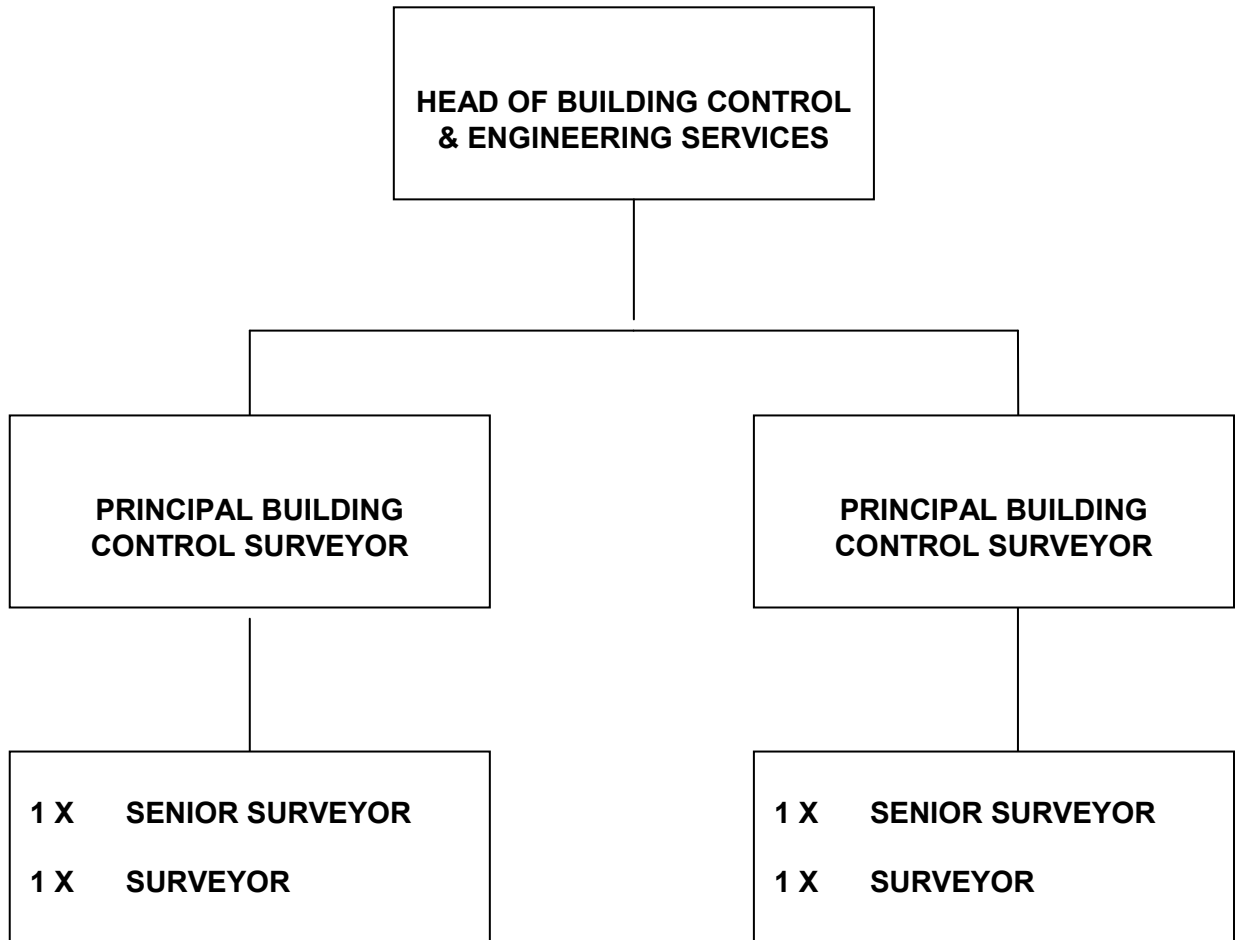


Notes:

1. Diagram assumes Building Control as a shared service if a wider shared senior management approach is not adopted by the two Councils. In the event that a shared senior management approach is adopted by the two Councils, he would report to whichever Head of Service is deemed to be the appropriate manager for the service under the new arrangements.
2. Job requirement to be that that work base location of Team Leaders is flexible, but likely arrangement is that, at outset, one team leader will be based in Cherwell's offices and one in South Northamptonshire's.
3. The number in each team will evolve as a result of the future quantum and distribution of work. The business case assumes a reduction in staff below Principal Building Control Surveyor level from 8 to 6 or 5 over time.

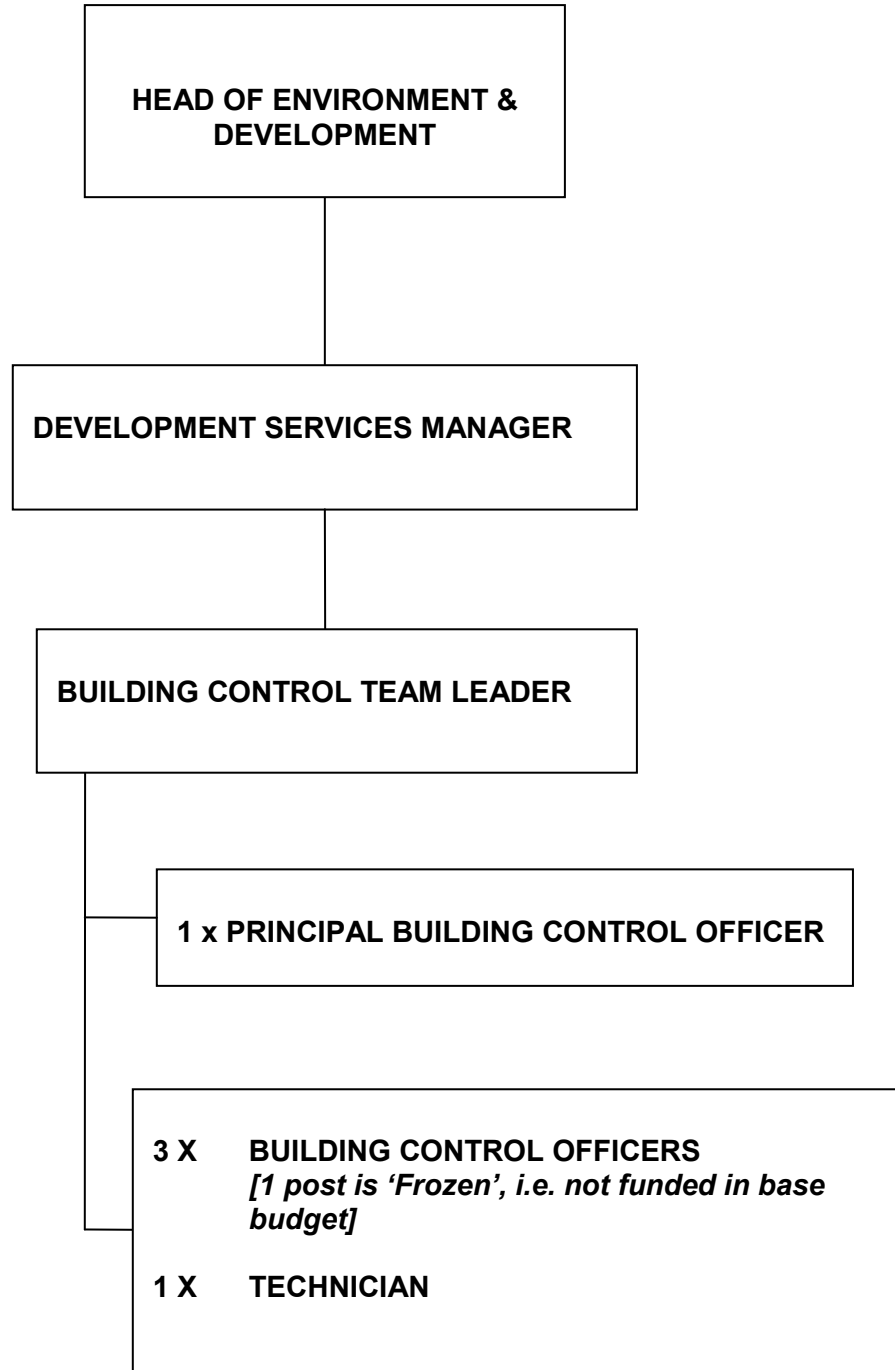
APPENDIX 1B

EXISTING CHERWELL STAFF STRUCTURE



APPENDIX 1C

EXISTING SOUTH NORTHAMPTONSHIRE STAFF STRUCTURE



APPENDIX 2

SERVICE PERFORMANCE DATA

2008/09 Actual				
		Cherwell	South Northamptonshire	Total
	Income/Expenditure	0.92	0.57	0.77
	Surplus (Deficit)	(35268)	(148159)	(183427)
	Income/App (FP+BN)	£449	£295	£383
	Cost/App (FP+BN)	£487	£514	£499
	Mileage/App (FP+BN)	37.0	40.8	38.6
	Mileage/BC Surveyor	5612	5520	5570
	Market Share (FP+BN/FP+BN+AI)	84.2%	74.4%	79.7%
	Site Inspections/APP (FP+BN)	6.51	6.96	6.70
	Apps (FP+BN)/BC Surveyor	152	135	144
	Satisfaction Rating	93%	95% *	94%
	Urban Pop/Total Pop	62%	27%	49%

2009/10 Actual				
		Cherwell	South Northamptonshire	Total
	Income/Expenditure	0.93	0.53	0.74
	Surplus (Deficit)	(28068)	(165395)	(193463)
	Income/App (FP+BN)	£378	£320	£370
	Cost/App (FP+BN)	£408	£600	£501
	Mileage/App (FP+BN)	36.3	45.0	41.3
	Mileage/BC Surveyor	5744	5319	5551
	Market Share (FP+BN/FP+BN+AI)	84.5%	69.2%	77.6%
	Site Inspections/APP (FP+BN)	5.63	6.85	6.35
	Apps (FP+BN)/BC Surveyor	158	118	135
	Satisfaction Rating	91%	95% *	93%
	Urban Pop/Total Pop	62%	27%	49%

FP = **Full Plans**
BN = **Building Notices**
AI = **Approved Inspectors**

* Note – SNC figure is 2005/06

APPENDIX 3

CHERWELL/SOUTH NORTHAMPTONSHIRE
BUILDING CONTROL JOINT VENTURE

EXISTING COSTS 2010/2011

	Existing Costs		
	CDC Costs 2010/11	SNDC costs 2010/11	Total 2010/11
Direct Costs			
Salary Costs	274,158	223,449	497,607
Discretionary Costs	17,178	21,620	38,798
Transport	17,515	17,000	34,515
Consultancy	37,110	1,000	38,110
	<hr/>	<hr/>	<hr/>
	345,961	263,069	609,030
Income			
External Fee Income	(410,000)	(226,465)	(636,465)
	(64,039)	36,604	(27,435)
Support Costs			
Accommodation	7,425	11,115	18,540
IT Support	28,323	39,204	67,527
Central Support	29,649	46,510	76,159
Departmental Support	86,414	67,302	153,716
Management	17,852	36,525	53,377
	<hr/>	<hr/>	<hr/>
	169,663	200,656	370,319
<hr/>			
Internal Regulatory Supplement	105,624	237,260	342,884
<hr/>			

**CHERWELL/SOUTH NORTHAMPTONSHIRE
BUILDING CONTROL JOINT VENTURE
PROJECTED COSTS 2011/2012**

	Projected Costs		
	CDC Costs 2011/12	SNC Costs 2011/12	Total 2011/12
Direct Costs			
Salary Costs	277,277	226,568	503,845
Discretionary Costs	17,178	21,620	38,798
Transport	17,515	17,000	34,515
Support Costs	151,811	145,034	296,845
Consultancy	37,110	1,000	38,110
Recharge to Development Control	0	(24,465)	(24,465)
	500,891	386,757	887,648
Income			
External Fee Income	(410,000)	(202,000)	(612,000)
	90,891	184,757	275,648
Internal Regulatory Supplement			
	90,891	184,757	275,648
Re-allocated on 60% / 40%	165,389	110,259	275,648
Increase/Decrease in costs	74,498	(74,498)	0
	CDC 60%	SNC 40%	Total 100%
Part year effect			
Saving (1) - Delete £40k post - no later than July 2011	(18,000)	(12,000)	(30,000)
Net Position of each Authority	56,498	(86,498)	(30,000)
Full year effect			
Saving (1) - Delete £40k post - no later than July 2011	(6,000)	(4,000)	(10,000)
Saving (2) - Deletion of 1 further post by March 2012	(24,000)	(16,000)	(40,000)
Net Position of each Authority	26,498	(106,498)	(80,000)
Saving (3) - Deletion of 1 further posts by March 2013	(24,000)	(16,000)	(40,000)

Net Position of each Authority	2,498	(122,498)	(120,000)
Amended Internal Regulatory Supplement as at March 2013	93,389	62,259	155,648

APPENDIX 5

CHERWELL/SOUTH NORTHAMPTONSHIRE BUILDING CONTROL JOINT VENTURE

IMPLEMENTATION COSTS

Option 1 - Redundancy Costs - 3 Posts

	Low	Average	High
Post 1	14,758	22,579	30,400
Post 2	12,384	13,162	13,940
Post 3	26,900	32,800	38,700
Total Redundancy Costs	54,042	68,541	83,040
Total Projected Savings	120,000	120,000	120,000
Payback Period in Years	0.45	0.57	0.69

Option 2 - Redundancy Costs - 2 Posts (assumed 2 most expensive)

	Low	Average	High
Post 1	14,758	22,579	30,400
Post 2	26,900	32,800	38,700
Total Redundancy Costs	41,658	55,379	69,100
Total Projected Savings & Income	120,000	120,000	120,000
Payback Period in Years	0.35	0.46	0.58

APPENDIX 6

PROPOSED STAFFING STRUCTURE, INCLUDING THE UNDERLYING RATIONALE AND RELATED HUMAN RESOURCES ISSUES

1.0	Introduction																																																
1.1	The proposed staff structure for the shared service is set out in Appendix 1A. The existing staff structures of Cherwell and South Northamptonshire Building Control teams below Head of Service are shown in Appendices 1B and 1C.																																																
1.2	The proposed structure will create three new posts at Manager and Team Leader levels. At this stage the structures below Team Leader level will not change in either Authority. However, it is envisaged that, following appointment of the management/supervision team, achieving success in joint working will necessitate a wider review of resources and staffing. This will allow the business case parameters around costs and joint working to be met (see below for further pointers on how this will be achieved).																																																
1.3	The existing terms and conditions of equivalent Cherwell and South Northamptonshire officers inevitably differ. When recruiting for the new Manager and Team Leader posts it is essential that there are clear job descriptions and other terms and conditions applying to the posts. This paper sets out a rationale to achieve that objective. It also notes that some disparities of terms and conditions will continue below the Manager level unless and until convergence occurs in the two Councils' reward systems.																																																
1.4	<p>The shared Building Control Manager post has been graded using the respective job evaluation systems within each authority with the following outcomes:</p> <p>Grade / total costs</p> <table border="1"> <thead> <tr> <th colspan="3">CDC grade 11</th> <th colspan="3">SNC grade 3</th> </tr> <tr> <th>Salary</th> <th>Total cost</th> <th>+ 10%</th> <th>Salary</th> <th>Total cost</th> <th>+ 10%</th> </tr> </thead> <tbody> <tr> <td>£42,500</td> <td>£55,133</td> <td>£60,646</td> <td>£38,778</td> <td>£51,003</td> <td>£56,103</td> </tr> <tr> <td>£43,500</td> <td>£56,478</td> <td>£62,125</td> <td>£40,191</td> <td>£52,885</td> <td>£58,173</td> </tr> <tr> <td>£44,500</td> <td>£57,823</td> <td>£63,605</td> <td>£41,598</td> <td>£54,805</td> <td>£60,285</td> </tr> <tr> <td>£45,500</td> <td>£59,168</td> <td>£65,084</td> <td>£42,987</td> <td>£56,701</td> <td>£62,371</td> </tr> <tr> <td>£46,500</td> <td>£60,513</td> <td>£66,564</td> <td>£44,388</td> <td>£58,614</td> <td>£64,475</td> </tr> <tr> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table>	CDC grade 11			SNC grade 3			Salary	Total cost	+ 10%	Salary	Total cost	+ 10%	£42,500	£55,133	£60,646	£38,778	£51,003	£56,103	£43,500	£56,478	£62,125	£40,191	£52,885	£58,173	£44,500	£57,823	£63,605	£41,598	£54,805	£60,285	£45,500	£59,168	£65,084	£42,987	£56,701	£62,371	£46,500	£60,513	£66,564	£44,388	£58,614	£64,475						
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1.5	The highlighted rows in this table indicate the respective salary points at which it is recommended that the joint manager post be appointed. This approach is considered in detail below.																																																
1.6	The plus 10% column indicates the overall financial effect of adding a cross working responsibility allowance (including the additional costs that might result, such as extra mileage between the two Councils' offices). This is the assumption in the general CDC/SNC shared management business case. At this stage, for simplicity, the financial impact is calculated as plus 10% on																																																

1.7	<p>the total cost of the post. This gives a worst case total cost figure that can be used to inform the business case for joint working. Thus a maximum cost assumption of £62,371 is used in the business case paper.</p> <p>The successful candidate would remain with their current employer which would result in a very small difference in pay for the post dependant on who the successful candidate and therefore employing authority are.</p>
1.9	<p>It is recommended that the Team Leaders also remain employed by their existing employing Council, on their current terms and conditions until any arrangements for convergence of reward systems are agreed between Councils. This may create reward differences, but they are relatively insignificant.</p>
2.0	<p>CONVERGENCE OF TERMS AND CONDITIONS AND WORKING ARRANGEMENTS THROUGHOUT SERVICE</p>
2.1	<p>There will be slight anomalies in pay between other officer posts in building control across the two authorities but these will not be significant.</p>
2.2	<p>As joint working progresses it will be necessary to establish a position on work base which will affect travel payments and also determine training requirements to ensure resources can be effectively shared.</p>
2.3	<p>However, for the purpose of the business case, these anomalies are not material and therefore not addressed in this paper.</p>
3.0	<p>Proposed Process</p>
3.1	<p>On approval of the Executive and Cabinet meetings in October, proceed with ring-fenced recruitment to the following posts:</p> <ul style="list-style-type: none"> • Shared Building Control Manager [either CDC grade 11, £42500 + 10% responsibility allowance or SNC grade 3, £42,987 + 10% responsibility allowance] • 2 x Principal Surveyors [current employer and grade] <p>Recruitment will be on the basis of:</p> <ul style="list-style-type: none"> • Ring-fence to include current 1 x Team Leader and 1 x Principal post at SNC and 2 x Principal posts at CDC • Simultaneous offer of voluntary redundancy to this group [with no commitment of either side at this time, as redundancy costs and the needs of the service will need to be considered alongside options for the future structure of the service below Team Leader level, including redeployment opportunities]. • Appointment to shared manager post using panel of 2 x Directors and 2 x Service Heads. Newly appointed manager to then join panel to appoint 2 x team leaders with service heads.

3.2	There is potential to be left at this point with 1 displaced employee (assuming there are no volunteers for redundancy or that redundancy does not meet the needs of the service). The options at this point will include retention of over capacity at senior/ supervisory level in the short term, with a view to achieving a “natural” reduction in whole teams numbers, possibly through retirements, or to invoking the appropriate redeployment/compulsory redundancy procedures.
3.3	Clearly it will be important to find the most effective and speedy route to achieving the new lower staff cost base set out in the business case.

4.0	Conclusion
4.1	Moving to the staff structure required for the joint service business case should be achieved as outlined above as this is consistent with the broader business case for shared management.