

Informal Joint Performance and Audit Scrutiny Committee



St Edmundsbury
BOROUGH COUNCIL

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| Title of Report: | Accounting for a single West Suffolk staffing structure and the move to a West Suffolk Cost Sharing Model | |
| Report No: | PAS/SE/14/006 | |
| Decisions plan reference: | Oct14/01 | |
| Report to and date/s: | Performance and Audit Scrutiny | 26 November 2014 |
| | Cabinet | 2 December 2014 |
| | Council | 16 December 2014 |
| Portfolio holder: | Dave Ray Portfolio Holder for Resources and Performance Tel: 01359 250912 Email: david.ray@stedsbc.gov.uk | |
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| Purpose of report: | <p>The allocation of the single staffing structure across the West Suffolk partnership between Forest Heath District Council and St Edmundsbury Borough Council has to date been driven by the level of savings generated from the baseline position back in 2012.</p> <p>A new approach to cost sharing for West Suffolk is required that both recognises the shared nature of much of West Suffolk’s service delivery, and recognises that the councils remain separate legal entities. The West Suffolk cost sharing model must therefore be transparent and comply with external audit requirements.</p> |
| Recommendation: | <p>Performance and Audit Scrutiny Committee:</p> <p>Members are asked to <u>recommend</u> to Cabinet that:</p> <p>a) As part of the 2015/16 budget setting process and subject to external audit support, the Councils adopt the proposed cost sharing model for income and employee costs as detailed in Table 2 and 3 and at paragraph 2.17.</p> <p>b) The proposed model, as detailed in Table 2 and 3 and at paragraph 2.17, is reviewed annually as part of the budget setting process with any necessary amendments to the model (in order to secure delivery against the principles set out in paragraph 2.12), reported through to Performance and Audit Scrutiny Committee in the Autumn.</p> |
| Key Decision: <i>(Check the appropriate box and delete all those that do not apply.)</i> | <p><i>Is this a Key Decision and, if so, under which definition?</i></p> <p>Yes, it is a Key Decision - <input type="checkbox"/></p> <p>No, it is not a Key Decision - <input checked="" type="checkbox"/></p> |
| <p><i>Following the Cabinet decision on 9 December 2014, the decision made as a result of this report will be published within 48 hours and cannot be actioned until seven working days have elapsed. This item is included on the Decisions Plan.</i></p> | |
| Consultation: | <ul style="list-style-type: none"> • See paragraphs 3.1 to 3.3 of the report |
| Alternative option(s): | <ul style="list-style-type: none"> • See paragraphs 4.1 to 4.3 of the report. |
| Implications: | |

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| <i>Are there any financial implications? If yes, please give details</i> | | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> • Outlined in the main body of this report. • The model reflects the appropriate sharing of employee costs (and relevant income) for service delivery for both councils and does not affect the overall baseline for the council's costs | |
| <i>Are there any staffing implications? If yes, please give details</i> | | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • The risk section highlights the staffing implications if we continue with the current accounting process. | |
| <i>Are there any ICT implications? If yes, please give details</i> | | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • Although, the proposed model would allow the accounting to be a more automation process | |
| <i>Are there any legal and/or policy implications? If yes, please give details</i> | | Yes <input checked="" type="checkbox"/> No <input type="checkbox"/> <ul style="list-style-type: none"> • The cost sharing model will be implemented for the 2015/16 budget process subject to approval from members and external audit. | |
| <i>Are there any equality implications? If yes, please give details</i> | | Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> <ul style="list-style-type: none"> • | |
| Risk/opportunity assessment: | | <i>(potential hazards or opportunities affecting corporate, service or project objectives)</i> | |
| Risk area | Inherent level of risk (before controls) | Controls | Residual risk (after controls) |
| | Low/Medium/ High* | | Low/Medium/ High* |
| Current model – decisions are made based on retrospective and out of date information | High | Try to make use of the system to automate parts of the current model. Consider retaining an additional business advisor within the Resources and Performance Team in order to manage the process as efficiently and as accurately as possible (annual cost of £35k) | Medium |
| The current savings sharing model becomes too complex that external audit raise concerns over its appropriateness | High | Move to a cost sharing model | Low |

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| The new proposed model doesn't meet the principles desired in paragraph 4.12 | Medium | Challenge from policy and internal audit along with external audits review. Annual review process built into the model for S151 officer to lead | Low |
| Ward(s) affected: | | All | |
| Background papers: <i>(all background papers are to be published on the website and a link included)</i> | | None | |
| Documents attached: | | None | |

Key issues and reasons for recommendation(s)

1. Summary and reasons for recommendations

- 1.1 A total of £3.5million of savings has been achieved to date from the West Suffolk shared services agenda (excluding those savings delivered through the Anglia Revenues Partnership), with further in year savings due from the sharing of supplies and services and through joint contracts and efficiencies.
- 1.2 The allocation of the single staffing structure across the West Suffolk partnership between Forest Heath District Council and St Edmundsbury Borough Council has to date been driven by the level of savings generated from the baseline position back in 2012.
- 1.3 To date, the sharing of the savings has been deemed to be balanced across the two councils and acceptable to external auditors. However, recharging each council for the savings from shared services is a very labour intensive and retrospective process which, once completed each quarter, typically results in an overall sharing of costs that could have been achieved more simply from cost sharing the operational costs (of salaries for example) at the outset. Also, the current process causes some confusion for members and officers when managing and monitoring budgets and considering future costs and savings for the partnership as information is not live.
- 1.4 A new approach to cost sharing for West Suffolk is required that both recognises the shared nature of much of West Suffolk's service delivery, and recognises that the councils remain separate legal entities. The West Suffolk cost sharing model must therefore be transparent and comply with external audit requirements.

2. Background

- 2.1 In October 2011 the leaders of the West Suffolk councils issued a joint statement announcing that the Forest Heath and St Edmundsbury councils had agreed to create a unified staff structure for West Suffolk, starting with restructuring the two management teams to form a Joint Leadership Team. It was anticipated back in October 2011 that shared services would deliver annual savings of £2.358m for West Suffolk and it was agreed that the following mechanism was to be used for sharing savings from the staff restructure:
 - savings from Management Team (including Service Managers) to be shared 50/50;
 - savings from other service levels to be shared 35:65 FHDC:SEBC; and
 - ability to vary where there is a significant difference in service.
- 2.2 By November 2013 the shared service restructure was complete, with a single staffing structure working across the two councils. Both councils delivered over and above their original savings target: £3.5m in total for West Suffolk (Forest

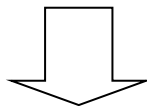
Heath a £1.4 million year-on-year saving and St Edmundsbury £2.1 million year-on-year saving).

2.3 Prior to the leaders' announcement for a full restructure, the Shared Services Steering Group (SSSG) had agreed a protocol for sharing of costs between the West Suffolk Councils looking at a service-by-service basis.

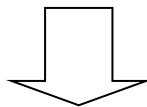
2.4 In order to secure the total level of savings required in the original shared services agreement across the West Suffolk councils, the cost sharing protocol (the service-by service basis) was side-lined and replaced with the use of the savings sharing mechanism outlined in paragraph 2.1.

2.5 Although greater savings have been secured by each West Suffolk council, the sharing of savings mechanism has, over time, created a labour intensive, backward-looking and complex quarterly process for the two councils as shown below:

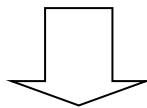
Step 1 Update the baseline position to take account of events from 2012 to current year that would impact that baseline position, such as service delivery changes, changes to the staffing establishment, pay inflation and the new pay line from June 2013



Step 2 Calculate the savings resulting from shared services for each service area, from the baseline position of 2012



Step 3 Apply the sharing savings mechanism to the savings resulting from the above steps



Step 4 Recharges between the two councils to enable savings to be allocated to each council to arrive at the **net cost of each council's share of the single staffing structure**

2.6 In reality by applying the above steps outlined at point 2.5, you gain a net cost position for each council that is broadly in line with the net cost position achieved if you skip steps 1 and 2 and you start at step 3 by taking the cost of the single West Suffolk staffing structure at the outset and applying similar percentages to those used in the sharing savings mechanism. Step 4 relates to the invoices stage which would continue to account for the necessary VAT due. However, this could be automated within the new shared financial management system when operating to a cost sharing model.

2.7 Also we want to remove a labour intensive process, improve the transparency of costs, as well as savings, across West Suffolk and assist budget holders and members with a clear understanding of their budgets both in year and their future management. It is felt that now is the appropriate time to revisit a model of sharing of costs and some relevant income (those linked to employee costs and commercial services).

2.8 A new cost sharing model will deliver the following benefits to West Suffolk:

- a simpler cost sharing model that is easy to communicate and understand;
- an automated system of recharging for costs that continually gives a true reflection of service demand for both councils;
- an open and transparent mechanism which more easily enables the cost of a service to be shown for Forest Heath, St Edmundsbury and combined for West Suffolk; and
- real time information available for costs throughout the financial year to allow budgets to be managed and monitored and for faster decisions to be made based on the most accurate and informative data

2.9 The cost sharing protocol that was agreed by the SSSG focused on determining appropriate cost drivers for allocating costs and savings. It was through the percentage split in households and population numbers across West Suffolk that the main savings sharing basis (35% FHDC – 65% SEBC) was derived. Using the same cost driver, based on statistics from the 2011 census for population, it is proposed that Forest Heath and St Edmundsbury use the same split as the core of their model for sharing costs and future savings.

Table 1 – West Suffolk cost driver

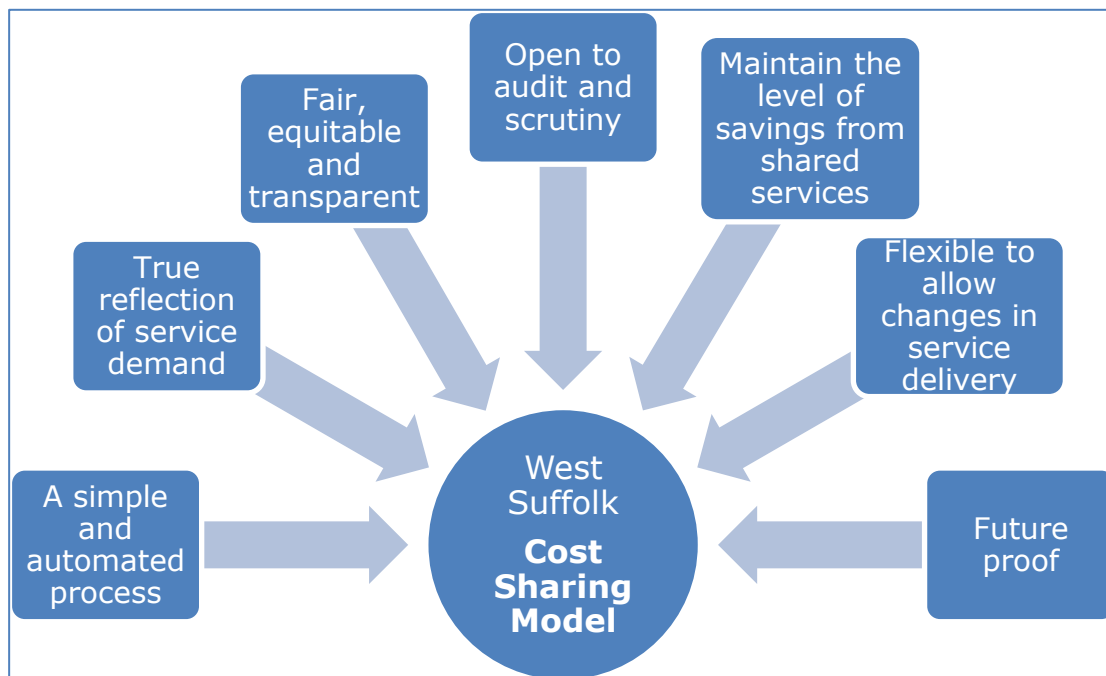
| Statistic | Forest Heath | St Edmundsbury | % split |
|----------------------|---------------------|-----------------------|-----------------|
| Population | 59,748 | 111,008 | 35% - 65% |
| Number of households | 25,376 | 45,802 | 35.65% - 64.35% |

2.10 The Anglia Revenues Partnership (ARP) has a recognised cost sharing and savings protocol for all partners. The cost drivers are based on ARP caseloads (proportionate to each council) and reset annually as a percentage charge to each council which is then agreed by the Section 151 Officers.

2.11 The ARP model is fair and transparent, is extremely simple to understand and calculate, and assists with budget management for all councils. Members of the ARP know where they stand in terms of any saving or cost movement and what that means for their local council budget and can make decisions based on that information. It is proposed that Forest Heath and St Edmundsbury aim for a similar simple model.

2.12 Proposed West Suffolk Cost Sharing Model

It is essential that a cost sharing model for West Suffolk is cost effective for the taxpayer and does not result in either council subsidising the other. Overall the model needs to meet the following principles:



2.13 Support is required from members for the model that will underpin cost sharing between the two councils. It is proposed that the West Suffolk cost sharing model is based on the sentiments of the agreed 2011 saving sharing mechanism and the link to the cost driver of population and household numbers within West Suffolk. The table below shows the cost split for employee costs. The cost of supplies and services will gradually be added into the cost sharing model as the contracts become shared by the two councils:

Table 2 – West Suffolk cost sharing model – Employee and supplies and services costs

| Heading | Split FHDC:SEBC | Reasoning |
|---------------------------------------|--------------------|---|
| Employee costs shared Leadership Team | 50:50 | Split based on leading and supporting two political bodies |
| Employee costs shared services | 35:65 | This split is based on impact rather than on time spent working for each council. |

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| Employee cost – service linked to an asset | Direct to the relevant council | Employees directly linked to an asset, for example The Apex, should be recharged 100% to the council that owns the asset. |
| Employee cost where the 35:65 split is not supported | Other | Listed at 2.17 of this report |
| Supplies and Services – shared services | 35:65 | To be gradually added into the cost sharing model as the contracts become shared by the two councils |
| Supplies and Services – linked to an asset or service delivery model | Direct to the relevant council | Supplies and services directly linked to an asset, for example The Apex, should be recharged 100% to the council that owns the asset. Supplies and services linked to a service delivery model, i.e. in-house or outsourced will be charged directly to the council that commissioned that delivery model |
| Supplies and Services – where the 35:65 split is not supported | Other | Listed at 2.17 of this report |

2.14 Members' allowances and expenses are excluded from the cost sharing model and will remain a direct cost to the relevant council.

2.15 The table below shows some principles for a percentage share of income that is linked to employee costs and commercial activities across the two councils. Agreement to share certain levels of income is necessary as this income could be the driver for the level of staff resource. For example the West Suffolk ICT service has service level agreements with a variety of external partners but the service is delivered by West Suffolk employees and both councils would be charged a share of their costs in the above model.

Table 3 – West Suffolk cost sharing model – Income

| Heading | Split FHDC:SEBC | Reasoning |
|--------------------------------------|---------------------------------------|--|
| Income – not linked to an asset | 35:65 or relevant employee cost split | Income that is linked to a commercial activity that is run by West Suffolk, for example trade waste or building control should be shared using the employee cost split for that service. Another example is the service level agreements that Human Resources, ICT and the Internal Audit have in place with external partners. The income from these services should be split using the agreed cost split for that service i.e. 35:65 or as detailed in paragraph 2.17 |
| Income from an asset | Direct to the relevant council | Forest Heath and St Edmundsbury own a portfolio of properties and these bring in a significant amount of income from events or business rent (for example the Guineas shopping centre in Newmarket). The income from these properties should be retained at 100% by the relevant council. |
| Statutory function – member decision | Direct to the relevant council | Members are required to make decisions on planning applications, premises licences, taxi licences etc. Where a decision has been made by one council and a fee is to be paid, this fee should be retained 100% by the relevant council. |

2.16 The above income and expenditure splits would in practice address any surplus/loss share for those commercial services included.

2.17 **Challenge on the proposed model**

The main 35:65 cost share assumption has been challenged with various statistics by Internal Audit and the Policy Team across a range of service level cost drivers. The result of the challenge has shown that the 35:65 cost share assumption can be applied in principle to most services provided by the councils, with the exception of those detailed in Tables 2 and 3 and the following:

- Property Services 40 (FHDC):60 (SEBC), link to current income split between the West Suffolk Councils; and
- Trade Commercial Services 25 (FHDC):75 (SEBC), link to current income split between the West Suffolk Councils; and
- Ability to vary where there is a significant difference in service not necessarily linked to an asset, but there is a clear decision by one or both Councils to work separately (such as the Chairman civic functions for Forest Heath and the Mayoralty function at St Edmundsbury).

- 2.18 The proposed model is reviewed annually as part of the budget setting process with any necessary amendments to the model (in order to secure delivery against the principles set out in paragraph 4.12), reported through to Performance and Audit Scrutiny Committee in the Autumn.

3. Additional supporting information

3.1 Consultation

- 3.2 The above model has been discussed by the Leadership Team and has been developed in consultation with the resources and performance team, Head of Human Resources, policy team, internal audit and both Portfolio holders for Resources.
- 3.3 Discussions are currently taking place with external audit and the proposed model will be subject to the external audit review.

4. Other options considered

- 4.1 To date, the sharing of the savings (using the mechanism outlined in paragraph 2.1) has been deemed to be balanced across the two councils and acceptable to external auditors.
- 4.2 One option would be to not change the current process of recharging each council for savings from shared services. However, this is very labour intensive and perpetuates the historical base for the councils before shared services. It is a backward looking process and it makes it difficult for budget holders to manage their budgets in real time as they have to wait for the quarterly recharging process to take place. There is also a risk that decisions might be made on incorrect and out of date information. Therefore, while it has worked well in the early stages of establishing shared services, continuing with the same practice is not a recommended option.
- 4.3 Another option might be to just share employee costs but not those income streams identified in Table 3. However, a driver for staffing levels in some service areas is the level of income. If one council lost a significant amount of income, for example from a Service Level Agreement, it would not be easy to adjust the staff numbers for that service and could result in differing levels of service across West Suffolk. Also it would mean that staff would need to have some way of recording their time spent on those income generating contracts, which would build in labour intensive bureaucracy, so that we could satisfy external audit that one council isn't subsidising the other.