



EK Services
Alternative Delivery Options

Business Case



Version Control

Version	Description	Date
0.1	Initial draft	
0.2-0.5	Internal drafts	
0.6	Updated with additional comments from DW	27 Aug 17
0.7	Additions to Recommended Option from RN	30 Aug 17
0.8	Incorporating feedback from S.151 officers	31 Aug 17
0.9	Savings rebased from 2018-	5 Sep 17
0.10-0.11	Updated following comments from EKSB	6 Sep 17
0.12	Updated following CMT meetings	14 Sep 17
0.13	Updated Risk log and budget base	15 Sep 17
1.0	Final version for release	21 Sep 17

Distribution List

To	Role	Contact details

Contact

Name	Email	Telephone
Dominic Whelan	Dominic.whelan@ekservices.org	01227 862073

Table of contents

Table of contents	3
Executive Summary	4
Background	5
Current Situation	7
Recommended Option	8
Financial case	8
Economic case.....	9
Operational case	9
Control and Governance.....	10
Procurement Route.....	11
Residual Services.....	11
Benefits, risks and opportunities	12
ANNEX A	13
Options Appraisal	13
Option 1 – “Maintain”	13
Summary:	13
Analysis:	13
Option 2 - “Exploit”	18
Summary:	18
Analysis:	18
Option 3 – “Enhance”	20
Summary:	20
Analysis:	20
Option 4 - “Expand”	21
Summary:	21
Analysis:	21
Option 5 - “Strategic Partnership”	23
Summary:	23
Analysis:	23
ANNEX B (Confidential)	26
Strategic Partnership – Financial Analysis	26
Appendix 1 – Risk Log	28
ANNEX C	36
ANNEX D (Confidential)	37
Development and Implementation of a South East Business Processing “Hub”	37

Executive Summary

It is no longer possible for EK Services to operate within its own fixed budget whilst maintaining the quality of services delivered.

The partner Councils could choose to either increase the funding available to EKS by approximately £400,000 in 2018/19 (£2m over the next seven years) or choose to reduce costs by cutting staff by at least 67 posts over the same period.

Expanding the existing shared service, selling services to other public sector bodies or a traditional outsourcing contract will not generate the combination of savings and income required.

One of the options offers an alternative that ensures services can be maintained without loss of staff and provides savings. It also offers a new income stream for the partner Councils and new employment opportunities within the three East Kent districts. The proposed arrangement is based on a “core and hub” model contract with a commercial provider. The core comprises a contract for the continued provision of Revenues, Benefits and Customer Services to the three partners at a reduced cost. The trading hub would be located in CCC, TDC and DDC locations and service new commercial contracts with any profit being shared with CCC, DDC and TDC. This trading hub is expected to grow and increase staff, delivering jobs growth in the District(s).

The proposed strategic partnership will provide:

- Immediate savings via reduction in costs of EKS operation on day 1
- Safeguards existing jobs and prevents redundancy costs
- High likelihood of additional “one-off” savings in Year 1
- An income stream from a profit share arrangement with a “trading centre of excellence” providing services to the public sector from current East Kent locations (South-East hub)
- Jobs growth in East Kent as the South-East hub expands (as proven elsewhere)
- Development of business cases for future savings / service improvement opportunities

Background

EK Services (EKS) was formed in 2011 to provide a range of services including ICT managed services, Revenues & Benefits and Customer Services. It has been a success, delivering approximately £6m savings back to its three partner Councils whilst improving performance and increasing resilience – without significant investment.

EKS is governed under a Joint Committee arrangement and is funded by its three partner Councils via management fees as well receiving a smaller amount of income from other, non-partner organisations. The Councils require EKS to operate within its own fixed budget which is agreed with the three Councils each year and EKS also has to absorb any inflationary pressure (including pay and contract inflation). This means that year-on-year savings between £300K and £500K are needed to maintain the status quo but historically the Councils have also expected EKS to deliver further savings on top of the absorbing of growth items.

In 2017/18, EKS has to achieve £832k of savings to ensure the 2017/18 budget is balanced at end of year. This is a challenging task as the economy of scale and benefits of Shared Services which have delivered major savings over the past six years mean that the delivery of further savings will now have greater service impact. In recent years, most savings have been delivered either via deletion of posts using natural staff churn to avoid redundancies or through reduction in operating costs from technology system rationalisation. However, further reduction in operating costs is no longer achievable to any great degree and, as the number of Full Time Equivalent posts has reduced¹, the potential for post reduction without staff redundancies is now limited. Because employee costs form the bulk of EKS' cost base (81%), maintaining the current approach is no longer sustainable in the longer term without a significant impact on staffing and consequential impact on services. Even for this current financial year, it is expected that further deletion of posts will be required, possibly with some staff reduction, to achieve a balanced budget in 2017/18.

Beyond this current year, further savings will require a significant staff reduction (an estimated 15 redundancies are required to deliver the anticipated budget savings for 2018/19) which introduces a high degree of service risk as well as high exit costs and the economic impact of job losses in the local area. In addition, the redundancy costs themselves will create further budget pressures.

EKS is now at the point where cutting services in line with its partner Councils' affordability constraints will start to have a direct impact on service quality, raising the risk of service failure and performance degradation in Benefits where the time to make payments and accuracy levels are likely to fall and Council Tax and Business Rates collection levels as well as Customer Services performance.

This reduction in staffing would be required in addition to any other losses that would be required as a consequence of external impacts, for example the reduction in DWP and DCLG grants for the administration of Housing Benefit and Council Tax Support as well as the likelihood of the introduction of Universal Credit creating further job losses.

¹ Current EKS FTE as at Aug 2017 = 258.85; equivalent as at Aug 2016 was 270.25.

A number of options have been explored, ranging from continuing the current direction of travel, through to more fundamental reshaping of EK Services. These can be broadly categorised as:

- “maintain” – either increase funding year on year or continue to make savings in order to keep EK Services running “as is”. This equates to an additional funding requirement of £400,000² for 2018/19 (meaning that by Year 7, EKS would require an additional £2m per annum over current costs) or a reduction in staffing of 67 posts over the same period.
- “exploit” – continue to manage savings required and generate income through offering services. This would require staff reductions in the current areas of activity but also investment in business development, certification and the like, for a relatively small (and uncertain) return and take time to build a potential pipeline of work.
- “enhance” – leverage the EK Services brand and governance to share additional services between the three councils. However, as costs have already been taken out of the partner councils, it is highly likely that this would only generate resiliency and other, non-cashable benefits.
- “expand” – bring another partner into EK Services to gain further economies of scale. Again, as likely partners would already have undertaken their own cost-reduction measures, the return is not likely to be large enough to avoid further large-scale staff reductions. It is more likely that non-cashable benefits, such as improved resilience, will accrue.
- “partner” – enter into a contract with a commercial operator for the provision of services and the generation of income. This has the potential to safeguard employment (with the accompanying economic benefits) as well as deliver immediate cashable savings to the council plus generate income.

These options are explored in more detail in the Options Appraisal, shown at Annex A to this business case.

² For 2018/19, 2019/20 and 2020/21. After this, increased funding is still required year on year, but at a slightly lower level of up to £200,000 per annum

Current Situation

EK Services and EK Human Resources (EKHR) total operating costs for 2016/17 were £12.36m. For 2017/18 a further reduction in funding has seen the operating costs fall to £11.7m. This reflects a substantial reduction in the costs that were born by the three partner councils before the shared services were brought into being.

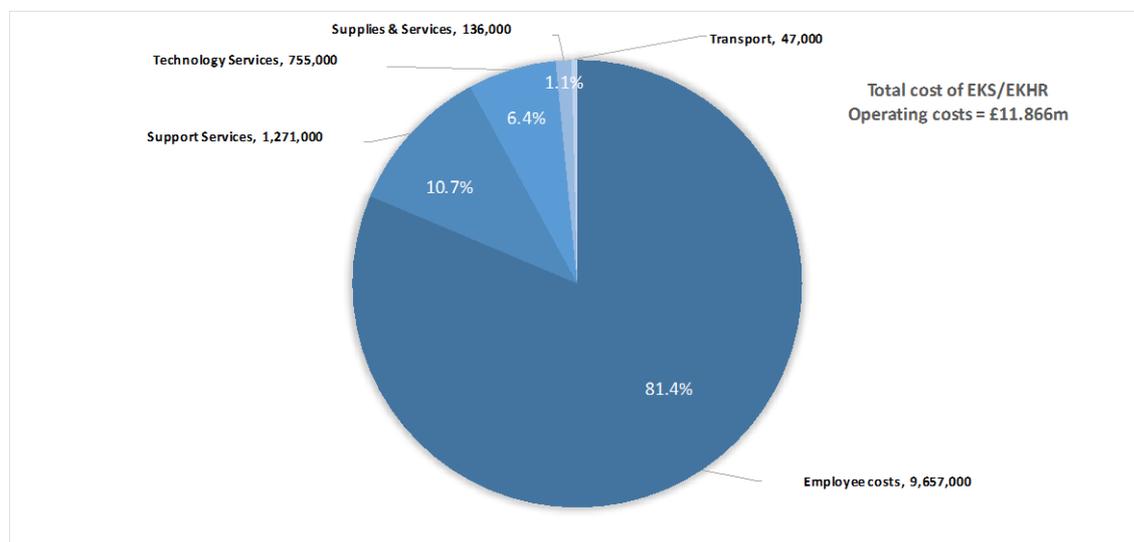


Figure 1 - EKS Operating Costs

Figure 1 outlines the current breakdown of EK Services operating costs. As would be expected, the majority of costs are staff related, with approximately £755,000 of technology and other 3rd party contract costs and £1.27m of support charges (which flow back to the councils providing those services).

In 2017/18, EKS has to achieve £832k of savings to ensure the 2017/18 budget is balanced at end of year.

On the whole, the scope for reductions in contract costs is negligible, meaning that the majority of the savings required to “stand still” need to be met from within the EKS staff budget. Whilst a move towards more “digital” delivery of services can help to compensate for staff reductions by encouraging “self-help” amongst that part of the customer base that is able, willing and using a service that lends itself to this type of delivery, this is not a universal solution and staff reductions of the scale required to deliver this amount of annual savings will inevitably start to adversely impact service quality.

Although there is some limited scope to make EK Services more resilient to such pressures (for example, by on-boarding additional services or selling services to third parties) the likely savings or income from such activities would not, on its own, be sufficient to bridge this affordability gap and maintain the current levels of service quality.

Annex A to this report gives a detailed appraisal of options available to enable EKS to continue delivering the current range of services.

Recommended Option

Maintaining the status quo with EKS containing all inflationary cost pressure and continuing to deliver savings back to their clients is not sustainable in the longer term. There is also unlikely to be an appetite for the partner councils to increase funding to EKS by the amount required to maintain a level of staffing required to deliver existing services to the current standards. Therefore, EKS in its current form, is not sustainable in the medium to long term.

Expanding the EKS offer (either by introducing additional 3-way shared services, adding an additional partner or by selling transactional services into the public sector market) are also highly unlikely to deliver the savings that are required. There would be some benefits in terms of heightened resilience, and some limited management cost reductions, but not sufficient to address the underlying affordability issues.

Unlike a traditional outsourcing arrangement, where a third-party supplier delivers services under contract for a defined price, usually extracting costs through staff reduction and redundancy, it is felt that a strategic commercial venture with a private partner has the potential to protect and grow jobs and develop services whilst delivering savings and generate additional income, and considering the pros and cons of the options detailed above, appears to be the most attractive delivery model for this service moving forward.

This preferred option offers an alternative that ensures services can be maintained without loss of staff and provides savings. It also offers a new income stream for Councils and new employment opportunities within Canterbury District, as well as across East Kent. The proposed arrangement is based on a “core and hub” model contract with a commercial provider. The core comprises a contract for the continued provision of Revenues, Benefits and Customer Services to the three partners. The trading hub would be located in CCC, TDC and DDC locations and service new commercial contracts with any profit being shared with the CCC, DDC and TDC. This trading hub is expected to grow and increase staff, delivering jobs growth in the District(s).

It is therefore recommended that EK Services enters into a strategic partnership contract with a commercial provider for the delivery of Revenues, Benefits, Debt Recovery and Customer Services. The residual services provided by EK Services should continue as part of a slimmed-down “EKS-lite” in order to provide continuity of governance and contract management capacity, with an intention to review this after 12-18 months of the strategic partnership coming into effect.

Financial case

This proposal has the potential to deliver significant reductions in annual operating expenditure when compared with existing spend. It also provides a way of avoiding the necessity for the councils to either commit to an increase in funding for EK Services (with compensatory savings needing to be delivered elsewhere in the organisations) or implement a large scale reduction in headcount and accept the associated impact in terms of reduced services and additional exit costs. Details are given in Annexes A and B to this report.

This option also provides a high likelihood of additional income for the councils as a result of business flowing into the proposed trading hub. This income is delivered as both a profit share from the hub operations and also desk rental as the headcount in the hub increases to service new business. There is also the option to generate additional income from EKS offering to undertake the client function to customers of the trading hub. This has proven itself elsewhere and would provide both an additional income stream plus the opportunity to build resilience and capability into the client function retained on behalf of the three Councils.

Economic case

Future funding of local government will be increasingly dependent on economic performance, with a reliance on local taxation (council tax, business rates) and New Homes Bonus or similar to support operating expenditure. This option assists by supporting and protecting the existing workforce as well as aiding the location of a growing and profitable business in the East Kent area. Specifically, the commercial venture outlined in the options appraisal gives a high likelihood of jobs growth across the three council areas over the lifetime of the contract, as well as avoiding both the costs of redundancy and the consequential impacts of job losses on the local economies of Canterbury, Dover and Thanet.

The business growth for the trading hub, in the first couple of years of operation, is estimated to deliver between 40 – 100 additional jobs generated across the three Districts, dependent of course on the progression of commercial opportunities that would be pursued.

That fact that the three councils are willing to enter into an innovative service delivery and development partnership sends a strong message that the area is “open for business” and that the local authorities are serious about working together to improve the economic outlook for the entire area through a co-ordinated East Kent- wide approach rather than through competition between districts.

Operational case

The fact that this option does not require large scale reductions in staffing means that the quality of EKS’ services can be maintained. Whilst EKS has an outstanding track record of successfully introducing digital solutions to encourage self-service, driving down costly face-to-face or phone contact (and thereby enabling help to be targeted at those who need the most assistance), there is a practical limit on what can be achieved in the short term and the cost:benefit ratio for additional investment gradually starts to erode.

The commercial venture enables staffing to be maintained at levels that preserves the ability of EKS to effectively serve its customer base, whilst providing flexibility to better align capacity to peaks and troughs in demand. It also provides for the ongoing development of business cases to identify opportunities that may bring about further improvements in service delivery, reduced costs or both, which will provide for the continued development of services to meet the changing demands of EKS' (and the Councils') clients. It also recognises the "direction of travel" that the Councils have towards the modernisation and increasing digitisation of services and seeks to continue to develop this work, not constrain it.

A financial analysis of the likely savings that would accrue and other commercial information is at the confidential Annex B to this report.

Control and Governance

The proposed operating model and partnership approach with a commercial provider is well established in other parts of the country and feedback from other local authorities who have entered into similar arrangements is very positive.

The proposed contractual arrangement maintains similar governance to the existing EKS model with oversight via the East Kent Services Board (EKSB) and East Kent Services Committee (EKSC) being maintained and with the opportunity to design a robust joint 'client side' structure. The delivery of Income & Payments services in particular is mostly statutory (and very transactional) work that is delivered in line with central government direction, which will remain. Where Councils have the ability to set policy (e.g. determining levels of Council Tax, the details of Council Tax Support schemes, etc.) this will remain. Similarly, external audit and internal audit managed by East Kent Audit Partnership (EKAP) will remain in place to provide assurance.

Services will continue to be branded as Council services to the public and customer service advisors will also continue to answer calls or present themselves in accordance with council requirements. Support and specialist advice to Council officers will continue to be provided by the existing EKS subject matter experts, albeit as contracted personnel.

The current client arrangements for EKS include monthly and quarterly performance reports, written by EKS, presented to each Council client officer. This is supplemented by the Director of Shared Service providing regular contact on a one to one basis with each senior client officer (S151s) and reporting to chief officers at East Kent Services Board. Additional engagement and reporting takes place at various council committees as required. The expectation for any alternative service delivery will be to maintain similar reporting and contact via the residual EKS joint client structure, if this model is agreed. Any contract for services will include appropriate performance reporting requirements and support to client and council meetings as required. The vision, is to maintain the governance and reporting arrangements as close to the existing arrangements and to minimise impact on the three Councils as much as possible. There is scope to develop these client arrangements and offer these services to hub customers, providing an additional income stream.

A separate issue is the future of the “residual” parts of EKS, should the Revenues, Benefits, Customer Services and debt recovery functions be moved into this form of strategic partnership. A separate report will outline the options for the residual EKS, but this should be decoupled from the immediate decision about entering into a strategic partnership.

Procurement Route

Following the publication of an OJEU notice in September 2014, Hull City Council undertook a competitive dialogue process to tender a framework agreement for the provision of (inter alia) Revenue & Benefits and ancillary services. This Framework agreement is open for other local authorities to use and this is the recommended procurement route for reasons of both speed and cost. The alternative (of undertaking a full OJEU compliant procurement process), whilst an option, is not recommended because of the likely time frame to complete (in excess of 12 months) and subsequent delay in realising both savings and income, plus the associated staffing, legal and procurement team costs that this would incur.

Residual Services

If the decision is taken to enter into a strategic partnership contract, the future structure and operation of those EKS services not “in-scope” needs to be considered. There are four main options:

- Continue to share services between the three councils but move to a “lead authority” model for the residual services (ICT and HR), removing the EKS management overhead but establish a joint client to manage any third part contract
- Continue the operation of a slimmed-down EK Services (“EKS-lite”) in order to provide continuity of governance and contract management capacity
- Revert to individual stand-alone services for each Council (in house arrangements for ICT and HR) but establish a joint client to manage any third party contract
- Outsource the residual parts of EK Services and create a larger client structure for the management of the separate functions (ICT, HR and the partnership contract)

Details of these options are provided in a separate report, “EK Services – Residual Structure Options” which will be presented in due course following further work. In summary, the recommendation is to maintain an “EKS-lite” in order to provide transition and contract management capacity, along with an opportunity for each council to take stock and consider what appetite (if any) there is for the future development of an expanded shared services and / or exploit some of the residual services such as selling payroll or ICT consultancy. “EKS-Lite” should then be reviewed after 12-18 months by which time savings and income from the strategic partnership should be realised and the management arrangements running smoothly.

Benefits, risks and opportunities

This option delivers a number of quantifiable benefits and financial, economic and operational opportunities to the councils, for example:

- Financial savings from contract go-live date
- Guaranteed performance levels and quality (to be agreed as part of detailed contract negotiation)
- Avoidance of redundancy for transferring staff (and the cost for EKS)
- Staff job security for the contract duration
- Staff terms and conditions (including LGPS) protected
- Creation of a partnership style of operation where added value from service growth is shared
- New job creation across the 3 Council areas
- Provides flexibility for the Councils to consider additional development (or otherwise) of their shared services activity
- Risk of impacts from new burdens (for example, the introduction of apprenticeship levy, increased employee costs) is reduced

The risks associated with this proposal are considered manageable. A Risk Log is provided at Annex B to this report.

Some points that should be noted (and managed either as part of a formal risk management process, or through more informal engagement) are:

- Contract management capacity either within a residual EK Services or as a shared function on behalf of the client councils would need to be strengthened
- Potential complexity of aligning client-side functions in a 4-way contract unless this function remains with a residual EK Services
- Long term budget commitment (albeit at a reduced level) required from contracting Councils
- Impact of bringing staff back into the Councils at contract end is not quantifiable at present but should be reviewed in good time before end of contract or any other break-points
- Staff concerns around a transfer to a private sector employer
- Potential for inflation-linked contract price growth (can be mitigated through contract negotiation and expected contract review points to review pricing)
- Flexibility for EKS to be used to deliver further budget savings in the future is reduced, unless a decision is made to either maintain or build as required an appropriate management and governance structure