

Gloucester City Council

Meeting:	Audit & Governance Committee	Date:	19 January 2015
	Cabinet		28 January 2015
	Council		18 March 2015
Subject:	Internal Audit & Risk Management Shared Service		
Report Of:	Head of Finance		
Wards Affected:	All		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	None		

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 To provide the background and rationale underlying the proposals to form an Internal Audit and Risk Management Shared Service between Gloucester City Council, Stroud District Council and Gloucestershire County Council.
- 1.2 Authority is also sought to delegate this Council's Internal Audit Function to Gloucestershire County Council in accordance with the provisions of Section 101, of the Local Government Act 1972, Sections 19 and 20 of the Local Government Act 2000 and all other enabling powers.

2.0 Recommendations

- 2.1 Audit & Governance Committee is asked to note the information contained in the report and make any recommendations to Cabinet.
- 2.2 Cabinet is asked to **RECOMMEND** to Council that it:-
 - (1) Agrees 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) Delegates this Council's Internal Audit Function to Gloucestershire County Council in accordance with the provisions of Section 101, of the Local Government Act 1972, Sections 19 and 20 of the Local Government Act 2000 and all other enabling powers subject to (6) below;
 - (3) Agrees to enter into an Administrative Collaboration Agreement, under S101 of the Local Government Act 1972 with the partner authorities;

- (4) Delegates authority to the Corporate Director Services and Neighbourhoods, in consultation with the Cabinet Member for Performance and Resources, to approve the terms of the Administrative Collaboration Agreement;
- (5) Agrees 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;
- (6) Agrees to the formation of an Internal Audit and Risk Management Shared Services Board involving the Section 151 officers from each of the participating authorities, to oversee the implementation and ongoing monitoring of the s101 Agreement; and
- (7) Authorises the Monitoring Officer to make any consequent changes to the Council's Constitution to reflect the shared services arrangements and delegation of the internal audit service function to the Head of the Internal Audit and Risk Management Shared Service at Gloucestershire County Council.

2.3 Council is asked to **RESOLVE** that it:-

- (1) Agrees 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) Delegates this Council's Internal Audit Function to Gloucestershire County Council in accordance with the provisions of Section 101, of the Local Government Act 1972, Sections 19 and 20 of the Local Government Act 2000 and all other enabling powers subject to (6) below;
- (3) Agrees to enter into an Administrative Collaboration Agreement, under S101 of the Local Government Act 1972 with the partner authorities;
- (4) Delegates authority to the Corporate Director Services and Neighbourhoods, in consultation with the Cabinet Member for Performance and Resources, to approve the terms of the Administrative Collaboration Agreement;
- (5) Agrees 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;
- (6) Agrees to the formation of an Internal Audit and Risk Management Shared Services Board involving the Section 151 officers from each of the participating authorities, to oversee the implementation and ongoing monitoring of the s101 Agreement; and
- (7) Authorises the Monitoring Officer to make any consequent changes to the Council's Constitution to reflect the shared services arrangements and delegation of the internal audit service function to the Head of the Internal

3.0 Background and Key Issues

- 3.1 “A range of factors are forcing councils to think of new approaches to the delivery of both front-line and back-office services. These include external drivers (particularly government policies, grant settlements and customer expectations) as well as internal pressures, such as improving service quality, bringing down costs, attracting skilled staff, and accessing best practice techniques and technologies” – *Sharing the Gain, Collaborating for Cost Effectiveness – CIPFA 2010*.
- 3.2 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.
- 3.3 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.
- 3.4 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.
- 3.5 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.
- 3.6 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.

4.0 The Rationale for Change

- 4.1 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.
- 4.2 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 GCC and SDC entered into a formal shared internal audit service for the provision of an internal audit service to both Councils.
- 4.3 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.

- 4.4 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:
- Formally share internal audit and risk management services between the three Councils; and
 - Bring the management of an extended shared service under one manager

5.0 Proposed Shared Service Arrangements

5.1 Governance Arrangements

5.1.1 The recommended option for the delivery of the shared service is via a Delegated Function Model. Under this option, one Council (the Lead Authority) undertakes the functions of another Council under delegated powers set out in an Administrative Collaboration 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).

5.1.2 This option is recommended for the following reasons:-

- It has a proven track record through benchmarking for delivering services between Councils. Examples include the current Audit & Assurance partnership in operation between Gloucester City Council and Stroud District Council; 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 only requires a s101 Agreement to be prepared and implemented and staff to TUPE to the Lead Authority.

5.1.3 The main risk to the Council 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 (or duly authorised senior financial representative) in each Council to oversee the implementation of and delivery of the function under the s101 Agreement, quality, performance, risks and consider major changes to the service.

5.1.4 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 pension liabilities remain with the originating authority and that they would not get transferred to the host authority.

5.2 Recommended Shared Services Framework

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

5.2.2 It is recommended that Glos CC becomes the host authority under a section 101 Agreement with effect from the 1st April 2015. The duration of the agreement will

initially be for a three year period (from the 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.

5.2.3 As a result of the above recommendation, GCC staff, including those based at Stroud District Council (i.e. 6.6 FTE staff) will be transferred, under TUPE arrangements, to Glos CC from the commencement date of 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.

5.2.4 It is proposed that, with effect from the 1st April 2015, 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. This restructure and rationalisation of processes and procedures will be completed by the end of 2015/16.

5.2.5 This detailed review will ensure that the revised structure delivers the most effective outcome for each authority and will deliver a minimum 3% savings target from 2016/17 across partners.

5.3 The Key Benefits for Change

5.3.1 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;
- Pooling of expertise to strengthen business delivery to the benefit of the clients;
- Provision of a 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 partnership;
- 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; and
- Benefits of adopting common day to day audit reporting and procedural approaches driven by a single Audit Management System for the shared service.

5.3.2 In addition, the following benefits have been identified from Glos CC being the host authority for the shared service:-

- The Audit Management IT System used by Glos CC could be used to enable the automated management of the audit and risk functions across the shared service.
- Access to additional IT audit skills via the current ICT audit provision contract Glos CC has with a third party supplier.
- Access to additional support for the National Fraud Initiative work and investigatory work under the current agreement between Glos CC and the Gloucestershire NHS Counter Fraud Service; and

- GlosCC can offer the Partnership 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.

6.0 Alternative Options Considered

6.1 The alternative options identified and considered for the provision of Internal Audit Services, are as follows:

6.1.1 No Change

This 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.

6.1.2 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 District Councils. This would clearly inflate their bid price and the cost per audit day would be significantly higher than is currently paid.

6.1.3 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 shared service arrangement is also an option that can be pursued once the new shared service has been established.

7.0 Reasons for Recommendations

7.1 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:

- Formally share internal audit and risk management services between the three Councils; and

- Bring the management of an extended shared service under one manager.

7.2 The recommended option for the delivery of the shared service is via a Delegated Function Model. This option is recommended as it has a proven track record and it is relatively straightforward to set up, in that it only requires a s101 Agreement to be prepared and implemented and staff to be TUPE'd to the host authority.

8.0 Future Work and Conclusions

8.1 As stated in para. 5.2.4 above, it is proposed that, with effect from the 1st April 2015, new arrangements are developed and implemented. This will include a review of the management arrangements for the new shared service, the development of a new structure, implementation of the structure and review of processes and procedures to deliver efficiencies. This restructure and rationalisation of processes and procedures will be completed by the end of 2015/16. This detailed review will ensure that the revised structure delivers the most effective outcome for each authority and will deliver a minimum 3% savings target from 2016/17 across partners.

9.0 Financial Implications

9.1 Opportunities for financial savings during 2015/2016 are limited given the transition phase required. Any costs associated with transition will be shared between the three authorities, as agreed by the s151 Officers, and will be contained within existing budgets.

9.2 The restructure and rationalisation of processes and procedures will be completed by the end of 2015/16 and therefore a minimum 3% savings 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 Shared Service would be expected to continue to focus on opportunities for further efficiencies.

(Financial Services have been consulted in the preparation this report.)

10.0 Legal Implications

10.1 The report recommends that this Council delegates its Internal Audit Service function to Gloucestershire County Council with effect from 1st April 2015.

10.2 As the report states, the effect of this decision will be to hand over day to day operational responsibility for the carrying out of the internal audit function within this Council (and within Stroud District Council) to Gloucestershire County Council. All existing Council staff presently employed on the Internal Audit Service will transfer under TUPE arrangements to Gloucestershire County Council.

10.3 To coincide with this delegation, the three Councils will enter into an Administrative Collaboration Agreement, in accordance with recommendations in paragraph 2.0 above.

(Legal Services have been consulted in the preparation this report.)

11.0 Risk & Opportunity Management Implications

- 11.1 The main risk to the Council is the loss of control by delegating its functions to a host authority. In order to address this, a Shared Services Partnership Board would need to be created comprising of the s151 officers (or duly authorised senior financial representative) in each Council to oversee the implementation of the s101 Agency Agreement, quality, performance, risks and consider major changes to the service.
- 11.2 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 pension liabilities remain with the originating authority and they would not get transferred to the host authority.

12.0 People Impact Assessment (PIA)

- 12.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required. For the customers of the Internal Audit Service, who are largely internal customers, the introduction of shared services will not impact on service delivery. The transition will be seamless and generally, it will be 'business as usual.
- 12.2 For the staff transferring to the partnership, current terms and conditions will be protected. All staff will be given equal access to development opportunities as they arise.

13.0 Other Corporate Implications

Community Safety

- 13.1 No specific Community Safety implications resulting from the recommendations made in this report.

Sustainability

- 13.2 No specific Sustainability implications resulting from the recommendations made in this report.

Staffing & Trade Union

- 13.3 The audit teams of the three partnership authorities have been made aware of the proposed shared service and have been kept informed of progress to date.
- 13.4 The new arrangements will bring about development opportunities for staff which in turn will aid recruitment and retention of suitably qualified people.
- 13.5 Appropriate Trade Union consultation will be undertaken.

Background Documents:

- Sharing the Gain, Collaborating for Cost Effectiveness – CIPFA 2010