Audit and Governance Committee

Date: 23rd January 2015

Title of Report: Recommended Internal Audit and Risk Management Shared Service

Purpose of Report: To provide the background and rationale underlying the proposals to form an Internal Audit and Risk Management Shared Service between Gloucestershire County Council, Gloucester City Council and Stroud District Council.

Recommendations: The Committee is asked to note the information contained within the report and make a recommendation to Cabinet that it agrees:

(1) to the creation of a Shared Internal Audit and Risk Management Service with effect from 1 April 2015 ("the Commencement Date) or such other date as is agreed between Gloucester City Council, Stroud District Council, and Gloucestershire County Council on the basis set out in this report;

(2) that the host authority will become Gloucestershire County Council;

(3) to enter into an Administrative Collaboration Agreement, under S101 of the Local Government Act 1972 with the partner authorities in full consultation with the Head of Legal Services;

(4) to the transfer of staff to Gloucestershire County Council as Host Authority on the terms set out in the Administrative Collaboration Agreement from the Commencement Date;

(5) to the formation of an Internal Audit and Risk Management Shared Services Board comprising of the Section 151 officers from each of the participating authorities, to oversee the implementation and ongoing monitoring of the s101 agreement; and

(6) to delegate the completion of the S101 agreement to the Finance Director in consultation with the Cabinet Member for Finance and Change.

Officer(s) Contact: Jo Walker: Director Strategic Finance 01452 328469 joanna.walker@gloucestershire.gov.uk

Theresa Mortimer: Chief Internal Auditor: Internal Audit, Risk Management and Insurance Services 01452 328883 theresa.mortimer@gloucestershire.gov.uk

Key Risks Lost opportunities to collaborate locally, build service resilience, enhance service performance and enable further efficiencies.
Background

National and Local Context

Over the coming years public services will continue to face major challenges in protecting frontline services while also dealing with budget reductions and spending restraint. Among other things this will demand that waste and inefficiency are reduced and resources deployed in areas that matter to people who need our services.

In responding to this challenge, public service leaders and managers will need to consider radical changes to their organisational structures and operating models. One option they will need to explore is whether greater collaboration with other bodies offers a route to reducing costs while maintaining service quality.

Shared services and collaborative working provide many important opportunities. By introducing new business structures, improving processes and deploying new technologies and management systems, such approaches have a major role to play in improving cost-effectiveness and service quality.

Gloucester City Council (GCC), Stroud District Council (SDC), and Gloucestershire County Council (Glos CC) are all committed to improved service delivery and efficiency within their respective Councils.

GCC’s Council Plan 2014-2017 sets out four priorities, one of which is “sound finances and strong performance”. One of the key measures within this priority is savings delivered through joint and collaborative working.

SDC’s Corporate Delivery Plan for 2014-18 sets out five key tasks, one of which is to “provide value for money to our taxpayers and high quality services to our customers”. Achieving this will include redesigning services and innovation.

Glos CC’s Council Strategy 2011-15 (2014/15 update): Meeting the Challenge sets out three council values, one of which is “living within our means”. This will be achieved by being as efficient as possible, saving money by joining up with partners, and, by finding the best, most efficient, way of delivering services which satisfy customers.

The Rationale for Change

Discussions have taken place over many years between the various Councils within Gloucestershire regarding the benefits of joint working between the authorities’ respective internal audit teams.

Following the successful partnering agreement for the management of the internal audit team in Stroud which had been in place for the preceding 15 months, in December 2010 Gloucester City Council and Stroud District Council entered into a formal shared internal audit service for the provision of an internal audit service to both Councils.

Known as G A A P (Gloucestershire Audit & Assurance Partnership) the service is hosted by Gloucester City Council, and is managed by the City Council’s Audit, Risk & Assurance Manager. Both Councils agree that the shared service arrangement is a success with the sharing of audit skills between the two teams and the development of a common audit approach and documentation.
Due to the success of the current internal audit shared service arrangements between GCC and SDC, the S151 Officers of GCC, SDC and Glos CC agreed to consider extending the current shared service arrangement to include Glos CC and review the opportunities available to:

(1) Formally share internal audit and risk management services between the three Councils; and
(2) Bring the management of an extended shared service under one manager.

**The Key Benefits for Change**

It is felt that the shared service proposal represents a real opportunity across the three authorities, namely:

- Economies of scale from the employment of a single Chief Internal Auditor, across the three authorities;
- Pool expertise to strengthen business delivery to the benefit of the clients;
- Provide critical mass and improved business resilience e.g. enabling the risk of sickness and vacancies to be better managed;
- Enhanced ability to undertake thematic reviews across the three authorities to share best practice across the shared service;
- Enabling succession planning, career opportunities and development for staff;
- Optimising use of resources through a modern collaborative approach;
- Achieving economies of scale through shared training and procurement;
- Increased capacity, flexibility and specialist knowledge from pooling staff resources; and
- Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service, along with common audit committee reporting protocols/methodologies/formats.
The Service Delivery and Governance Options

Overview of shared services delivery options

Option 1: Contractual arrangement under the Local Authorities (Goods and Services) Act 1970

This option involves the delivery of the service by one Council to another Council under a contract for services. As it involves the procurement of services, the lead authority would have to comply with their Contract Procedure Rules. Furthermore, as the total sum for the service is over the EU threshold, the lead authority would only be able to award the contract after complying with EU procurement requirements.

Contractual arrangements between Councils under the Local Authorities (Goods and Services) Act 1970, without competition, are only possible if the contract sum is under EU thresholds. Therefore, this option is relevant to the shared service agenda if externalisation/outsourcing of the service is under consideration.

Option 2: Administrative arrangements under s101 Local Government Act 1972 - Delegation of functions to another Council

Under this option, one Council (the Lead Authority) undertakes the functions of the other Council under delegated powers set out in an agency agreement entered into under s101 Local Government Act 1972 (“s101 Agreement”). The Lead Authority employs all staff (i.e. staff who work for the Council which has delegated its functions to the Lead Authority, transfer to the Lead Authority). No separate legal entity is created.

Option 3: Administrative arrangements - Delegation of functions to a Joint Committee

Under this option, instead of delegating the function to another Council, the function is delegated to a newly formed Joint Committee. Members from each Council are appointed to the Joint Committee and the Joint Committee is the decision making body. As no separate legal entity is created it cannot employ staff nor enter into contracts. Therefore, the Joint Committee has to appoint a Lead Authority who becomes the Employer and the relevant legal entity for entering into contracts.

Other service delivery options

Clearly there are other delivery options available for the provision of Internal Audit Services which were considered below:

Option 4 - No change

A ‘no change’ option was considered, however, the internal audit and risk management service at all three Councils have limited capacity and resilience to respond to peaks in demand, increased irregularity work and absence of staff. There are limited opportunities for progression and training within the current audit and risk teams which is not beneficial to staff morale and/or a quality service being sustained.
Option 5 - Outsourcing

Research has identified that the large accountancy firms do not have the appetite for taking on Local Authority Internal Audit services due to the pension liabilities that come with TUPE transfers. The Councils concerned would be duty bound to ensure ongoing pension protection for the transferring staff outsourced under TUPE, under the Local Government Pensions Direction 2007. This would entail any prospective bidder either offering continued and ongoing membership of the Local Government Pension Scheme under an admissions agreement or a broadly comparable scheme certified as such by the Government Actuary’s Department (GAD). Both of these options would involve employer contribution rates from the contractors in line with, if not more, than the current employer rates being paid by the County and the City Councils. This would clearly inflate their bid price and the cost per audit day would be significantly higher than is currently paid.

Option 6 - Other Partnerships

There are a growing number of Internal Audit Partnerships being set up around the country as the benefits of doing so are realised. They vary in scale and membership.

Some benchmark costs were obtained for comparison and it was established that the partnership would benchmark in the bottom quartile.

The option to join other partnerships cannot be ruled out. Equally, to continue to grow the Gloucestershire partnership is also an option that can be pursued once the new partnership has been established.
The proposed service delivery option

The proposed service delivery option is for a shared service (Option 2 - Administrative arrangements under s101 Local Government Act 1972 - Delegation of functions to another Council, for the following reasons:-

- It has a proven track record through benchmarking for delivering services between Councils, examples include the current partnership in operation between SDC and GCC, Devon Audit Partnership (Devon County Council, Plymouth City and Torbay Council) and The Southern Internal Audit Partnership (Hampshire County Council, Southampton City Council and West Sussex County Council); and

- It is relatively straightforward to set up, in that it requires a s101 Agency Agreement to be prepared and implemented.

Key risks in relation to option 2

The main disadvantage is the loss of control, by delegating its functions to a host authority.

In order to address this, a Shared Services Board would need to be created comprising of the s151 officers in each Council, to oversee the implementation of the s101 agreement, charging/funding arrangements and functional reporting requirements, quality, performance, risks and consider major changes to the service.

In addition, to mitigate the risk of pension liabilities to the host authority, the s101 agreement would specify that up to the date of transfer, all past pension liabilities would remain with the originating authority and they would not be transferred to the host authority.

It is proposed that consideration is given to Gloucestershire County Council (Glos CC) being the host authority due to the key following reasons:

- The number of staff affected by transferring to the host authority is less;
- IT systems - An Audit Management System (GALILEO) is used by Glos CC which could be used by the shared service to enable automated management of the audit and risk functions across the service;
- Current contract held with Gloucestershire Police for the provision of an internal audit service by Glos CC;
- Current ICT audit provision contract between TIAA (The Internal Audit Association) via the Warwickshire County Council framework agreement and Glos CC;
- Current agreement between Glos CC and the Gloucestershire NHS Counter Fraud Service to support National Fraud Initiative work and investigatory work as needs demand; and
- Gloucestershire County Council can offer the shared service the expertise of IDEA, a powerful and user-friendly data analysis tool designed to help auditors and other financial professionals perform data analysis quickly to help improve audits and identify control breakdowns.
The Proposed Shared Services Framework

The main driver behind the sharing of back office services such as Internal Audit and Risk Management is essentially to produce efficiency savings, but importantly, also to improve business resilience.

Recommended Shared Services Arrangements

It is recommended that Glos CC become the host authority under a section 101 agreement with effect from the 1st April 2015 and Gloucester City Council staff including those based at Stroud District Council (i.e. 6.6FTE staff), are transferred to Gloucestershire County Council, under TUPE arrangements from this agreed date.

The duration of the agreement will initially be for a three year period (from commencement date) and shall continue in force thereafter, unless and until one year’s notice in writing is given by any of the Councils to withdraw from the agreement.

During most of the first year of operation, i.e. 2015/2016, all of the three councils’ audit staff will remain within their existing organisational structures and work bases and will retain their existing roles and responsibilities. The new Internal Audit and Risk Management team would be based on 17.65 full time equivalents.

It is proposed that with effect from the 1st April 2015, the new arrangements are developed and implemented. This will include a review of the management arrangements for the new shared service, development of a new structure, implementation of the structure and review of processes and procedures to deliver efficiencies. Any costs associated with the above will be shared between the three authorities, as agreed by the S151s.

The audit and risk teams of the three partnership authorities have been made aware of the proposed shared service and have been kept informed of progress to date.

A programme of staff consultation briefings is being developed to keep staff fully informed of future progress and to provide HR advice as appropriate.

Financial Efficiencies

Opportunities for financial savings during 2015/16 are limited given the transition phase required. Any costs associated with transition will be shared between the three authorities, as agreed by the S151s and be contained within existing budget.

The restructure and rationalisation of processes and procedures will be complete by the end of 2015/16 and therefore a minimum 3% saving target has been identified for 2016/17 across partners. This is within the context of continuing to deliver a quality, professional service. An investment in training is essential to the recruitment and retention of staff. The partnership would be expected to continue to focus on opportunities for further efficiencies.