COTSWOLD
DISTRICT COUNCIL

COUNCIL **27TH SEPTEMBER 2016**

AGENDA ITEM (8)

2020 PARTNERSHIP - ESTABLISHMENT OF COMPANIES

Accountable Member	Councillor Lynden Stowe Leader of the Council
Accountable Officer	Frank Wilson Strategic Director and Head of Paid Service 01285 623000 frank.wilson@cotswold.gov.uk

Purpose of Report	To consider the updated business case for the establishment of a number of local authority-owned companies to deliver services approved by the 2020 Partnership Joint Committee on behalf of the 2020 Partnership partner Councils; and to seek agreement thereto.
CABINET Recommendation(s)	**That, having received the 2020 Partnership Updated Business Case and having noted the potential financial implications, the Council:** **(a) agrees to form local authority-owned Companies with 2020 Partner Councils, subject to the Joint Committee agreeing to the final proposal on 30th September 2016;** **(b) delegates authority to the Council's Head of Paid Service, in consultation with the Leader of the Council, Section 151 Officer, Council's Solicitor, and Partnership Managing Director, to agree the Articles of Association, the Company's constitutional documents, Service Level Agreement and all other legal documents to enable the Companies formation and any subsequent decisions necessary to establish the company model;** **(c) approves the required funding of £1.821m;** **(d) appoints the Leader of the Council as the Shareholder Representative for the Company.**

Reason(s) for Recommendation(s)	There is a need to ensure adequate arrangements are in place to enable the continued delivery services through the 2020 Partnership and the delivery of the benefits set out in the 2020 Programme. A final decision now needs to be taken on the establishment of local authority owned companies. To achieve financial benefits set out in the 2020 Vision for shared services approved business case.

Ward(s) Affected	All
Key Decision	Yes
Recommendation to Council	Yes, from the Cabinet

Financial Implications	As set out in the business case and report as below: Business Case Cost £2.771m Share of Transformational Challenge Award Grant (£0.950m) Net Business Case Cost £1.821m Business Case Benefit £1.834m Payback period (gross cost) 1.5 years Costs of the programme to date are included in the table above and have been fully funded by the Government's Transformation Challenge Award Grant. The Council's approved Medium Term Financial Strategy includes £1.68m of funding for the 2020 Programme. The revised business case indicates that an additional £140,000 will be required to fund the costs of transformational change. The additional funding will be included in the update of the Medium Term Financial Strategy in the autumn.
Legal and Human Rights Implications	Detailed legal advice concerning the establishment has been sought from Trowers & Hamlin's and has been reported to the Joint Committee. For the purposes of comprehension, this report refers to terms such as Shareholder Agreement and Shareholder representative. These terms are associated with Companies Limited by Shareholders. A Company Limited by Guarantee will use different terminology; however, similar principles will apply.
Environmental and Sustainability Implications	Not applicable
Human Resource Implications	The proposal to establish the company model will result in an alternative employment model and a significant reduction in the number of directly employed Council employees.

Key Risks	The 2020 Programme risk register sets out all the key risks for the programme and is regularly reviewed by the 2020 Joint Committee. The formation of the Companies is dependent on the 2020 Joint Committee agreement. There is a minor risk that insufficient Councils agree to the Companies' formation.
Equalities Analysis	The formation of companies would not affect protected groups.

Related Decisions	Cabinet, 5th June 2014 - Approval of report and outline business case for 2020 Vision for Joint Working Cabinet , 4th December 2014 - Approval of establishment of a shared services partnership venture, and related decisions Cabinet , 11th June 2015 - Approval of Memorandum of Understanding Council, 29th September 2015 - Approval of full 2020 Vision for Joint Working Business Case, operating under a Joint Committee
Background Documents	2020 Partnership Joint Committee Minutes
Appendices	**Appendix 'A'** - 2020 Partnership Proposed Company Structure

Performance Management Follow Up	(i) Implement Council decisions. (ii) Present further reports to future Meetings of the Cabinet, as appropriate.

Options for Joint Working	The 2020 Partnership Company option provides for the provision of services through joint working.

Background Information

1. General

1.1 In June 2014, the four GO Shared Services Partner Councils approved a "Report and Outline Business Case for a "2020 Vision for Joint Working"". In that report there was an agreed proposition:

> *"Four Independent Councils determining their own policies, priorities and decisions supported by a small number of expert advisors who commission and monitor services either from the private and voluntary sectors or from local authority owned service delivery companies."*

1.2 It was recognised that the proposition could effectively lead to councils that do not directly employ any of their own staff, but rather, Councils will jointly own a local authority company which would provide services and deliver outcomes in line with the wishes of each individual council.

1.3 Subsequently, in December 2014, the four 2020 Partner Councils approved a "Report on Options for Future Delivery Models and Interim Management Arrangements" prepared by Activist Ltd. In the report Activist carried out an option appraisal of the long-listed sourcing options, evaluating each option against the outcomes framework set out below:

Table 1.1: Outcomes Framework

Outcome	Contributory outcomes
Savings	• Delivers realistic and sustainable revenue savings. • Provides a positive return on investment in the medium to long term. • Enables us to make further savings through partnership and better asset management. • Enables opportunities for income generation.
Influence	• Respects our separate identities as individual authorities. • Ensures our decision making will remain locally accountable. • Strengthens our ability to exercise community leadership on behalf of our localities. • Allows us to retain strong local knowledge in our frontline services. • Each authority has impartial commissioning and client side advice from people they trust.
Quality	• Enhances and maintains good quality services to the public. • Allows us to nurture our partnerships and take advantage of new ones. • Creates organisations that are flexible and adaptable to future changes. • Has governance and structures that are streamlined and easy to understand. • Is widely acknowledged to be socially responsible.
Creativity	• Empowers staff to be creative, collaborative and enquiring. • Supports our commitment to a public service that responds to and empowers our local communities. • Fosters and rewards an innovative, can-do approach to delivering services.

1.4 The report was not designed to be a definitive final assessment of the merits of each option and acknowledged that more work should be conducted to confirm the final preferred option based on a business case which is both robust and realistic.

1.5 The overall results of the option appraisal carried out by Activist are shown in the table below and suggest a clear advantage for either a sharing option or a local authority company.

Table 1.2: Summary of Option Appraisal of Long-listed Sourcing Options

Options	Outcomes				Shortlist?	Key Issues
	Savings	Sovereignty	Quality	Creativity		
In-house transformation	L	H	M	L	No	Lacks scale economies.
Private sector joint venture	L	M	L	M	No	Poor ROI. Long lead-in.
Sharing	H	H	M	M	**Yes**	Tried and tested.
Local authority company	H	H	M	M	**Yes**	Local experience.

Spin-out to mutual or trust	L	M	M	M	No	Poor ROI. Long lead-in.

1.6 The report concluded that whilst there was no significant difference in terms of the outcomes, based on the financial assessment the approach recommended was to establish a shared services arrangement under a Joint Committee and then move to a Local Authority-owned company model, both dependent upon business cases.

1.7 It is noted that the report set out the key differences between the shared service under a Joint Committee and the company model as follows:

- The generation of income through profits made on trading;
- A move to a stakeholder pension scheme for new starters;
- Having a single employer would reduce complexity.

1.8 It was therefore recognised that the Joint Committee option was limited as it cannot deliver the potential longer-term savings that a company model makes possible.

1.9 In August 2015, the full "2020 Vision for Joint Working Business Case" was prepared. The business case was approved by each Council's Section 151 Officer and was independently reviewed and validated by CIPFA working in association with Proving Services based at the Cranfield Business School.

Table 1.3: Financial case for the overall programme

	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000	April 2020-March 2024 £000	Total £000
Programme Costs	**430**	**2,774**	**3,715**	**1,873**	**1,308**	**40**	**0**	**10,140**
Funded by:								
TCA Grant	430	2,774	596	0	0	0	0	**3,800**
Council Contributions	0	0	3,119	1,873	1,308	40	0	**6,340**
Total	**430**	**2,774**	**3,715**	**1,873**	**1,308**	**40**	**0**	**10,140**
Savings Annual	**0**	**491**	**1,827**	**952**	**1,419**	**474**	**580**	**5,743**
Savings Cumulative	0	491	2,318	3,270	4,689	5,163	22,084	**38,015**

1.10 That business case, based on the original proposition, forecast to return cumulative savings totalling £38m over a 10 year period in return for a proposed total investment of £10.1m over the same period with annual revenue savings of £5.7m after 5 years.

1.11 Consequently, the business case was agreed and approved by the four Councils in September/October 2015 along with a number of joint strategies including a Commissioning Strategy.

1.12 Subsequently, the 2020 Joint Committee was established and became operational in February 2016 with a number of shared services being established from April 2016.

2. Business Case for a Company Model - Introduction

2.1 This report considers the business case for the next phase of the development of the Partnership, taking into account the decisions taken and further work completed to date.

2.2 The business case therefore focuses on updating the original financial assumptions based on:

- a proposed company structure;
- considering the potential for additional shared services and trading;
- the proposed new Commissioning Framework.

2.3 In addition, the business case is compared with the new baseline costs of continuing with shared services under a Joint Committee.

2.4 It is not considered necessary to do any further work on the broader outcomes against the Outcome Framework as sufficient work has been completed already to prove that both options (Joint Committee and company model) work sufficiently well to meet the required outcomes for Partner Councils.

2.5 Any changes in outcomes required by Partner Councils can be considered as part of the commissioning and specification of services at the appropriate time in accordance with the new commissioning framework.

3. Partnership Benefits Delivered to Date

As the Partnership continues to develop, it is notable that some early benefits have already been developed. These include both non-cashable benefits in addition to the cashable savings set out in the business case and are summarised below:

- Cashable savings to date are on profile, with savings already delivered in 2015/16 and 2016/17 of £2,306,000;
- Improved knowledge sharing and learning;
- Increased resilience;
- Technological improvements;
- Smarter working;
- Reduction in office space;
- More consistent approach to HR, alignment of policies and procedures;
- Cost avoidance in procurement, e.g. non-cashable savings due to market presence of Ubico Ltd., valued at £900k for FoDDC achieved through the introduction of an enhanced service as part of the waste contract renegotiation.

4. New Commissioning Framework

4.1 The original high level Commissioning Strategy for the 2020 Vision Partnership approved in September/October 2015 builds on the recommendations of the Activist Report. This outline framework covers:

- Commissioning Principles;
- Approach to Commissioning;
- Service Design Principles;
- Long Term Strategy & Framework Development.

4.2 This strategy stated that if, in the future the Partnership moves, as planned, to a Teckal Company rather than a Joint Committee, the proposal would be to discuss the formation of a distinct shared commissioning function that in the longer term could take a more 'joined up' approach to commissioning to ensure that opportunities for collaboration are fully exploited.

4.3 Longer term, the plan involved the development of a Commissioning Strategy covering commissioning arrangements across all partners. That strategy would include the design of a flexible commissioning framework which operates across all of the Partnership. The organisation of commissioning activity within the Partnership would also require consideration and would be designed in accordance with the shared principles agreed by each Council.

4.4 Consequently, a project to consider the options for creating a shared Commissioning Framework that could be operated across the Partnership was completed.

4.5 It was recognised that given most Partners' commitment to put all services (in due course) into a company structure, doing nothing is not an option. Equally, although a single shared commissioning support service could be created in theory, the differing approaches to commissioning across the partnership render this undeliverable in practice.

4.6 The recommended way ahead, therefore, is to:

- Create a 3-way shared commissioning support team (Forest, Cotswold & West Oxfordshire) within a co-ordinating company;
- Agree that, subject to the above, a shared commissioning support team can be augmented on a case-by-case basis by internal and external specialists, including CBC commissioners.

5. Further Shared Services

5.1 The shared services proposition is to deliver financial savings through the efficient management of more flexible skilled and resilient shared staff resources - while still delivering the agreed outcomes for each Partner Council and with no detriment to the customer. In terms of financial efficiency, it is assumed that the greater the number of staff that are shared, the greater the potential financial benefits.

5.2 Since the establishment of GOSS and Ubico Ltd. in 2012, confidence has grown in the Partnership's ability to generate financial efficiencies through shared services. As a result, we are now in the position where most of the Partner Councils will consider sharing all of their staffing resources.

5.3 Consequently the re-fresh of the business case re-confirms the earlier assumptions made about the level of sharing of staff resources whilst taking account of specific feedback from individual Councils about any specific limitations.

6. Commercialisation & Trading

6.1 CIPFA and Proving Services were engaged to consider the opportunities for commercial trading across the four Councils. For this high level process, a number of individuals across the Councils were interviewed to assess their perspectives on the Councils' options and abilities to move towards a more commercial approach. CIPFA & Proving Services also used their own expertise and experience to consider how to maximise any advantages identified, both in general and for specific services.

6.2 The interviewees recognised that staying still is not an option, and also the need to develop a clear business case and vision for commercial trading opportunities having regard to finance, performance and social value.

Opportunities for greater commercialism

6.3 The ability to enhance council services by trading outside traditional markets is limited in many cases and is also faced with local competition. There are opportunities, but these are often small-scale and should not be seen as 'quick wins' or generators of huge income. Starting commercial services on a small scale may, however, lead to larger gains and a stronger foothold in the market in the future. Therefore, this option is worth further investigation.

6.4 Providing services to other councils may be an option worth pursuing for many services, i.e. offering a better product than is currently the case, at a competitive price.

6.5 Some Members have expressed an interest in moving into new markets where Local Authorities can be seen to have a role. These include things such as energy provision or supply (solar farms) or house building with a Council purchasing land and developing it itself for both commercial and social benefit. These rewards are possible and, if a council decides to pursue this, further specialist skills and knowledge of these particular sectors is critical for success.

6.6 Regardless of external trading opportunities, a more commercial focus on the Councils' services and costs is very likely to lead to higher efficiency savings for the Partner Councils.

Commercial opportunities - staffing and skills

6.7 The move towards a more commercial outlook in services is recognised within the current council cultures. However, there is varying opinion as to whether all current staff have the skills and the mind-set to make this a permanent and successful movement. There needs to be a focus on managing this change with a proactive programme which involves commercial skills training and commercial awareness.

What is already planned to build the foundations of a more commercial approach?

6.8 The following is planned:

- Undertake a fundamental review of the Partner Councils' approach to employing, retaining and developing staff, with a sharper focus on developing/acquiring the necessary commercial skills and approach.

- Develop shared services and create business relationships with Partner Councils.
- Investigate a company structure which optimises tax and pension positions and provides maximum flexibility to expand services in the future for the benefit of the partner councils and allows for expanding into new market opportunities should the right proposal be identified.

What more can be done to become more commercial?

6.9 The CIPFA report also recommended that the Partnership should consider developing:

- A much better understanding of cost-competitiveness compared with other providers, particularly for support services which impact not only on other support services but on all direct service provision be it a shared service or a retained service.
- Further service redesign in support service areas.
- Reviewing other partnerships - including joining existing partnerships in other councils - to determine further opportunities either to collaborate or take advantage of achieving better value for money.

Commercialisation conclusions

6.10 Whilst there are commercial opportunities available, the business case takes a prudent approach to the initial benefits. As stated above, more work would need to be done to prepare services to be more competitive and identify the most beneficial potential markets within which to compete. As part of the development of the partnership's People Strategy, emphasis will be given to developing a more commercial approach.

6.11 However, it is recognised that the optimum corporate company structure should be introduced to enable trading opportunities to be fully exploited. This is an important factor in determining not only the overall corporate structure but also the optimal way in which to group functions into one or more companies.

6.12 For example, based on the initial assessment of the available trading markets, it is possible to conclude that the current markets for generic ICT and financial support services are very mature and competitive. Therefore, it is unlikely that the partnership would wish to compete in these markets.

6.13 In contrast, however, the current market for local authority regulatory services is underdeveloped, with very few suppliers. Therefore, this is a market with greater opportunity for successful trading and may prove attractive to the partnership.

6.14 The availability of trading opportunities and the potential partners in any service delivery company are key factors in grouping and establishing the service companies.

7. Company Structure Framework

7.1 The key criteria for the 2020 partnership is to develop a company structure framework that delivers the flexibility to meet both current and future needs and can be implemented incrementally over time. Once such a framework has been agreed, it will be for the Partner Councils to determine which staff and services they wish to transfer into companies and when.

7.2 The preferred corporate formulation for the partnership has optimal features that:

- Allow new Local Authorities to join (or leave) tax efficiently;
- Minimise the on-going tax liability of any entities to be established (by considering available reliefs), to ensure that, wherever possible, the Local Authorities' current tax free status is not compromised;
- Allow other Local Authorities to 'buy-in' to the structure on a piece-meal basis, if desired, to participate in only some services rather than to take a share in the overall model;
- Allow scope for trading and income generation from third parties in the future; and
- Allow transfer of staff from the Local Authorities to companies.

8. <u>Proposed Company Framework</u>

8.1 Based on the advice received, a proposed company framework that best meets the requirements of the partnership and the criteria given in paragraph 7.2 above has been determined. The framework is flexible and can be developed and implemented overtime as required.

8.2 It comprises the core building blocks of a Teckal Co-ordinating Company, Teckal Non-Traded Services Companies and Traded Services Companies. This approach would allow the Councils to maximise employment within a company model, whilst managing and ring-fencing risk within different entities, with the flexibility for new partners to join as required.

8.3 The way companies are established and structured will be developed over time as the need arises and be based on appropriate business cases as required. The framework provides a basis for these future decisions that will reduce potential risk duplication and cost.

9. <u>Local Authority Companies and 'Teckal'</u>

9.1 The Partner Councils already have experience of both successfully establishing and operating Ubico Ltd. as a 'Teckal' company.

9.2 The Teckal exemption (named after the EU case that established the principle) provides for an exemption to EU procurement rules in certain circumstances.

9.3 The exemption applies where the Council(s) exercise a similar degree of control as they exercised over their own departments (this test is satisfied where the Council(s) has a controlling interest in the Company) and where the essential part of the Company's activities are performed for those controlling Councils.

9.4 In order that the Partner Councils can rely on the Teckal exemption, the 'control' test (as explained above) will need to be satisfied. Each Council will have a shareholding and votes, which will be set out in the shareholders' agreement. The Partner Councils, as shareholders, will have control over the Company through a governance structure of directors sitting on the Company Board, which will form the operational management and decision making body for the company.

9.5 A contract or service level agreement will be in place between each Partner Council and the Company, setting out the required service specification and standards. The Company and its directors are not able to alter the service and standards set by each Partner Council.

10. Proposed Initial Companies Set Up

10.1 The detailed legal advice now received from Trowers & Hamlin's, and the detailed taxation advice received from KPMG, has concluded that the most appropriate and tax efficient model to be adopted is one based on establishing a number of local authority wholly-owned 'teckal' companies limited by guarantee. The 2020 Partnership Joint Committee will determine the most appropriate grouping of services and companies once the final decision of each Partner Council has been taken.

10.2 The new companies will operate on a similar basis to the Council's current 'teckal' company Ubico Ltd. As is the case for Ubico Ltd., the Council retains the right to appoint Non-Executive Directors to each Company Board. A number of matters will be reserved for Shareholder decision and these will be exercised by the Leader of the Council acting as the Council's Shareholder Representative.

10.3 An illustration of the anticipated company structure and ownership is shown in **Appendix A**.

11. Updated Business Case

11.1 As set out in the Section 2 to this report, the "2020 Vision for Joint Working Business Case" approved in 2015 has been updated and was approved by the 2020 Partnership Joint Committee in June 2016.

11.2 The 2015 business case, based on the original proposition, forecast to return cumulative savings totalling £38m over a 10-year period, with annual revenue savings of £5.7m, in return for a proposed total investment of £10.1m over the same period.

11.3 In comparison, the refreshed 2016 business case shows increased cumulative savings totalling £41m over a 10-year period, with annual revenue savings of £5.95m after 5 years, in return for a proposed total investment of £10.1m over the same period.

12. Finance update for refresh of the financial case

The financial business case has been updated for the following:

- The salary baseline position has been moved to 2016/17.
- Savings delivered in 2015/16 and 2016/17 have been incorporated.
- Shared services have been reviewed to reflect current political views.
- Savings assumptions have been reviewed to ensure they remain valid (i.e. any shared services savings already delivered are appropriately reflected in future targets).
- Assumptions regarding pension exit valuations and crystallisation of liabilities have been discussed with actuarial specialists and are not considered to be a barrier to progress (see separate section below).
- While the outcome of detailed actuarial modelling is still pending, the existing pension savings assumptions have been maintained. The only exception to this is that the level of savings for Cheltenham Borough Council has been reviewed in proportion to the reduced number of employees that may transfer to the company model.
- The overall programme costs have been refreshed to reflect current anticipated costs. Some budgets, especially expert advice, are expected to exceed the current provision. However, the increased costs are expected to be funded through savings elsewhere in

the programme budget and the overall cost envelop for the programme is expected to remain within £10.1m.

- The operational costs associated with the proposed company models have been reviewed and are still found to be in line with the previous business case. The share of costs has been updated to reflect the number of shareholders in each company.
- Initial VAT and Corporation Tax advice from KPMG has been reviewed; there are no VAT or Corporation Tax implications to include in the financial case at this stage. Once the proposed model has been agreed, detailed VAT and Corporation Tax modelling will be carried out by KPMG to inform the implementation phase of the programme.

13. Assumptions used with the business case

The following assumptions have been used within the business case:

- Shared service savings of between 0% - 15% have been applied to each service. The % saving varies according to the degree of sharing which is already taking place within the service.
- The costs and savings from the Cotswold District Council, Forest of Dean District Council and West Oxfordshire District Council shared Public Protection service remains in line with the business case for the shared service. The costs and savings will be updated once the project is complete.
- Savings already delivered reflect actual budget adjustments incorporated into 2015/16 and 2016/17 budgets.
- Employee savings from a more commercial approach have been incorporated at 3% of back office service budgets (although delivery of the savings should arise across all service areas) and 10% of development control budgets.
- An allowance has been made for employee salary increases of 5% reflecting additional responsibilities associated with joint working.
- An allowance of 3% has been made to reduce savings from holding vacant posts empty.
- Pensions savings assumptions are as per the previous business case, with employee turnover of 10% assumed and employer contributions to a new stakeholder pension scheme of 5%. Some of the pension potential savings have been excluded from the business case to fund potential cost increases from the review of employee Terms and Conditions and the reward package.

14. Programme Costs

14.1 The original business case included a programme cost of £8.7m. The update, in the autumn of 2015, indicated that the programme budget would need to increase to £10.1m. However, as there was great deal of uncertainty over provisions for redundancy costs and ICT costs, it was decided that the increased programme costs would be recognised as a risk by the (then) 2020 Programme Member Governance Board and the Partner Councils would not be asked to formally agree an increase in contributions to the programme at that point in time.

14.2 The programme budget assumptions have been reviewed with the Group Managers and the Programme Team. The budget for external expert advice needs to be increased. However, at this point in time these costs can be met within the £10.1m programme cost. Further detailed work will need to be undertaken when a Company structure is finalised and the phasing of future projects are fully determined.

14.3 Whilst the overall programme costs have been reviewed, the allocation of those costs has not been reviewed in the business case. The split of the partner council funding will need to be reviewed once there is greater clarity over the direction of travel for the programme, including the company model to be developed and which councils will be founding shareholders of which companies. The costs of creating the companies will need to be reflected in the contributions for the respective Partner Councils.

15. Financial Benefits

15.1 Following the approval by the Joint Committee of the updated business case in June, Cheltenham Borough Council have indicated that they no longer intend to proceed with the full Partnership proposal as set out in the original vision and have indicated their intention to only proceed with the ICT and GO shared services. This will be subject to a formal decision to be taken by Cheltenham Borough Council in October 2016.

15.2 Costs of the Public Protection project are lower than anticipated and the savings have funded increased programme costs in other areas. Overall, the programme costs are estimated to be in the region of £10.1m. The allocation of programme costs has been revised on the assumption that Cheltenham Borough Council's proposals to restrict their future involvement in the Partnership are confirmed.

15.3 The 2016 business case has been revised to reflect the stated position of Cheltenham Borough Council as representing the worst case scenario.

15.4 The updated financial implications reflecting the expected reduced involvement by Cheltenham Borough Council shows cumulative savings for the Partnership as a whole totalling £41m over a 10-year period, with annual revenue savings of £5.57m in return for a proposed total investment of £10.1m over the same period.

15.5 Consequently, for Cotswold District Council, the anticipated overall benefit would now increase by £177k to £1.834m, net estimated costs are £1.821m and the pay-back period has reduced by 1 month to 1.5 years.

15.6 There is an additional financial benefit of moving to a company model of £440k over operating shared services under the Joint Committee.

Table 15.1: Updated financial case summary

Cotswold District Council		
Previous Business Case Cost (Aug 15)	£2.628m	
TCA Grant	£0.95m	
Net Costs	£1.678	
Previous Bus Case Annual Savings	£1.657m	
Pay-back period (gross)	1.6 years	
Pay-back (net)	1 year	

Revised Business Case Cost (Sept 16)	£2.771m	
TCA Grant	£0.95m	
Net Costs	£1.821	
Revised Bus Case Annual Savings	£1.834m	+ £0.177m
Pay-back period (gross)	1.5 years	
Pay-back period (net costs)	1 years	

Table 15.2: Savings comparison - Joint Committee v Companies

	CBC £000	CDC £000	FofDDC £000	WODC £000	Total £000
Joint Committee					
Shared Services	200	844	747	1,100	2,891
Other Efficiency Savings	299	550	431	182	1,462
Total Joint Committee Savings	**499**	**1,394**	**1,178**	**1,282**	**4,353**
Company					
Pensions	0	250	240	210	700
Commercial Approach	91	282	201	245	819
Company Overhead	(25)	(92)	(92)	(92)	(301)
Total Company Savings	**66**	**440**	**349**	**363**	**1,218**
Total Savings	**565**	**1,834**	**1,527**	**1,645**	**5,571**

15.7 The financial savings reflect cashable savings to each Partner Council. In addition to the cashable savings, the Partnership will also lead to savings from cost avoidance. This has already been demonstrated in the procurement of a new waste collection contract at Forest of Dean District Council. The AON Hewitt report in May 2014 identified a potential doubling of future benefit contributions into the LGPS over the next 20 years. By moving employees into a company model, these cost increases will be mitigated for new joiners.

16. Pensions Benefits update

16.1 The pension assumptions within the approved business case for 2020 Joint Working were based on an actuarial report from AON Hewitt "2020 Vision Actuarial Advice to Support the Joint Working Team" dated 30th May 2014. These assumptions are based on the proposition that the Councils would create local authority-owned companies that would enable new staff to be employed without access to the Local Government Pension Scheme with an alternative stakeholder pension provided.

16.2 This report estimated, through AON Hewitt's pension modelling, that annual pension contribution rates could reduce by around £1.5m in 10 years' and to £3.5m in 20 years' time.

16.3 The report also identified the risks of triggering an exit valuation by the pension body if a Partner Council transferred all of their employees and a re-valuation of the fund. The business case assumed that exit valuation would be avoided and made an allowance for the cost of re-valuation.

16.4 AON Hewitt suggested a number of ways of avoiding triggering an exit valuation by either avoiding crystallisation of the pension deficit by continuing to employ one or more of members in each Local Government Pension Scheme (LGPS), or applying for a Direction Order under Schedule 3 of the LGPS Regulations.

16.5 Since the original report, discussions have been held with both the Gloucestershire and Oxfordshire pension providers to understand the implications of the company proposals. The feedback has been that provided each Partner Council continues to employ its statutory officers through dual employment contracts then an exit valuation will not be applicable and therefore a crystallisation of outstanding liabilities is unlikely to occur.

16.6 The actuaries are in the process of modelling the detailed financial implications of the move to the company model - therefore, some level of risk remains. However, the risks highlighted in the AON Hewitt report are significantly reduced and are considered low and manageable.

16.7 The risks of triggering an exit valuation can be mitigated by ensuring that each Partner Council continues to employ some members of the LGPS - these employees may have dual employment contracts with both the Council and the local authority-owned company.

17. Next Steps

Timescales & Implementation

17.1 A detailed implementation plan for the establishment of the companies would be developed based on the feedback from each Partner Council on the timing of transfer of services and staff into a company model.

17.2 Following approval of this business case to develop the next stage of the Partnership, all of the actions necessary within the Programme to deliver the next stage of the partnership would be planned and agreed. These would include plans for the implementation of the new Commissioning Framework, the necessary governance and management structures for the Company, process redesign work, ICT and People Strategies.

17.3 The implementation would continue to use the current programme management approach and resources as set out in the programme plan and the revised business case.

17.4 It is envisaged that Companies will be established with appointments to Executive and Non-Executive roles by April 2017 with all staff transferring to the new companies in the Autumn of 2017.

Engagement & Communication

17.5 A comprehensive communication and engagement plan will be produced to reflect the decisions made as a result of this report. It will cover staff, elected members, Trade Unions, staff representatives and all other major stakeholders, both internal and external.

Future Development

17.6 Further work will be undertaken to design the future approach to Customer Services under the company model. This will need to take account of the new service delivery model whilst providing a seamless transition for customers. Customer contact will remain via existing channels and a local presence will be maintained to deal with local contact. The proposal would be to maximise the use of technology in allowing 24-hour self-service wherever possible. This 'channel-shift' will help to reduce customer demand and increase our capacity to resolve remaining face-to-face customer contact 'right first time'.

17.7 It will also be necessary to undertake work on branding and identity - both to protect the identity of the Partner Councils and also to establish an appropriate brand for the new companies.

17.8 There is great potential to improve the customer experience through the customer-focussed redesign of services. The re-design of services is also an essential component of the efficiency savings. Consequently, a programme of targeted service redesign will be developed and resourced as part of the next phase development of the Partnership.

17.9 Once the company structure has been finalised and agreed, work will be completed on the governance and management of the Partnership. This will ensure that a strategic approach is taken to the delivery of each Partner Council's objectives with clear accountabilities and responsibilities.

17.10 Work will also be undertaken to consider how property assets can be managed more effectively across the partnership with a view to developing a Property and Assets Action Plan to drive future property benefits.

18. Cabinet Deliberations

This matter was considered by the Cabinet at its meeting on 15th September 2016. The Cabinet commended the recommendations as presented to Council for approval.

(END)