London Borough of Merton

Report and recommendations arising from the scrutiny task group reviews of shared and outsourced services in Merton

Overview and Scrutiny Commission

July 2016

Task group membership

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All contributors are listed in Appendices1 and 2 of this report.

Foreword

The pace of change in local government continues to be unrelenting. The reward for proving adept at maintaining the delivery of essential services on sharply reduced budgets appears to be more of the same. But the first round of austerity (2010-15) has exhausted all the easy savings, the current round (2015-20) calls for more radical changes if essential services are not to fail altogether.

This is the background to our review of shared and outsourced services, an open minded approach to their potential benefits and drawbacks for Merton. To date the council has adopted an opportunistic stance, making the best of the circumstances presented to it. We wanted to see what could be learned from these experiences, and whether they could be systematised into a more consistent approach. In particular we were keen to see a more rigorous process of challenge to the *status quo,* to ensure alternatives to current delivery models were properly considered.

In the event, the recommendations we have made are evolutionary rather than revolutionary. So the challenge process is to occur in-house, coming from the Corporate Management Team rather than external consultants. In part this recognises the limitations on financial resources. But it also acknowledges the collective experience of the CMT and its ability to make innovation work within the Merton context. Outsourcing does not mean the abnegation of corporate responsibility.

Yet we remain concerned that service delivery may become less accountable as it moves to third party providers. There is a danger of scrutiny taking place after the event or being missed altogether, if arrangements are not put in place to match the new structures for shared and outsourced services. That is why we are requesting pre-decision scrutiny for large or strategically important services, and inviting the Chief Executive to report annually to the Commission on how the CMT has evaluated and challenged major changes to service delivery.

As Chair, I would like to thank the members of the task group (Cllrs Hamish Badenoch, Suzanne Grocott, Russell Makin and Imran Uddin) for their thoughtful contributions to the review. But above all I would like to thank Julia Regan for her hard work in turning all those thoughtful contributions into a coherent report and succinct set of recommendations – no mean achievement.

Executive Summary

This report presents the findings, conclusions and recommendations of two consecutive task group reviews of shared and outsourced services. The task group has talked to service managers, directors and the chief executive. It has received a number of background policy documents and has reviewed the experiences of other councils. Visits were made to Barnet Council and to Richmond and Kingston's social enterprise company Achieving for Children.

The task group has found that there are considerable benefits to be gained from shared and outsourced service arrangements. What the benefits are will depend on the nature of the services being shared and the model of service delivery that is chosen, but may include financial savings and improvements to service quality. Shared services can provide opportunities to deliver a more specialised service and to offer services that couldn't have been provided by individual authorities.

The council has taken a pragmatic approach towards setting up shared and outsourced services, seizing opportunities as they arose as well as actively seeking partnerships for those services that would benefit from this. Although this approach has served the council well to date, the task group believe that more could be done to provide rigorous challenge to ensure that the most appropriate delivery model is chosen for each service.

Mindful of the financial context, the task group has made a small number of recommendations that can be implemented without a significant investment of time or money. These recommendations are intended to enable the Corporate Management Team to embed a stronger element of challenge to ensure that the council operates in a strategic and innovative way. The task group has recommended the production of a standardised business case that should include financial modelling to set out options and alternatives as well as details of other expected benefits so that vigorous challenge can be provided prior to a formal decision being made.

The task group has recommended that scrutiny continue to take an active role in this work by reviewing the draft business case template, inviting the Chief Executive to report annually to the Overview and Scrutiny Commission on how challenge has been embedded, and receiving reports on the proposed establishment of large or strategically important shared or outsourced services at a various points in time when there is an opportunity to have some influence on its development.

The task group's recommendations run throughout the report and are listed in full overleaf.

List of task group's recommendations

	Responsible decision making body
Recommendation 1(paragraph 92)	
We recommend that the Corporate Management Team (CMT) should have a more clearly defined mandate and process to embed challenge on models of service delivery at a senior level within the organisation. This will ensure that there is more specific challenge to service managers as well as internal peer review.	Cabinet CMT
Recommendation 2 (paragraph 95)	
We recommend that decision making on the establishment of proposed shared and outsourced services is strengthened through the production of a standardised business case that is presented to the Corporate Management Team and to Cabinet (or the relevant individual Cabinet Member for smaller services) for approval. This business case should be clearly evidenced and should include financial modelling to set out options and alternatives as well as details of other expected benefits so that vigorous challenge can be provided prior to a formal decision being made.	Cabinet CMT
Recommendation 3 (paragraph 97)	
We recommend that a draft of the business case template is brought to the Overview and Scrutiny Commission for discussion prior to finalising it.	Cabinet Overview and Scrutiny Commission
Recommendation 4 (paragraph 100)	
We recommend that Cabinet should ensure there is support provided to service managers who are exploring the feasibility of establishing a new shared or outsourced service so that these managers can draw on learning and expertise that already exists within the council. This should take the form of an on-line resource such as a checklist of issues to consider and contact details of officers who can provide advice and support. The resource should also include guidance on developing and complying with the standardised business case for the service as set out in recommendation 2 above.	Cabinet

Recommendation 5 (paragraph 104)	
We recommend that the Corporate Management Team should ensure that service managers have a mandatory appraisal objective to familiarise themselves with best practice elsewhere and consider how best to incorporate this in their service delivery.	CMT
Recommendation 6 (paragraph 108)	
We recommend that the Corporate Management Team should ensure that a training or briefing resource is developed for officers in those corporate teams (such as HR, IT, finance and facilities) so that they understand the delivery model and likely support requirements of the council's shared services.	CMT
Recommendation 7 (paragraph 110)	
We recommend that the Overview and Scrutiny Commission should invite the Chief Executive to present a report annually to set out how challenge has been embedded, what choices have been made by service managers on models of service delivery, what changes resulted from the challenge process and what options were rejected and why.	Overview and Scrutiny Commission
Recommendation 8 (paragraph 111)	
We recommend that the Overview and Scrutiny Commission (or relevant Panel) should receive a report on the proposed establishment of large or strategically important shared or outsourced services at a point in time when there is an opportunity to have some influence on its development. There should be further reports to review the operation, performance and budget of the service 15 months after the start date and when the agreement is due for review.	Overview and Scrutiny Commission

Report of the Shared and Outsourced Services Scrutiny Task Group

Introduction
Purpose
1. The Overview and Scrutiny Commission has recognised that scrutiny members will increasingly be scrutinising services that have been provided or commissioned through a wide range of different channels or mechanisms, as well as scrutinising proposals to move to alternative delivery arrangements.

2. In order to be able to carry out such scrutiny effectively, the Commission, on 29 January 2015 and at subsequent meetings, resolved to set up a series of task group reviews to increase its knowledge of different models of service provision and the associated implications for scrutiny.

3. Two such reviews have been carried out, one on shared services and one on outsourced services and, due to the cumulative learning experienced, they are presented jointly in this report.

4. The terms of reference for the work on shared services were:

    - to examine a range of examples of shared service provision in Merton and elsewhere;
    - to identify the potential advantages and challenges of shared service provision for the council, its partners and local residents;
    - to identify the best approach to scrutinising shared services to ensure that the council is receiving value for money and effective service provision.

5. The terms of reference for the work on outsourced services were:
    - to examine a range of examples of outsourced service provision in Merton and elsewhere, taking a broad definition of outsourcing to encompass council owned trading companies, staff-led social enterprises or mutuals as well as contracts with private and third sector organisations;
    - to investigate and advise on the advantages and challenges that a whole-council approach to outsourcing would bring to Merton;
    - to make recommendations that would support a more rigorous approach to the evaluation of alternative models to in-house delivery of services.

6. The Commission agreed to take a different approach to the outsourced service review so that it could contribute more substantially to policy development and to budget savings. The task group was therefore asked to investigate the hypothesis that Merton would benefit from a whole-council approach to outsourcing.

7. Members agreed that this should not amount to taking an ideological position such as advocating outsourcing for all services but would provide an expectation that alternatives to in-house delivery would be

actively considered instead of continuing to take a "salami-slicing" approach to savings proposals.

What the task group did

8. The task group has had eight formal meetings plus a number of discussions with service managers, directors and the chief executive. It has received a presentation on shared service definitions and models, a list of current shared services in Merton and a number of background policy documents.

9. Task group members spoke to directors and managers of existing shared services in Merton as well as managers who had been involved in discussions with another authority but these discussions had not proceeded to the establishment of a shared service.

10. In relation to outsourcing, task group members have visited Barnet Council to talk to senior council and Capita managers about the "One Barnet" programme. A visit was also made to Richmond and Kingston's social enterprise company Achieving for Children to discuss their delivery model.

11. The task group has also received written information about the outsourcing strategy and experiences of a number of other councils, including Bedfordshire, Northamptonshire and Somerset .

12. Appendix 1 lists the written evidence received by the task group and Appendix 2 contains a list of witnesses at each meeting.

13. This report sets out the task group's findings, conclusions and recommendations. The task group's recommendations run throughout the report and are set out in full in the executive summary at the front of this document.

FINDINGS - SHARED SERVICES
What is a shared service?

14. Essentially a shared service involves two or more organisations agreeing to join forces to provide or commission a service, part of a service or combination of services jointly rather than separately. The Chartered Institute of Public Finance and Accountancy (CIPFA) has provided an all encompassing definition:

> "working together across organisational boundaries to achieve together what would be more difficult alone" (CIPFA 2010).

15. During this review we have heard that there are various different models for the operation of a shared service. The three models that have been most commonly used in Merton to date are:

- Principal partner led, whereby one lead organisation assumes responsibility for running defined services for other organisations under formal delegated arrangements. The lead organisation delivers the service with its own (or seconded) resources; the other partners "purchase" the service from the lead. An example of this is the South London Legal Partnership (where Merton is the lead).
- Jointly managed services, whereby a formal arrangement is established for a defined purpose, which delivers services back to its partners or directly to the public. An example of this is the shared regulatory service (environmental health, trading standards and licensing) which is governed by the Joint Regulatory Service Committee of councillors from Merton and Richmond.
- Joint working, whereby each partner acts independently and retains responsibility for the service in-house. An example of this approach is the South London Waste Partnership for the joint procurement of services.

16. Appendix 3 contains a list of shared services to which Merton Council belonged in May 2015.

17. The shared service approach could be combined with other models of service delivery, for example:

- Public- private partnership, typically a medium to long term arrangement whereby some of the service obligations of public sector organisations are provided by one or more private sector companies. A possible example of this is the tri borough partnership with BT on back office functions.
- Outsourcing, whereby a third party provider takes full responsibility for managing and operating services on behalf of more than one public sector organisation. It would be possible for the South London Waste Partnership to operate in this way in future.

Benefits of shared services

18.   We were struck by the enthusiasm with which managers of existing shared service spoke of the benefits that sharing had brought to their services. These benefits have been wide ranging and we have grouped the impact into three headings in order to capture them below – finance, customers and staff.

Finance

19.   The council has achieved considerable financial savings through sharing services with other boroughs. These have been achieved through economies of scale on service delivery and procurement of services and systems, reduction of staff numbers, service delivery efficiencies and rationalisation of systems.

20.   We heard that:

- the South London Legal Partnership has reduced Merton's legal services budget by 16-20% since 2011 by reducing the overall number of staff through sharing with three other councils and reducing the hourly charge to the council from £68 to £55.

- The shared regulatory service (environmental health, trading standards and licensing teams) has reduced Merton's related budget by c22% since 2014 by reorganising and reducing management (phase 1 and operational posts (phase 2). Phase 2 will involve losing around 8FTE from 43 operational staff.

- Merton has saved 45% from the HR shared service since 2009. Overall, staff numbers have reduced from 130 to 90, with greater savings at senior levels. Joint procurement and business process re-engineering have also made a significant contribution to savings.

21.   The managers we spoke to pointed out that one of the advantages of a shared service is that it can provide some resilience once savings have been made.

22.   We were advised that establishing a shared service does not in itself create savings. As with all delivery models, savings are made through analysing costs, breaking the service down into component parts, redesigning the structure and processes to create a more efficient service that is fit for purpose and can be delivered within the available budget.

Impact on customers

23.   We heard that sharing services can lead to a better quality service plus opportunities to provide services that wouldn't have been possible within a single authority. For example, the South London Legal Partnership has been able to provide services to its (internal) customers at a lower cost

than previously as well as providing greater specialist knowledge and experience.

24. The manager of the South London Legal Partnership encourages the lawyers to walk round and talk to staff when they are in each of the client boroughs in order to maintain the service's visibility and foster clients' perception that they have an in-house legal team.

25. As many of the shared services we scrutinised predominantly have internal customers, we have been unable to assess the impact that sharing services might have on Merton residents.

Staffing
26. We were interested to hear that there are considerable advantages for staff joining a shared service, particularly in giving them access to work experience that they wouldn't have had in their own borough, a peer group for very specialised areas and more opportunities for career advancement. We were told that in some instances the move to a shared service had provided a catalyst for change and had reinvigorated the workforce.

27. We also heard that an effective and well regarded shared service is in a stronger position to attract better staff than a single borough service that may be too small to provide a range of professional experience for career development purposes. For services where there is a high turnover of staff, a shared service can provide continuity and resilience.

28. The quality of leadership, particularly having a service manager who is positive and committed to the shared service, is of vital importance. Such leadership will help to enthuse staff and guide them through the new ways of working that are required to make shared services successful but initially can be threatening or difficult for staff. We are mindful that senior staff are more likely to be made redundant when shared services are introduced due to restructuring and reduction in senior posts.

Being the lead borough
29. We asked officers whether there were advantages in being the lead borough. They said the answer to this will depend on the service concerned. It can be a boost to staff morale or it can be threatening if staff are not comfortable with change. Team dynamics vary and whether the team is predominantly office based or mobile ("out in the field") will also impact on this.

30. We heard that is important to be able to retain the borough's distinctive image for both internal and external customers.

Shared services – general principles

31. The willingness of other organisations to share is clearly crucial in being able to establish a shared service, as well as mutual trust and a shared vision for the service(s) in question. Having senior stakeholders (both officers and members) on board is essential. Our discussions indicate that the lack of full commitment from a suitable partner is the main factor when shared service negotiations fail to come to fruition.

32. Merton has partnered with a variety of boroughs over the years, as shown in the list of shared services in Appendix 3. Merton's options sub-regionally are more limited now that Richmond and Wandsworth have a formal agreement to partner with each other. It would be possible for Merton to join individual shared services jointly established by Richmond and Wandsworth. Those councils would make decisions on a case by case basis but there is often a preference to start shared services on a small scale and having three boroughs could be too complex initially for some services.

33. We heard that the culture of the organisations and/or individual services plus political factors have an influence on the likelihood of a proposed shared service going ahead. Officers told us that it can be difficult to read this in advance of starting discussions on a proposed shared service. We understand that these factors are less of an issue for services such as environmental services because the legislative requirements involved have resulted in less scope for local differences in service provision.

34. We asked officers whether there would be a natural size limit for a shared service. They told us that this would depend on the nature of the service and the extent to which geographical considerations would be a factor in the provision of the service. The officers agreed that its best to start with two boroughs and build up once it is working.

35. We also discussed the potential for commissioning services jointly with other authorities. The directors provided a number of existing examples of this:

    - Human Resources operates recruitment and occupational health contracts jointly with other local authorities, come of these contracts have 100 member authorities.
    - The libraries service is already part of a 16 borough consortium for stock ordering.
    - Merton has reserved the option to buy into the Londonwide street lighting contract in future and would be one of potentially 32 boroughs, with Transport for London being the biggest partner – the decision will be dependent on price.
    - There is a regional commissioning consortia on children's' services that has successfully driven down prices on aspects of provision to children's homes and independent special schools.

36. We were informed that the number of authorities taking part in shared commissioning would depend on the nature of the service, size of the authorities concerned and whether geography is a factor in service provision.

37. The establishment of new shared service arrangements is dependent on the willingness of other boroughs to participate and their attitude to partnership versus leading and that this was a limiting factor in the choice of partner. There may be an unwillingness to share with a partner whose service is considerably larger due to the danger of being "swallowed up" and thereby losing the Merton service ethos. Similarly the council would not seek to share with a struggling service as this would not yield benefits to Merton. These factors explain the council's current patchwork of shared services arrangements.

FINDINGS – OUTSOURCED SERVICES
Outsourcing in Merton

38. Outsourcing is the use of third party specialists to deliver a particular business function or process. When a local authority or other public sector body outsources an operation it usually maintains full control and accountability for that service. Outsourcing has been used extensively by local authorities for some decades.

39. The Council's Procurement Strategy, 2013-2016, states that the council spends approximately £170m each year on goods and services on behalf of Merton's residents. The range of goods and services is varied, but includes services for schools, waste collection, care services for children and adults, maintaining the highways, parks and services, encouraging business growth and major construction works.

40. The Council has a number of significant contracts that have outsourced specific services, some of which are longstanding:

Highway maintenance – FM Conway
41. FM Conway has a longstanding relationship with Merton Council and has provided the council with a range of services including highway maintenance, carriageway surfacing, lining, civil engineering, traffic management and drainage works since September 2005.

42. The current highway works and services contract started on 1 September 2012 to run for 5 years with facility to extend for a further 2 years. The contract value 2012/13 is £5m.

43. A report to Cabinet on 18 July 2011 set out the service models considered by officers at that time, including a potential wide ranging pan-London contract with Transport for London, the London boroughs and the City of London. These were described in detail and the advantages and disadvantages of each were provided - considerations included cost, timing and other logistics as well as legal advice.

Street lighting – Cartledge (Kier May Gurney)
44. The most recent street lighting maintenance and improvement contract started in September 2009 for 5 years plus facility to extend for 2 years. The 2012/13 contract value was £1.1m. A report to Cabinet on 20 January 2014, seeking to extend the contract, set out performance on key indicators plus details of innovation and improvement made by the contractor.

Leisure centres – Greenwich leisure Limited (GLL)
45. Greenwich Leisure Limited (known as GLL) is a staff led leisure trust with a social enterprise structure, founded in 1993 in response to Greenwich Council's need to find a new way to run its leisure centres

due to funding reductions. GLL is a registered charity and re-invests any surpluses into its services.

46. GLL has managed Merton's leisure centres for many years. The most recent leisure centre management contract started on 1 December 2010 for a period of 15 years (see report to Cabinet on 21 June 2010). The contract includes the option to extend for up to 2 years and a break clause exercisable by the Council at year 7.

47. In order to ensure that this contract delivers sports, health and physical activity, recreational pursuits and also contribute to the wider outcomes for local people a number of mechanisms have been put in place that detail the specific requirements as well as allowing flexibility for change during the life of the contract

South London Waste Partnership
48. Cabinet, in November 2014, agreed to the commencement of a process of joint procurement of an integrated 25 year contract with Croydon, Kingston and Sutton that will take advantage of economies of scale for waste collection, street cleaning, winter maintenance, commercial waste and vehicle maintenance. The Partnership expects to achieve annual revenue savings on waste management of at least 10% or c£5m across the 4 boroughs – Merton's share would be around £909k per annum.

What are other authorities doing?

49. We examined written information on the experiences of a number of other local authorities in order to identify the potential scope for outsourcing, for achieving savings through outsourcing and to learn lessons both from successes and from problems that had been encountered.

50. Research by NelsonHall found that IT is the service that is most commonly outsourced and that business processes such as customer services, contact centre services, human resources, pensions and payroll are all now commonly outsourced by the public sector.

51. The examples that we found of large outsourcing contracts confirm those research findings:
    - LB Harrow – plans to save 20% on current ICT spending through a £37m five year outsourcing contract with Sopra Steria.

    - Sefton MBC – entered into a 10 year public-private partnership with Arvato in 2008 for delivery of customer services, revenues and benefits, payrolls, pensions, transactional HR and ICT. The agreed target of 10% savings has been achieved

    - LB Barnet - contract with Capita for back office and customer services. To drive down costs, the contact centre is in Coventry,

revenues and benefits in Lancashire and HR in Belfast. This and a second contract with Capita (see next paragraph below) are guaranteed to save the council £126m over 10 years.

52.   We have found examples of outsourcing contracts now moving beyond business processes to frontline delivery:

- Trafford – announced in March 2015 that it had selected Amey LG to manage its economic growth, environment and infrastructure services. The contract involves the delivery of a minimum of 20% savings against the net budget and the transfer of around 250 staff.

- Barnet – signed two contracts with Capita in August 2013 – one for the delivery of a range of back office services and one covering frontline services, including highways, planning, regeneration, environmental health and trading standards

53.   We noted that Northamptonshire County Council is planning to outsource all services through its "Next Generation Council" model, including a children's services mutual to deliver safeguarding and other services for young people.

54.   We visited Achieving for Children and Barnet Council to discuss their innovative service delivery models. These visits were very helpful and have enabled us to provide an effective element of challenge in our discussions with Merton's Chief Executive and Directors. Our findings from these visits are set out overleaf.

55.   We also found examples of ambitious outsourcing plans that had subsequently been curtailed to some extent:

- Somerset County Council - contract from 2007 to 2017 with the joint venture company Southwest One (75% owned by IBM) to carry out administrative and back office tasks for the county council, Taunton Deane Borough Council and Avon and Somerset Police. Terminated a year early by Somerset County Council - in 2013 the council paid £5.9m to settle a contract dispute with the partnership.

- Cambridgeshire and Peterborough Clinical Commissioning Group - ended a five year £800m outsourcing contract after just eight months because "the current arrangement is no longer financially sustainable". The contract was with UnitingCare (a consortium of Cambridgeshire and Peterborough NHS Foundation Trust and Cambridge University Hospitals NHS Foundation Trust) to provide older people and adult community healthcare, urgent care and mental health services.

- Middlesbrough Council - Middlesbrough - recently pulled back from plans to outsource all services following local council elections.

Report of visit to Barnet – One Barnet programme:

56.   Barnet is the largest London borough in terms of population size (367,000) and is relatively affluent, with some deprived areas. There has been new housing development and this has benefitted the council through an increased council tax base. Barnet has a mixed economy of service providers including a handful of large commissioned contracts, 3 shared services and a local authority trading company.

57.   Barnet Council has saved £75m (25% of its budget) from 2010-2015 with limited impact on frontline services. In real terms in 2020 it will be spending half the amount spent in 2010. About ¾ of the council's budget is spent on adult and children's social care services, from which savings have been achieved through demand management and workforce restructuring. Officers estimated that commissioning in relation to the other ¼ of the budget has delivered around ¼ to 1/3 of the total £75m saving.

58.   Success factors and lessons learned –
   - Planning ahead - the One Barnet programme is a long term project dating back to 2008 and planning ahead has been crucial to its success.
   - Member engagement - members have been very engaged in the programme and acknowledged the shrinking resource, growing demand and changing customer expectations early on.
   - Clear objectives - the approach has been to start by identifying what the council wants to achieve with the service and then to identify the best way of providing that.
   - Preparation – management layers have been removed and efficiency savings taken wherever possible prior to contracting out or entering a shared service arrangement
   - Invest to save - used earmarked reserves to invest in order to make savings through commissioning services. In the early years there was heavy reliance on the purchase of external expertise on commissioning, now reduced as council officers have built up their in-house expertise. The council also invested in new systems to produce efficiencies and increase self-serve by customers (both internal and external customers).
   - Partnership – the contractors are co-located in the civic centre alongside council officers
   - Separation of commissioning and delivery in the officer and governance structures
   - Officers are encouraged to be entrepreneurial - middle mangers have been proactive in identifying opportunities for growth – e.g. running elements of Enfield's pest control service and undertaking cremations for West London Crematorium.
   - Barnet Lab uses data to identify problems and to bring stakeholders together to collectively identify solutions

Report of visit to Achieving for Children

59. Achieving for Children (AfC) is a social enterprise company, launched on 1 April 2014, by the Royal Borough of Kingston upon Thames and the London Borough of Richmond upon Thames to provide their children's services. It is a community interest company wholly owned by the councils, employing 1200 people (700 FTE).

60. There was a long lead-in to the establishment of AfC. The change of political control of Richmond Council in 2010 resulted in an aspiration to become a commissioning council. The Director of Children's Services had discussions with Kingston Council at the time but the catalyst for taking this forward was a poor report from Ofsted in 2012 for Kingston's safeguarding and looked after children's services, followed by the departure of Kingston's Director.

61. As a social enterprise company, AfC has a trading arm that can sell services to other local authorities and re-invest in core services. AfC is currently providing services to three other local authorities. A careful balance is maintained between core and traded services.

62. Governance is through a joint committee with 3 councillors from each council plus a Board of Directors appointed by the joint committee (4 non-executive directors with relevant professional expertise plus 4 council employees).

63. The performance management framework is extensive, consisting of data, quality framework and compliance mechanisms. These are reported to the joint committee and to a senior officer board at each council. AfC attends scrutiny meetings when required to do so.

64. Funding is provided by each council according to local need rather than on a 50:50 basis. Efficiency savings have been made either through re-commissioning or provision of savings targets. There have been different targets for each council so management of this has been complex, particularly in the context of growth in demand. AfC is on track to deliver the efficiencies set out in its five year plan. It has used its increased buying power to negotiate on placement costs, it has developed innovative projects that have delivered efficiencies and the replication of the Kingston model of SEN transport in Richmond is also expected to deliver some savings.

Outsourcing - general principles

65. Our discussion with Merton's directors illustrated the complexity and diversity of the council's service provision but also pinpointed circumstances in which outsourcing would be beneficial to the council. In particular, that outsourcing can deliver service at lower cost for certain services, particularly those with a mix of high volumes and low complexity and a higher proportion of manual workers (e.g. school meal service). Similarly, the more tightly defined services (such as street cleaning) lend themselves to a clearly specified contract that can deliver savings.

66. Outsourcing is the best option if the service provided is cheaper and better than other delivery models. Where there are economies of scale, such as for waste collection, shared commissioning to outsource jointly with other boroughs is being pursued.

67. We noted that it is good practice to maximise the efficiency of a service prior to externalising so that the council has maximum benefit from the savings. This helps to counteract the tendency for contractors to skim off easy savings and leave more difficult tasks to councils. We also noted that efficient services were in a strong position to take on services in other authorities through a shared service or a social enterprise arrangement (e.g. Achieving for Children).

68. Where there is high complexity, outsourcing is unlikely to be the best option. In particular, statutory services that are heavily regulated (such as child safeguarding) require extensive client-side management to provide adequate reassurance regarding quality and standards – this makes commissioning such services a relatively expensive option for councils.

69. To date much of the cost saving through outsourcing has been driven by staff turnover that enables the contractors to set new reduced terms and conditions for new staff. We noted that the introduction of the new national living wage is likely to reduce the opportunity for such cost savings in future.

70. We heard that the nature of the external market, especially the number of providers, has a key impact on price and may limit the financial advantages of outsourcing. We are mindful of the 2013 National Audit Office report which found that four large contractors accounted for a significant proportion of public sector outsourcing in the UK.

71. We were informed that where there are a limited number of service providers that staff can work for (e.g. children's social workers), there is competition between providers and staff can be poached – staff costs are therefore unlikely to be unaffected by model of delivery.

72. We understand that the potential for a staff mutual is greatest where there is a weak external market, a clear product, defined delivery method

and a group of staff that are prepared to take a risk. Staff are less likely to seek to form mutuals as a cost saving measure for services where costs mainly comprise salaries.

73. We heard that control over service provision is another key consideration. Where delivery is almost entirely outsourced, such as care homes for older people, councils are considering ways of exerting greater control over provision due to cost escalation in the market, including possibility of returning to some elements of in-house provision. Similarly, a number of councils have reverted from ALMOs back to in-house management of council housing

74. Finally, we noted that the 2013 National Audit Office report raised concerns over how well contracts are managed, poor value for money from contracts and dependence upon major providers. Contractors are not covered by the Freedom of Information Act though they may provide information voluntarily and contracts may specify requirements for openness.

75. The council has used the development of series of strategy documents known as Target Operating Models (TOMs) to set out how it will deliver its services within a certain structure at a future point in time. There are a number of elements (or layers) to a TOM; for Merton these are – customer segments, channels, services, organisation, processes, information, technology, physical location and people. We were informed that the TOMs have been used as a key way of encouraging service managers to consider different ways of providing services.

76. The directors described to us how they assessed the optimum model for each service, commissioning business cases where appropriate and taking into account pertinent factors such as costs, financial and other benefits, availability of partners and whether there is a mature private sector market for the service. The existence of a private sector market makes it possible to estimate potential savings in advance. Without this it is more difficult to predict what savings may be achieved from outsourcing.

77. The directors have sought to identify and discuss potential outsourcing opportunities, shared services and other ways of working in partnership for a number of years. For example, a sub regional network of directors of environment and regeneration was established five years ago and they have identified where the boroughs may have an interest in collaborating.

78. We were pleased to hear that the council is in discussion with other south west London boroughs regarding infrastructure services such as IT and finance in order to identify opportunities to procure the same systems in future. This should achieve cost savings as well as making it easier to support shared service arrangements between those boroughs.

79. We explored the extent to which the decision making on individual services had been opportunistic or part of an overall plan. We heard that a mix of the two was usually involved. In relation to shared services, the balance has shifted over time from opportunistic towards planned as the council has had more direct experience of the benefits that shared services can bring.

80. We were impressed with the detailed knowledge that the directors have regarding their services and the principles to apply to each when considering the most appropriate model of service delivery. Their flexible and pragmatic approach to identifying models on a service by service basis has worked well for Merton to date.

81. We discussed with the directors and with the chief executive the feasibility of having a service model in which all services were outsourced. They stated that having the flexibility to select the most

appropriate option for each service would work best for Merton rather than being constrained to a single model of service delivery. They stressed that service delivery models are kept under constant review and are adapted as circumstances change. They maintained that the TOM process provides well for this constant review and challenge.

82. The directors and the chief executive cautioned against generalising from Barnet's model as this had been underpinned by Barnet's ability to generate income through growth in council tax and business rates in a way that is not possible in Merton.

83. The directors stated that they are not opposed to outsourcing in principle and that they would continue to outsource services where this was the most appropriate model for that service. For example, the Director of Environment and Regeneration estimated that by 2017 more than 50% of the council's environment and regeneration services would be outsourced through a variety of different models.

CONCLUSIONS AND RECOMMENDATIONS

84. In deliberating on the best way to approach our recommendations, our overarching aim has been to ensure that the decision making process for identifying the most appropriate delivery model for each service is sufficiently rigorous.

85. We have been mindful of the financial challenges facing the council and have therefore chosen to limit ourselves to a small number of recommendations that can be implemented without a significant investment of time or finance. A number of potential recommendations that we discussed have therefore not been included in this report as we do not believe they are achievable in the current climate. These include the adoption of commissioning as the default option for service provision and the establishment of a strategic unit within the council to provide robust independent challenge and data analysis such as that undertaken by the Barnet Lab.

86. We have taken the view that it would not be appropriate for the task group to dictate the permutations of service delivery models and that no single model will fit for every service. A mixed approach will continue to be needed but there must be a stronger element of challenge to ensure that the council operates in a strategic and innovative way. The role of the Corporate Management Team is central to embedding challenge and we hope that our recommendations will support them in doing this.

87. We note that the current approach has enabled Merton to make savings of a similar proportion of budget to those achieved by Barnet since 2010. We do however have concerns about whether this will be sufficient to meet future challenges, in particular those posed by a changed funding environment in which council income is chiefly derived from council tax and business rates.

88. We are convinced that there are considerable benefits to be gained from shared and outsourced service arrangements. What the benefits are will depend on the nature of the services being shared and the model of service delivery that is chosen, but may include:

    • financial savings through economies of scale, service delivery efficiencies, reduction in staff numbers and rationalisation of IT and other systems
    • better quality service provided to customers at lower cost to each authority

89. Furthermore, shared services can provide opportunities to deliver a more specialised service and to offer services that couldn't have been provided by individual authorities as well as opportunities for staff development and resilience for services facing budget cuts.

90. We accept that the appropriate starting place is to review and agree for each service what the service should provide and then identify the best way to provide it. We do, however, have a number of concerns about the way in which the Target Operating Model has been used to date.

91. Our main concern is that the Target Operating Model has a tendency to deliver more of the same rather than a radically new approach. In particular, we would like to ensure that pre-conceptions are challenged and that there is an avoidance of the current service delivery model becoming the default option. We question whether Merton's implementation of the TOM has been sufficiently systematic and rigorous in providing challenge. We also have concerns that that the financial position has been the predominant factor in shaping the strategic approach. We would like to see an equal emphasis on quality as well as on cost reduction.

92. **We recommend that the Corporate Management Team (CMT) should have a more clearly defined mandate and process to embed challenge on models of service delivery at a senior level within the organisation. This will ensure that there is more specific challenge to service managers as well as internal peer review. (recommendation 1)**

93. Directors and senior managers told us how useful the development of a business case is in identifying whether a shared or outsourced service is the best option, guiding the negotiations of the authority and identifying where savings and other efficiencies could be made. We heard that this is useful even where the proposed shared or outsourced service did not go ahead and that the information would provide a baseline for any future discussion of shared services or other delivery models.

94. We believe that there is scope to increase the consistency and transparency of decision making through a standardised approach to developing a business case.

95. **We recommend that decision making on the establishment of proposed shared and outsourced services is strengthened through the production of a standardised business case that is presented to the Corporate Management Team and to Cabinet (or the relevant individual Cabinet Member for smaller services) for approval. This business case should be clearly evidenced and should include financial modelling to set out options and alternatives as well as details of other expected benefits so that vigorous challenge can be provided prior to a formal decision being made. (recommendation 2)**

96. We believe that the development of a standardised business case would benefit from input from scrutiny members and to check that the proposed template meets the requirements of this task group's recommendations.

97. We therefore recommend that a draft of the business case template is brought to the Overview and Scrutiny Commission for discussion prior to finalising it. (recommendation 3)

98. We wish to ensure that officers who are exploring the feasibility of establishing a new shared or outsourced services are able to draw on expertise and support from within the council.

99. We were impressed by the "close down" report that was produced to document the learning from the establishment of the South London Legal Partnership (our four-borough shared legal service) and believe that this could be used as the starting point in the development of a checklist of issues to be taken into consideration by service managers.

100. We recommend that Cabinet should ensure there is support provided to service managers who are exploring the feasibility of establishing a new shared or outsourced service so that these managers can draw on learning and expertise that already exists within the council. This should take the form of an on-line resource such as a checklist of issues to consider and contact details of officers who can provide advice and support. The resource should also include guidance on developing and complying with the standardised business case for the service as set out in recommendation 2 above. (recommendation 4)

101. We have given some thought to whether a separation of strategic thinkers from service delivery would provide the right environment for robust independent challenge within the organisation. We are mindful of financial constraints and would wish this to be cost neutral.

102. We discussed this matter with the chief executive and were advised that the work previously done by Deloitte found that the strategic planning of services is best done by those closest to service delivery. The key to making this work well is to ensure that service managers have the appropriate skills to be able to think strategically and that senior managers have the information and skills to provide support and challenge.

103. We therefore wish to encourage service managers to find out what is happening elsewhere and to draw on best practice in order to improve service delivery.

104. We recommend that the Corporate Management Team should ensure that service managers have a mandatory appraisal objective to familiarise themselves with best practice elsewhere and consider how best to incorporate this in their service delivery. (recommendation 5)

105. We heard that the provision of support from the council's IT, HR, finance and facilities teams has been crucial in ensuring that shared services

work effectively from the outset. This was particularly important for the South London Legal Partnership (Merton lead) as staff are based off-site at Gifford House in Morden with space and Merton wi-fi provision in each of the boroughs.

106. We believe that, in order to provide effective support to shared services during the development phase and subsequently, it would be helpful to provide a briefing to those corporate teams that are most likely to be called upon to provide support. This would increase their understanding of the shared service delivery model and its needs and support requirements.

107. We think that there may be a number of issues that the managers of shared services face that would benefit from being shared with the Corporate Management Team so that they can address these in a corporate way. These may include issues such as HR and IT policies and procedures, systems, communication mechanisms for staff, support for managers during preparation for and subsequent establishment of shared service, model of charging for overheads, modelling a fair approach for future savings

108. **We recommend that the Corporate Management Team should ensure that a training or briefing resource is developed for officers in those corporate teams (such as HR, IT, finance and facilities) so that they understand the delivery model and likely support requirements of the council's shared services. (recommendation 6)**

109. It is unclear to us the extent to which different models of service delivery are being seriously considered and where these decisions are taking place. This may well be happening but the lack of visibility to councillors on whether this is done and how alternatives are evaluated is of concern.

110. **We recommend that the Overview and Scrutiny Commission should invite the Chief Executive to present a report annually to set out how challenge has been embedded, what choices have been made by service managers on models of service delivery, what changes resulted from the challenge process and what options were rejected and why. (recommendation 7)**

111. **We further recommend that that the Overview and Scrutiny Commission (or relevant Panel) should receive a report on the proposed establishment of large or strategically important shared or outsourced services at a point in time when there is an opportunity to have some influence on its development. There should be further reports to review the operation, performance and budget of the service 15 months after the start date and when the agreement is due for review. (recommendation 8)**

112. We note that governance to shared services is provided in a number of different ways including joint committees that meet in public or a governance board. Overview and scrutiny will therefore be proportionate to the governance arrangements that are in place in order to avoid duplicating the function of elected members on any governance committee that has been established. Appendix 3 contains information on the governance arrangements for Merton's current shared services.

What happens next?

113. This task group was established by the Council's Overview and Scrutiny Commission and so this report will be presented to its meeting on 7 July 2016 for the Commission's approval.

114. The Commission will then send the report to the Council's Cabinet on 19 September 2016 for initial discussion.

115. Once Cabinet has received the task group report, it will be asked to provide a formal response to the Commission within two months.

116. The Cabinet will be asked to respond to each of the task group's recommendations, setting out whether the recommendation is accepted and how and when it will be implemented. If the Cabinet is unable to support and implement some of the recommendations, then it is expected that clearly stated reasons will be provided for each.

117. The lead Cabinet Member (or officer to whom this work is delegated) should ensure that other organisations to whom recommendations have been directed are contacted and that their response to those recommendations is included in the report.

118. A further report will be sought by the Commission six months after the Cabinet response has been received, giving an update on progress with implementation of the recommendations.

Appendices

Appendix 1: written evidence
Shared services – definition and models of delivery – powerpoint presentation, Sophie Ellis, Assistant Director of Business Improvement, 27 May 2015
List of Merton Shared Services – snapshot May 2015
Shared services and commissioning, policy briefing 10, Centre for Public Scrutiny, May 2011
Extract from 4 Borough Shared Legal Services: close down report
Email from Yvette Stanley, Director of Children, Schools and Families, June 2015
News report on Northamptonshire County Council plans to outsource all services, February 2015
News report on Middlesbrough Council decision to cease plans to outsource key services, June 2015
News report on LB Harrow's plan for 5 year ICT contract, April 2015
Information on Watford Borough Council outsourced services scrutiny panel
Hertfordshire County Council corporate outsourcing strategy
LB Southwark scrutiny review of outsourcing and procurement
Article from National Outsourcing Association
House of Commons Library Briefing paper – local government, new models of service delivery, May 2015
Northamptonshire – the next generation council. Extract from Business Plan 2015-2020

Appendix 2: list of oral evidence

Witnesses at task group meetings:
Sophie Ellis, Assistant Director of Business Improvement, 2 April, 27 May, 6 July, 4 August and 14 October 2015
Dean Shoesmith, Joint Head of Human Resources, 27 May 2015
Paul Evans, Assistant Director Corporate Governance, 27 May 2015
John Hill, Head of Public Protection, 27 May 2015
Paul Foster, Head of the Regulatory Services Partnership, 27 May 2015
Caroline Holland, Director of Corporate Services, 14 October 2015
Chris Lee, Director of Environment and Regeneration, 14 October 2015
Yvette Stanley, Director of Children, Schools and Families, 14 October 2015
Simon Williams, Director of Community and Housing, 14 October 2015
Ged Curran, Chief Executive, 9 March and 10 May 2016
Councillor Mark Allison, Cabinet Member for Finance, 10 May 2016

Witnesses at discussion meetings
Anthony Hopkins, Head of Library & Heritage Services, 8 June 2015
Chris Lee, Director of Environment and Regeneration, 10 June 2015
Simon Williams, Director of Community and Housing, 10 June 2015
James McGinlay, Head of Sustainable Communities, 15 June 2015
Gareth Young, Business Partner C&H, 15 June 2015

Visit to Achieving for Children, 12 October 2015
Ian Dodds, Director of Standards, Achieving for Children
Councillors Peter Southgate and Russell Makin

Visit to Barnet Council, 30 November 2015
Barnet officers:
John Hooton, Chief Operating Officer
Stephen Evans, Director of Strategy and Communications
Tom Pike, Strategic Lead for Programmes and Resources
Mark D, Capita Partnership Director
Councillors Peter Southgate, Hamish Badenoch, Suzanne Grocott and
Russell Makin

LBM Shared Services –Snapshot May 2015 (revised)

Service Area	Arrangement	Governance
Children & young people		
Adoption recruitment	Pooled resources - LBRuT, RBK, LBS, LBM	Sponsoring Group - Directors of the four agencies . Strategic Board – heads of service. Operational Group – team managers.
School governors	shared management agreement- LBM, LBS LBM is host authority and invoices Sutton for the agreed costs	The authorised officers for the service are: LB Merton: Head of School Improvement LB Sutton: Head of Improvement and Support. There are no elected members involved
School admissions service	Shared - LBM, LBS LBM is host authority	No joint governance board as such. The School Admissions Manager works within the line management of Merton when here (reporting to Service Manager - Contracts & School Organisation), and that of Sutton Executive Head of Education & Early Intervention when there
Travellers education service	Shared - LBM, LBS Sutton is host authority	TBC
Out of hours children's social care duty service	4 boroughs. Hosted by Sutton	Operational board at service manager level with escalations through Assistant Directors
Adult social care		
Shared Social Care Emergency Duty System	Joint working arrangement - LBM, LBR, LBS, RBK Richmond is the Host Authority The contract has not been reviewed since its inception No staff were TUPE'd, staff formally work for London Borough of Richmond Arrangement not open for new member to join	TBC

Service Area	Arrangement	Governance
HR		
Organisational development	Shared - LBM, LBS LBS is host authority In October 2009 Merton HR employees TUPE'd to Sutton.	Joint Governance Board with chief executives under collaboration agreement
HR management	Shared - LBM, LBS LBS is host authority In October 2009 Merton HR employees TUPE'd to Sutton.	Joint Governance Board with chief executives under collaboration agreement
Other HR functions	Shared - LBM, LBS LBS is host authority In October 2009 Merton HR employees TUPE'd to Sutton.	Joint Governance Board with chief executives under collaboration agreement
Payroll IT system	Shared - LBM, LBR, LBS, RBK LBS is host authority In October 2009 Merton HR employees TUPE'd to Sutton.	Joint Governance Board with directors under collaboration agreement
Governance		
Legal	collaboration agreement - LBM, LBR, LBS, RBK LBM is host authority The shared service continues until termination provisions are implemented in accordance with the agreement. Staff are TUPE'd – work for LBM	Governance Board which comprises of the Director of Corporate Services from Merton, the Director of Finance and Corporate Services from Richmond, the Director of Resources from Sutton and the Executive Head of Organisational Development and Strategic Business from Kingston. The Assistant Director of Corporate Governance and Joint Head of Legal Services from Merton and the Monitoring Officer from Kingston are required to attend but do not have a vote. There are no councillors on the Governance Board.
Internal audit	In-house There is a proposal to join LBR & RBK by end 2015	n/a

Service Area	Arrangement	Governance
Finance		
Pensions IT system Pensions service	LBM purchase them from LB Wandsworth, as part of a contractual delegation under S.101 of the 1972 Local Government Act	Managed by LBM as a commissioned service
Bailiffs service	Joint working arrangement - LBM, LBS LBM staff only Sutton pays a contribution to cover running costs and share surplus (note this is a self financed service) Rolling contract with minimum notice time to drop out Arrangement is open to new member (but it will require a re-negotiation of the redistribution of the surplus)	The board is comprised of Director of Corporate Services for both Councils and Head of Revenues and Benefits for both
Environment		
Transportation	Shared - LBM hosts service for LBS	The Transport section are in the process of tendering for a shared Taxi framework with Sutton, Richmond and Kingston (Sutton leading). That framework will be in place later this summer for to allow call off of new SEN Home To School contracts by the beginning of the school term.

Service Area	Arrangement	Governance
Regulatory services (ie Environmental Health/Trading Standards and Licensing)	Shared service currently consisting of LBM and LBR and operational since August 1st 2014. Service hosted and led by Merton. LBR staff TUPE'd	The governance for the shared regulatory service consists of (1) a management board and (2) a joint regulatory committee. The management board consists of me, John Hill and Jon Freer (an AD at Richmond). The Joint Regulatory Committee consists of four councillors, two from each Council. The make-up is as follows: <u>Richmond</u> • Cllr Pamela Fleming – Strategic Cabinet Member for Environment, Business and Community • Cllr Rita Palmer – Chairman of the Licensing Committee <u>Merton</u> • Cllr Judy Saunders – Cabinet Member for Environmental Cleanliness and Parking • Cllr Nick Draper – Cabinet Member for Community & Culture

Service Area	Arrangement	Governance
Building Design Consultancy Framework	Shared - LBM, LBR, LBS	Not currently in place. Something similar has been set up by an individual authority in London but it is an arms length company due to potential conflict of interest issues

Service Area	Arrangement	Governance
South London Waste Partnership	**Disposal - jointly procured disposal contracts**. Phase A, delivering cost effective waste disposal contracts. Phase B the procurement of a longer term more sustainable waste disposal solution diverting residual waste from landfill. **Environmental services Phase C** a joint procurement for a number of environmental services, namely: ➢ Waste Collection and recycling ➢ Commercial waste ➢ Street Cleaning ➢ Winter Maintenance ➢ Vehicle Maintenance ➢ Green spaces, principally grounds maintenance	legally binding inter authority agreement between LBM, LBS, RBK, LBC The governance structure for the partnership currently comprises of: Management Group (MG). Lead officers from each authority and chaired on an annual rotational bases. This is supported by both strategic, and project management roles employed by the Partnership. Joint Waste Committee (JWC) this is made up of Cabinet and Executive Members from each of the 4 boroughs. This group is responsible for all key decisions made on behalf of the Partnership, relating to Waste Disposal functions delegated by the individual boroughs to the Committee. The Joint Procurement of waste collection and other environmental services is overseen by the SLWP Strategic Steering Group (SSG), comprised of the four boroughs' Environment Directors, A representative of the four boroughs' Financial Directors and currently chaired by the Chief Executive of Merton (the Chair role rotates on an annual basis every June)

Service Area	Arrangement	Governance
Wandle Valley Regional Park CE	LBM, LBW, LBS, LBC Arm-length body	WVRPT is not a shared service. We have two members who are trustees of the Trust but they do not represent the authority in itself, albeit that they are nominated to serve on the trust by LBM under the current governance arrangements. There are a number of trustees of the Trust who represent the four constituent local authorities (two per Borough) and a number of other relevant organisations, including the National Trust, the Environment Agency, the Wandle Forum and others

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