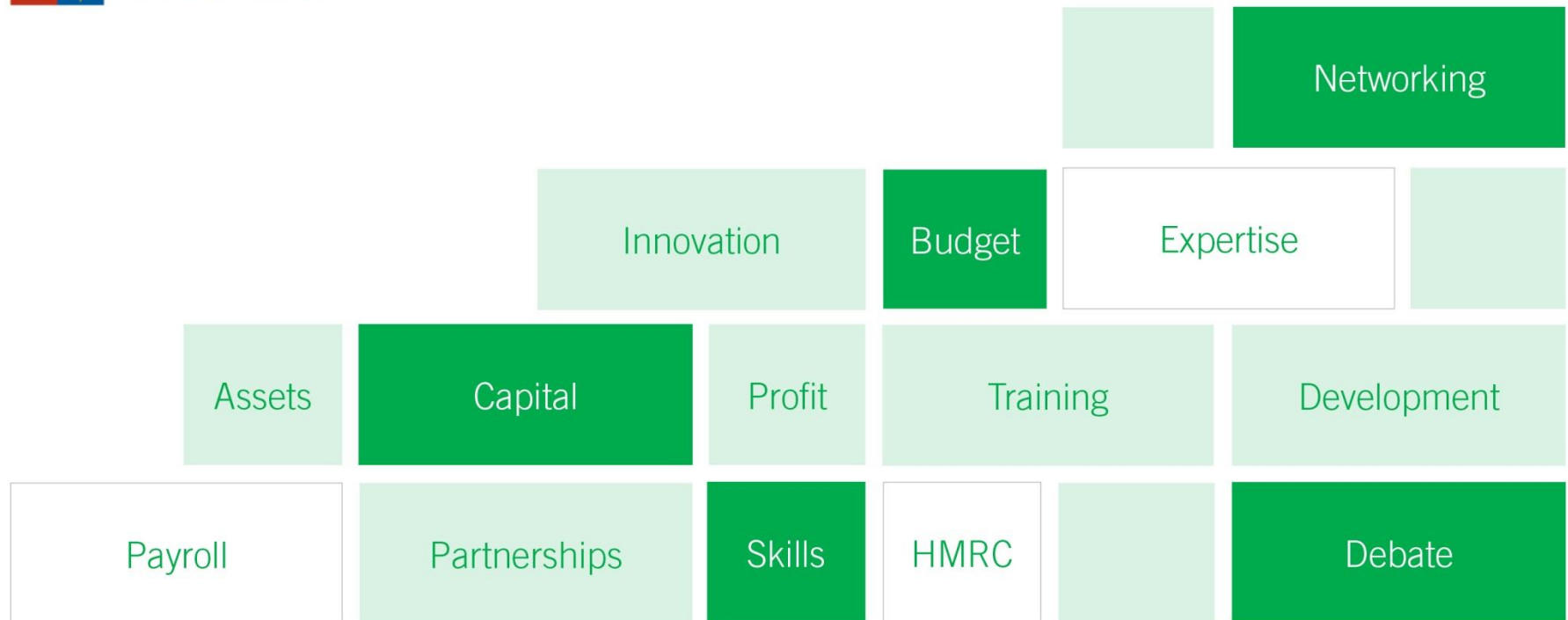


Building for the future



AAT Weekender – 16-17 May 2014

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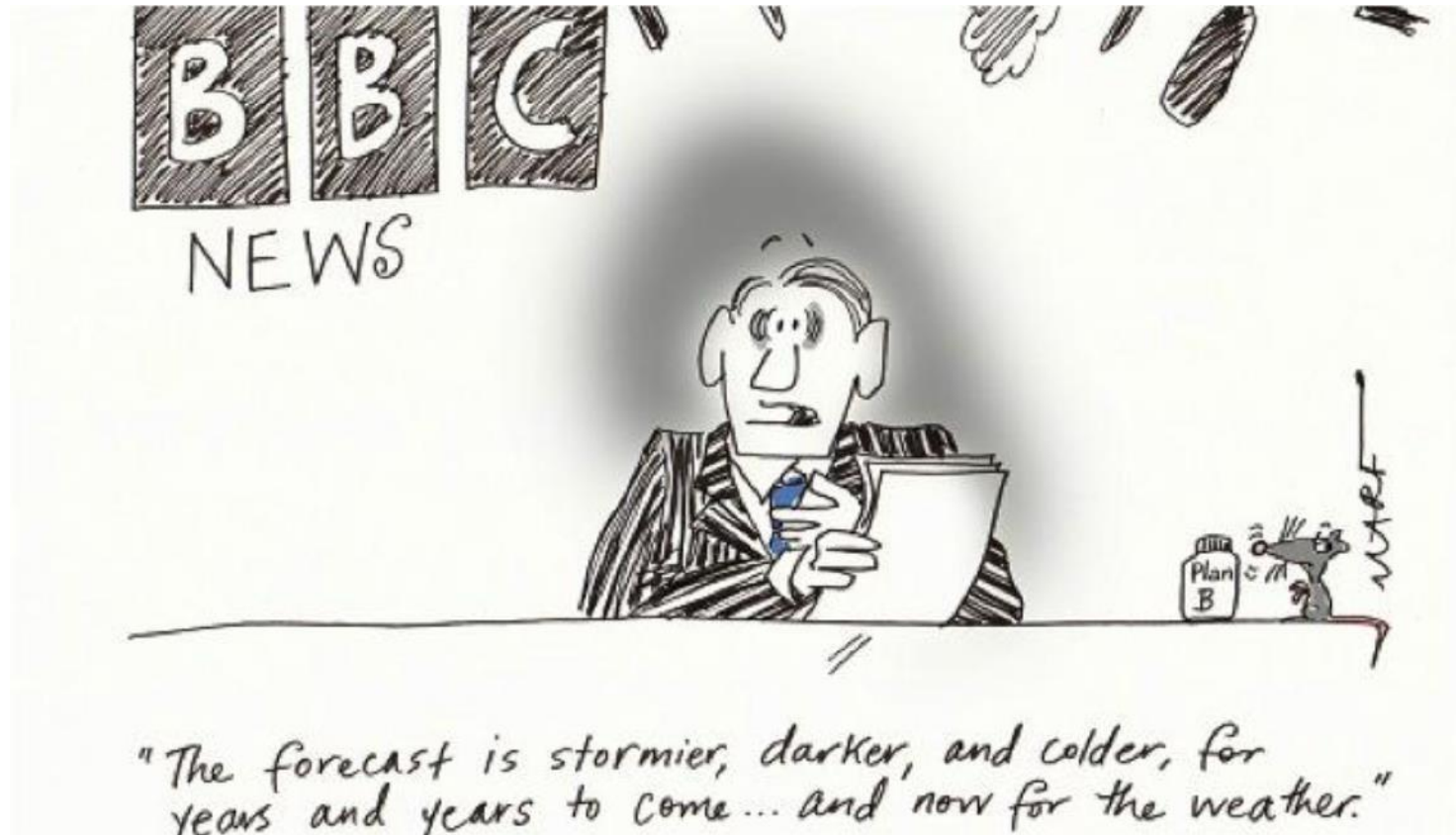


Alternative delivery models in Local Authorities

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News update



Financial direction - The right road?

- Where are we now?
- Where would we like to go?
- How do we get there?

Choices – what to keep, lose or share?

Keep

What is so important to your LA that you want to retain total control?

Or that you can generate income from?

Lose

What would you like/ can afford to lose that is, formally outsource (contract based)

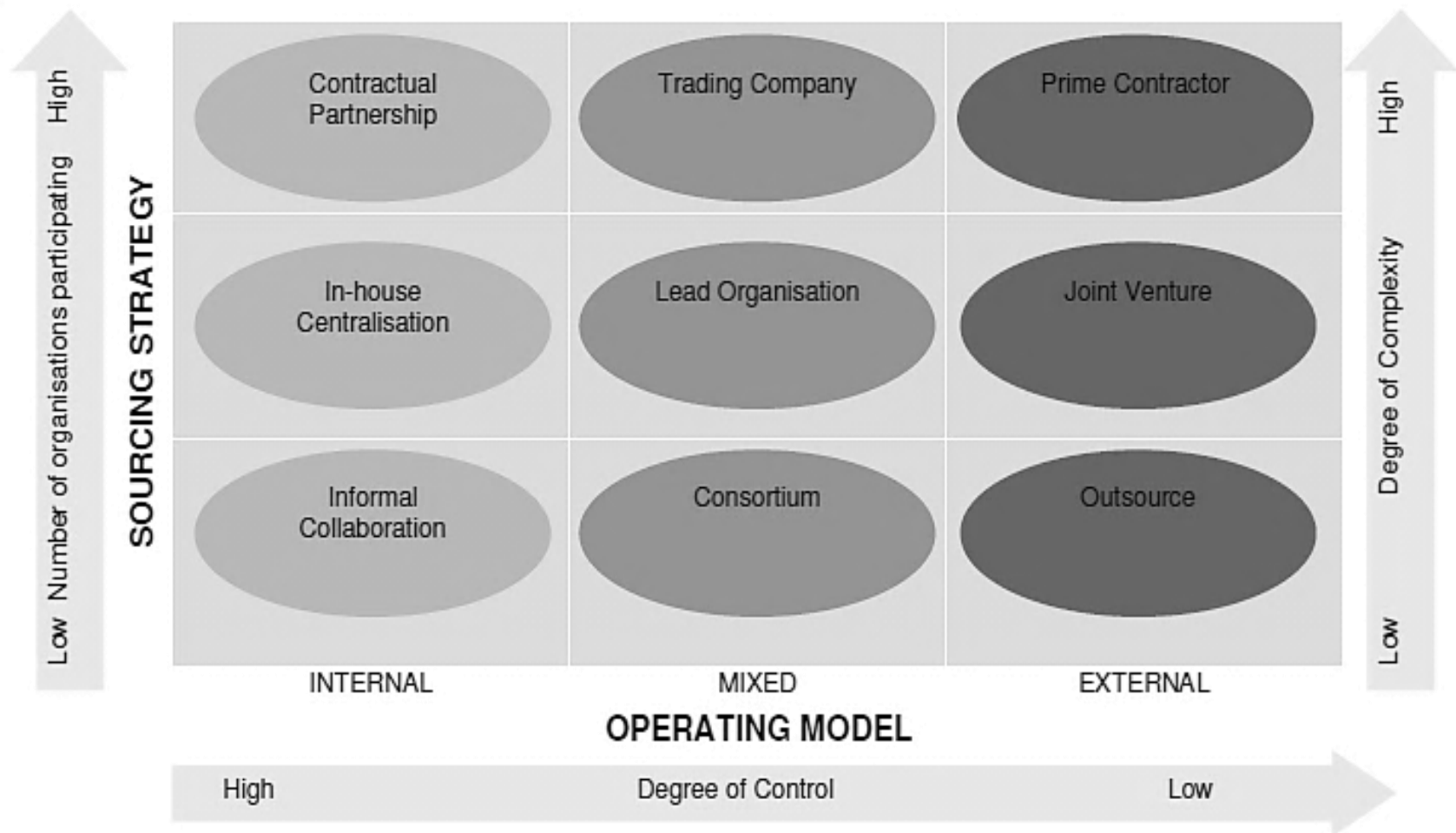
Share

What would you like to share responsibility for?

That is, collaborate, partnership, joint arrangements ?

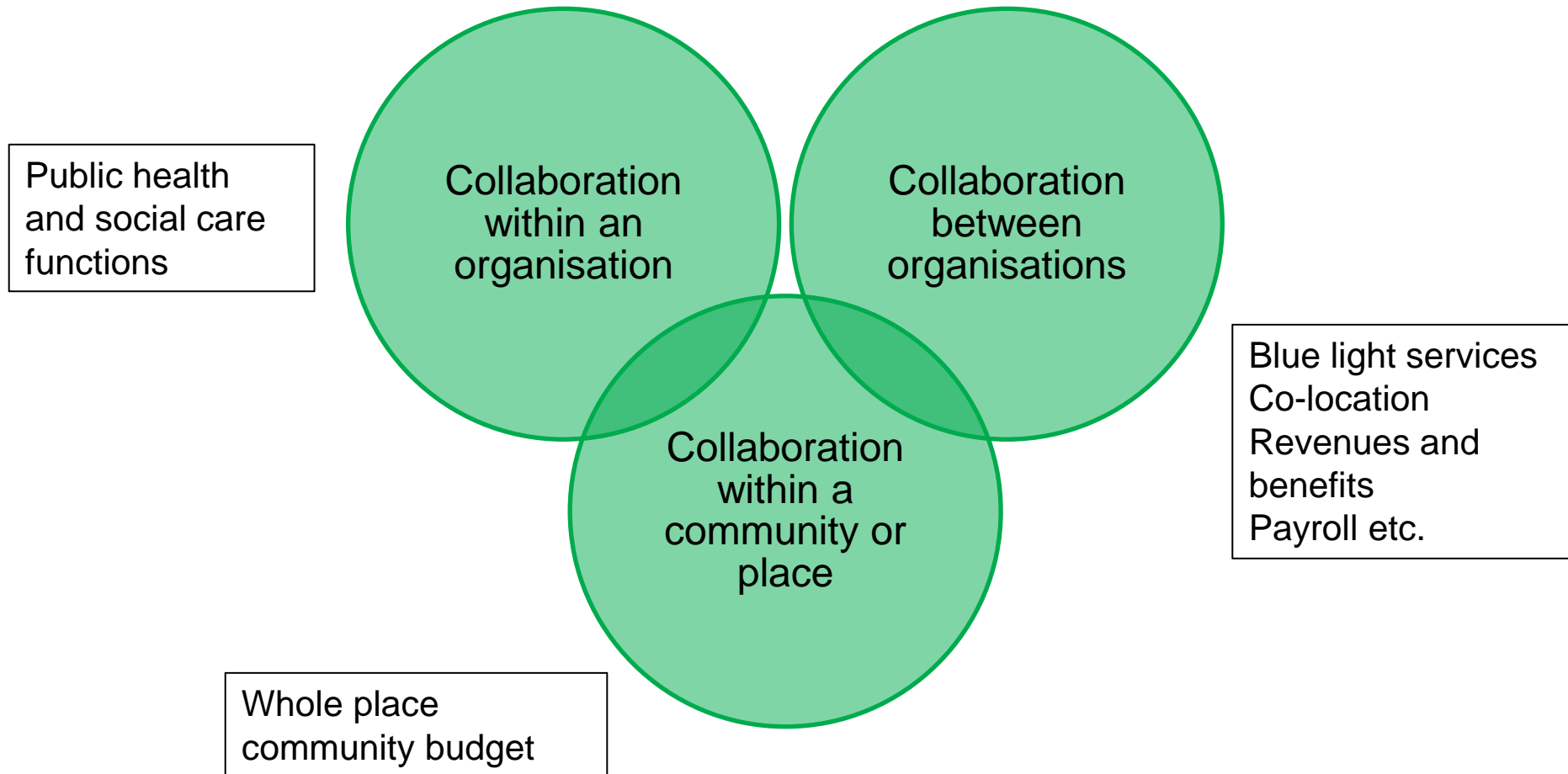
Now decide on the model?

Choices – Which model?



Different models

A delivery mechanism: Shared services/ collaborations



Tends to be:
Low-medium complexity
Internal or mixed partner delivery

Vehicles for shared services

Joint committees

- Joint committees –most popular in local government
- Democratically controlled – second or third membership are elected councillors
- Set up by agreement to discharge specific functions
- Cannot employ staff
- Can develop into partnerships that is, limited liability

Lead authorities

- Carries out services on behalf of other public (and potentially private) sector organisations

Vehicles for partnerships

- **Executive:** vehicle which can make its own decisions about how best to secure the purposes of the partnership, and act on them
- **Advisory:** a vehicle in which they can discuss and agree what each partner should henceforth do under their own steam, as their separate contributions towards partnership objectives
- **Corporate:** recognised by the law as being distinct from their own members. Often referred to as entities, corporate entities or legal entities. Executive partnerships are usually, but not necessarily, corporate bodies. All companies are corporate bodies
- **Non-corporate bodies:** cannot employ anybody that is, joint committee
- **Contractual partnership:** term often given to a partnership based on a non-corporate vehicle, but with a contract between the partners covering what each will do to secure the purposes of partnership, and how it will work
- **Power to Act** – can be through commercial contract, delegation agreement, deed of trust, employment contract, pooling, co-location, leasing

Separate legal entities – models

There is a wide choice of SLEs models including:

- Company Ltd by shares
- Company Ltd by guarantee
- Charitable industrial and provident society (IPS). This can be a community benefit society or a co-operative
- Limited liability partnership (LLP)
- Charitable Incorporated Organisation (CIO)

Separate legal entities – models

Main difference between them from the Councils view is often one of control. However from the SLE perspective there are a whole range of considerations such as:

- Ownership
- Control
- Participation
- Purpose
- Regulation
- Accounting
- Accountability
- Financing options
- Some areas of taxation
- Options for conversion

Explaining the vehicles (1)

- Company limited by shares – it has shareholders with limited liability and its shares may not be offered to the general public
- Company limited by guarantee does not usually have share capital or shareholders, but instead has members who act as guarantors
- Community Interest company – co limited by shares or guarantee – for the benefit of the community (CIC cannot be an IPS)
- Industrial and Provident societies may in general conduct any legal business except that of investment for profit. Can be community benefit societies or co-ops
- Limited Liability Partnership is a corporate body, it has a continuing legal existence independent of its members, as compared to a partnership which may have a legal existence dependent upon its membership
- Charitable Independent organisation (CIO) is for non profit organisations, it has legal personality, the ability to conduct business in its own name, and limited liability so that its members and trustees will not have to contribute in the event of financial loss

Examples of separate entities

Joint ventures

- Creation of a new company. Private sector partner mainly
- Developed for a finite time – new assets and contribute equity
- JV – mostly CLS, CLG or LLP. LA may have senior officer/councillor representation on the board

LA companies – (collective term)

- Authorities are free to set up companies to provide themselves with any type of services, works, supplies or facilities. Can have a jointly owned Co between LAs. Exemptions from OJEU CT. Includes include CLSs, CLGs, community benefit societies and co-op; but not trustees or commercial partnerships of any sort, CICs or friendly societies

Examples of separate entities

Dedicated service provision vehicles

- In house teams, following buy out, to tie successful tenderers to the client's business- CLS, LLP, Non profit orgs, CICs

Social enterprises

- trade for specified economic, social and environmental purposes; - CLS, CLG, CBS, Co-ops, mutuals, CICs.

Vehicles for Social Enterprise entities

Legal structure	Charities that trade	Mutuals	CICs
Ltd by shares	Yes*	Yes	Yes
Ltd by guarantee	Yes	Yes	Yes
IPS Community benefit society	Yes	Yes	No
IPS Co-operative	No	Yes	No
LLP	No	Yes	No
CIO	Yes	Yes	No

Rules on	Charity	Mutual	CIC
Governance	Trustees	Governing body elected by members	Company directors
Charitable status	Yes	Some	No, but a number of charities use a CIC as a trading arm
Trading	In line with objects – tax concessions	Any trading activity that members agree with	Any trading activity that complies with community benefit test
Social purpose	Must be charitable purposes and public benefit	Linked to members' needs	Community interest test
Issuing Shares	Not permitted	Yes - if not a company limited by guarantee	Yes - if not a company limited by guarantee
Profits	100% used for furthering objects	Option to distribute some profits to members	Can distribute but % limit per share and capped at 35% of profits

Rules on	Charity	Mutual	CIC
Tax advantages	Yes (NNDR, VAT)	Limited	No
Asset lock	Assets held in trust as per objects	Vary – as per governing document	Transfer of assets must satisfy requirements
Accountable	Trustees, funders, regulators, stakeholders	Members, regulators	Directors, members/ shareholders, regulators
Independent	Yes, although some controlled by LAs	Mostly - but some are subsidiaries	Not controlled by political organisation
Participatory	Can have employees, service users, etc on board but with some restrictions	Members - including multi-stakeholder model	Democratic structure is optional
Regulator	Charity Commission Companies house or FCA	FCA or Companies House	CIC or Companies House

Opportunities and challenges of alternative models

Challenge or opportunity?

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"My team has created a very innovative solution, but we're still looking for a problem to go with it."



"This really is an innovative approach, but I'm afraid we can't consider it. It's never been done before."

Pre set up - Lessons

Lost in translation ?



“The single biggest problem in communication is the illusion that it’s taken place.” G.B Shaw

Pre set up - lessons

Start with firm foundations

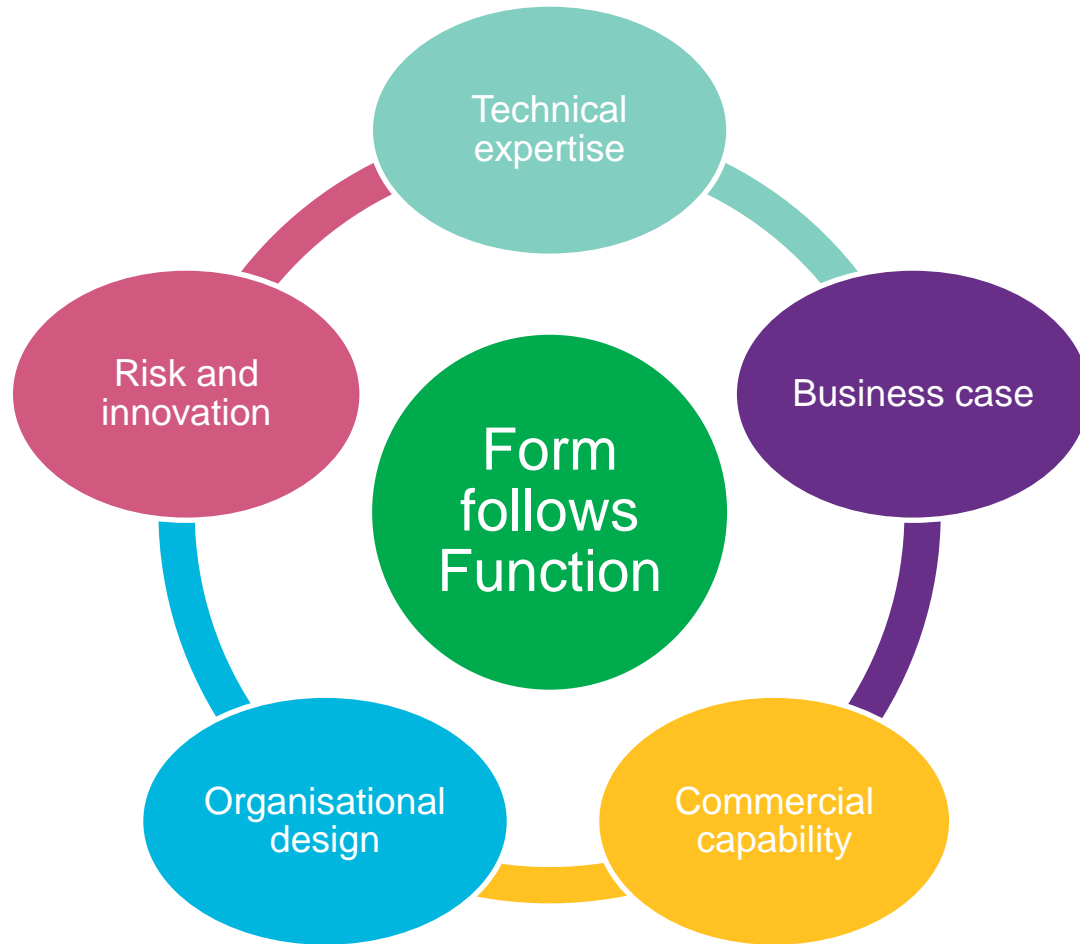
And keep checking

Be clear about

Assumptions



Critical to success



Remember....

- Savings do not flow automatically from service sharing/ alternative delivery; practitioners have to seek them out
- Merely adding several organisations together, and otherwise carrying on as before, is more likely to increase cost levels
- Look at the critical success factors- before you decide on the 'form'

The human dimension

Can you work together?



CIPFA 'Share the Gain' “*effective collaboration is first and foremost a human and political challenge*”.

Shared values?



Huxham and Vangen (collaboration experts) Their number one tip “don’t do it unless you have to! Joint working with other organisations is inherently difficult and resource consuming”.

Potential positives and negatives

Positives

- Savings from co-location, single IT system etc..
- Increased staff flexibility
- Freedoms to adapt and adopt methods 'fit for your purpose'
- Streamline and harmonise
- Encourages entrepreneurship
- Enhanced delivery?
- Less red tape?
- Closer to the customer?

Negatives

- Loss of sovereignty in shared arrangements?
- Cross-sector differences in regulatory and legislative frameworks
- Technological incompatibility
- Culture / priority / politics / personality clashes
- Financial impact on remaining 'in house' support services

In setting up...to remember...

- Need an agreed process - endorsed by the relevant boards
- Need to demonstrate the benefits to ALL - Need clarity of vision
- Engage with ALL stakeholders
- Need to develop a clear business case and 'live' business plan
- Buy in / trust is essential from ALL
- Formal checkpoints – ensure business case and plan remain valid
- Council approval

Setting up – operational issues to consider

- Business cases and business plans – ‘changes?’
- Office process and systems, that is:
 - finance and accounting
 - IT
 - procurement
 - document management and data protection
 - reporting lines and accountability
- Corporate support - remit / relationship with the Council
- Other – insurance, staff recruitment, financial sustainability

Issues to consider when setting up a SLE (1)- Transfer Process

- Legal structure
- Due diligence
 - Asset transfer (which party retains final control)
 - Liabilities and contracts transfer
 - Staff TUPE arrangements, redundancy possibilities and post transfer terms and conditions
- Terms and conditions
- Financing including any Tax/ VAT issues
- Pensions
- Governance
- Incubation period (support/ costs from Council)

Issues to consider when setting up a SLE

(2) – Back office practicalities

- Setting up a new bank account
- Registration with regulatory bodies
- Payroll, payments, cash collection providers etc
- Year end accounts
- VAT returns
- Establishing budgets and monitoring procedures
- Establishing procurement processes - Teckal
- Establishing clear lines of authority and accountability in all areas
- Internal and external audit requirements

How does this affect finance staff?

Thoughts...

- New skills required?
- Year end processes will change
- Some staff could transfer under TUPE
- Some staff retained in core
- Beware the smouldering ember!

Skills in setting up and operating alternative models

Skills needed to set up and operate

Ideal

- Influence and effect positive change across boundaries
- Good communicator
- Knowledge of governance structures and alternative vehicles that would suit.
- Commercial skills (procurement, financial, contract, business case)
- Experience of process methodologies
- Creates value

Reality

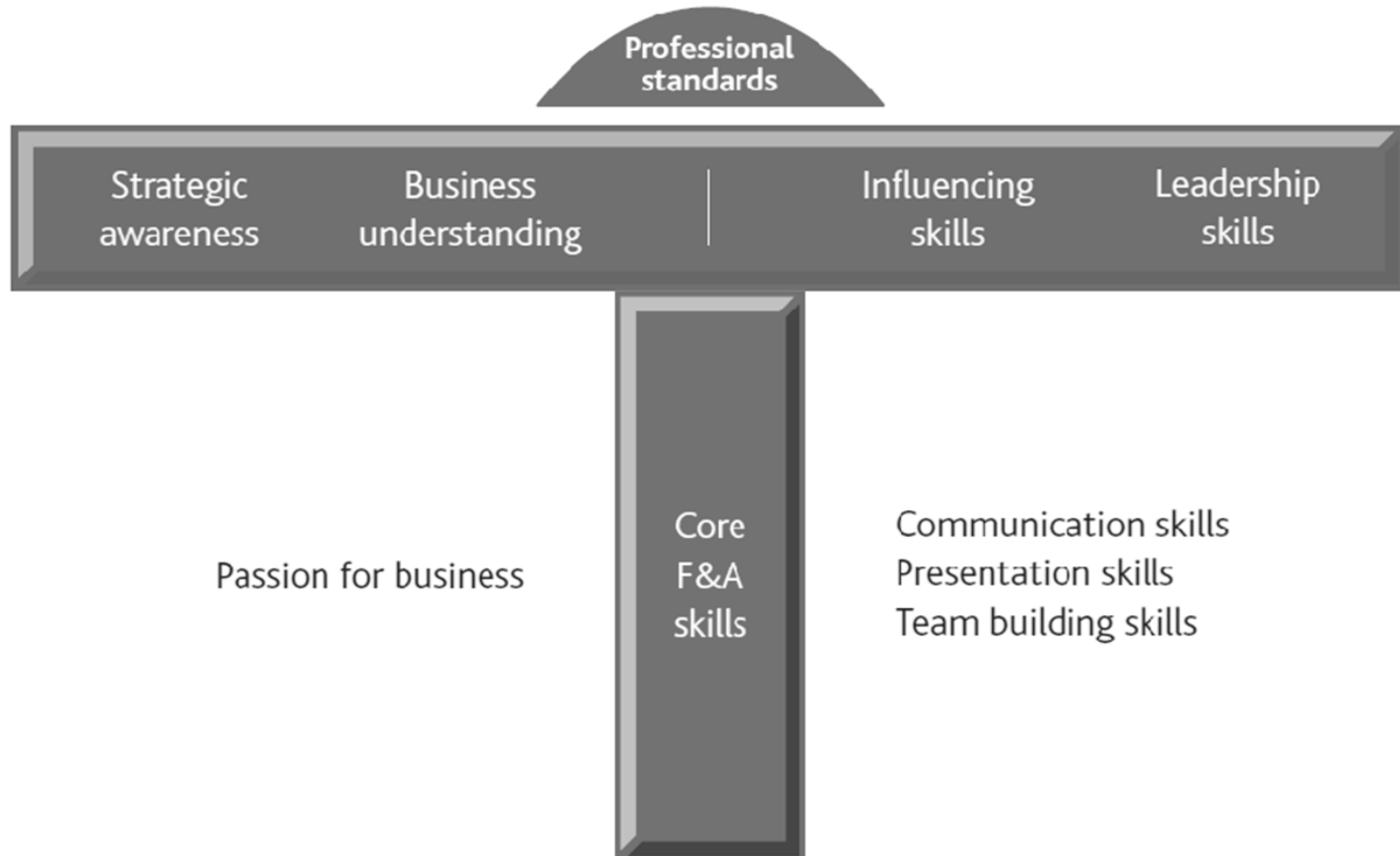
- Based on capacity not capability

Leadership skills in the new world



Source: CIMA

Ideal for of a business partner



Successes

- LGSS - wholly owned by Cambridgeshire and Northamptonshire county councils – £11m savings
- Compass Point Business Services – Co Ltd by shares - joint venture between East Lindsey DC (63%) and South Holland DC (37%) – £2.1m savings
- JISC-Higher Education – cost £1.25m – saved £43m between 2007-2008. Current estimates – £259m in annual cost savings and cost avoidance for the sector
- NHS Wales shared service partnership – £2m savings from 2011
- Kent and Essex Police shared service – 1997. By end of 2011/12 £20.5m cost savings

Successes

Salford Community Leisure

- IPS for benefit of the community (mutual and charity)
- Delivers sport, leisure, heritage and library services on behalf of Salford City Council
- Established 2003
- Manages 50 premises
- Members are its users, its staff and local residents
- Staff trained in 'co-op values'

**Culture
& Sport** Glasgow

Charity
company limited by
guarantee

**Trading subsidiary
CIC**
Company limited by
shares

Successes

- Company limited by guarantee
 - Social work practice
 - Services for children in care, or leaving the care system
 - 15 staff - including admin cleaner, run the practice, offers services to 150 LAC & care leavers aged 12 to 25
- **HforL** = Company limited by shares (20% council, 80% Schools)
 - Various service streams to schools
 - **HCL** -100% owned subsidiary of council
 - School catering



Herts
for Learning

Educational excellence together



Successes

- **Suffolk CC Mutual**
- (Divested 10 business units between 2011 -2013)
 - TUPE 4,000 staff
 - Contracts worth £75m
 - Wholly owned company, mutual, two industrial provident societies, joint venture and traditional outsourcing
- **3BM: Tri Borough** (Hammersmith and Fulham, Kensington and Chelsea and Westminster) Support services to schools
- First ever **mutual joint venture** to spin out of LG
- Owned by a partnership between the employees and 'Prospects'
- Employees own 75.1% of the business, = a controlling stake
- Prospects, the education employment company, (a mutual) has a 24.9% share and brings capital and business expertise needed to make the business grow
- As a result of 3BM spinning out, the local councils will see £1 million in savings over the next four years



Why do these services fail?

People, Power, Politics

- High entry or up-front costs (IT, legal, staff)
- Long time to realise small savings – providers complain
- Loss of local knowledge
- Loss of service visibility
- Large numbers of mistakes (increasing cost over time)
- Loss of control and accountability
- Loss of local jobs
- Worker dissatisfaction and union troubles
- Costs of failure pushed onto service users
- Costs pushed into other budgets - means savings in others
- Litigation between partners

Failure – ability to execute plans!



South West One joint venture contract with IBM

Feb 2014 audit committee report published :

- Contract too long and complicated
- Expectations not met
- Client team to monitor supplier “too small”
- Some contract clauses “too onerous”
- Too ambitious
- Hampered by terms of staff contracts



Working as one For the South West

MoJ shared services - concerns

- To Join HR, procurement and finance in a single system by June 2013 – but extended to December 14
- Complexity of integrating two ‘very different’ systems; establishing specifications for the new system that satisfied all users; and coordinating the three hardware and software suppliers

Thoughts

- Are we just moving the deckchairs around?
- Or are we creating real efficiencies?
- What is the alternative ?

Thank you
Any questions?

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