

DECISION-MAKER:	CABINET
SUBJECT:	PROPOSED SHARED PROVISION OF INTERNAL AUDIT SERVICES WITH HAMPSHIRE COUNTY COUNCIL AND WEST SUSSEX COUNTY COUNCIL
DATE OF DECISION:	24 OCTOBER 2011
REPORT OF:	HEAD OF FINANCE
STATEMENT OF CONFIDENTIALITY	
Appendix 1 contains information deemed to be exempt from general publication based on Categories 1, 3 and 7A of paragraph 10.4 of the Council's Access to Information Procedure Rules. Publication of such information is either personal or relates to business affairs and contemplated contractual arrangements between the three Authorities and accordingly is exempt from publication.	

BRIEF SUMMARY

To recommend entering into a partnership agreement with Hampshire County Council and West Sussex County Council for the provision of internal audit services including the TUPE transfer of existing affected Southampton City Council staff onto Hampshire County Council's payroll.

RECOMMENDATIONS:

- (i) To agree in principle to support the establishment of an Internal Audit shared service partnership with Hampshire County Council and or West Sussex County Council, with Hampshire acting as host authority
- (ii) That the Head of Finance (CFO) be given delegated authority to:
 - (a) continue to explore the setting up of a partnership, and
 - (b) subject to ensuring that the partnership will be at a minimum cost neutral or a saving to the Council and in consultation with the Head of Legal and Democratic Services, to enter into a Partnership Agreement with Hampshire County Council and or West Sussex County Council for the provision of a joint internal audit services function with effect from 1 April 2012 upon such terms and conditions as the Head of Finance (CFO) considers appropriate and reasonable
- (iii) That following the signing of the Partnership Agreement and on commencement of arrangements that internal audit staff (as detailed in exempt Appendix 1) be transferred under TUPE to Hampshire County Council

REASONS FOR REPORT RECOMMENDATIONS

1. Arrangements are currently in place for the shared provision of the Chief Internal Auditor between Southampton City Council and Hampshire County Council. This proposal would build on existing arrangements and further strengthen the resilience of the internal audit function and provide the potential for future income streams as the partnership matures.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

2. A number of alternative business models were considered including a fully outsourced service; however these were rejected on the basis of numerous considerations including cost, resilience, capacity and staff implications.

DETAIL (Including consultation carried out)

3. The significant public sector budget cuts from 2010 have increased the focus on exploring alternative delivery models to improve outcomes and optimise service efficiency through economies of scale. This has accelerated the trend towards developing “shared services” through forming partnerships to deliver more joined-up services.
4. Hampshire County Council and Southampton City Council entered into an agreement to share the Chief Internal Auditor on a ratio of 60:40 with effect from November 2010 delivering immediate financial savings to Southampton City Council of £56k per annum.
5. The intention was to then embed this as a true partnership model. Following an expression of interest from West Sussex County Council it was agreed that a business case should be produced to evaluate options for delivery of an Internal Audit Shared Service across the three authorities.
6. The current delivery of internal audit within the three authorities was scrutinised and demonstrated that the three teams operated in a similar way, with experienced teams, good customer satisfaction and broadly similar productivity (audit days delivered per FTE). Enhancing audit specialisms was a particular need, along with strengthening business resilience following recent restructuring exercises within all three authorities.
7. Best practice research was undertaken with other local authority internal audit shared service models and private sector pricing. This demonstrated that shared service partnerships (joint discharge of functions) were already operating as successful service delivery models, along with arms length management organisations and outsourced models
8. A full range of six options were identified and assessed at a high level. These were shortlisted to three options to be explored in more depth:
 - Option A: Shared service partnership with a host authority and operating as a joint discharge of functions (Section 101(5) Local Government Act 1972).
 - Option B: Co-sourcing (Option Ai above but with one or more of a range of specialist services procured from the private sector).
 - Option C: Fully outsourced.The shortlisted options were assessed in detail, with structure, financial, HR and legal implications duly considered
9. The preferred option was Option A, the shared service partnership as a joint discharge of functions under Section 101(5) of the Local Government Act 1972, with Hampshire County Council operating as the host authority.

10. In adopting this model it is intended that internal audit staff (appendix 1) from Southampton City Council would transfer under TUPE to Hampshire County Council for the provision of the shared service arrangement.
11. Participation in the partnership will not increase service costs. In the short term the opportunities to make significant further efficiencies is restricted. All three partners have recently undertaken significant restructures to deliver targeted savings to protect frontline service delivery. As the partnership develops there may be opportunities for further savings particularly as services are expanded to other bodies.
12. A key driver for the shared service partnership are the organisational benefits that can be realised in terms of delivering an innovative and collaborative modern Internal Audit service. This would strengthen business resilience, improve the provision of audit specialisms, develop best practice, enable staff development and progression opportunities and raise the profile of the service on a local and regional basis
13. The development of a shared service model, bringing together the professional discipline of internal audit across three partner local authorities, represents the opportunity to deliver a more responsive service that enhances business resilience within the partner authorities through its strength and depth.
14. A decision is expected within the next month as to whether to implement one of the options for a partnership approach and timeframes for this to be achieved.

RESOURCE IMPLICATIONS

Capital/Revenue

15. The shared Chief Internal Auditor role has already delivered a saving of £56,000.
16. Whilst significant new financial efficiencies are not anticipated, it is likely that further savings will accrue both as a consequence of setting up the partnership and through a further planned reduction in staff numbers prior to transfer to the partnership.

Property/Other

17. None

LEGAL IMPLICATIONS

Statutory power to undertake proposals in the report:

18. Section 101(5) of the Local Government Act 1972

Other Legal Implications:

19. None

POLICY FRAMEWORK IMPLICATIONS

20. None

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KEY DECISION? Yes/No No

WARDS/COMMUNITIES AFFECTED:	
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SUPPORTING DOCUMENTATION

Non-confidential appendices are in the Members' Rooms and can be accessed on-line

Appendices

1.	Southampton City Council staff impacted by the possible TUPE transfer to Hampshire County Council - EXEMPT
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Documents In Members' Rooms

1.	None
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Integrated Impact Assessment

Do the implications/subject of the report require an Integrated Impact Assessment (IIA) to be carried out.	No
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Other Background Documents

Integrated Impact Assessment and Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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2.	None	
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