

| | |
|-------------------------|--|
| MEETING: | CABINET |
| DATE: | 18 FEBRUARY 2010 |
| TITLE OF REPORT: | SHARED SERVICES |
| PORTFOLIO AREA: | CORPORATE & CUSTOMER SERVICES AND HUMAN RESOURCES |

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To receive the Shared Services Strategy and agree the next steps of the programme.

Key Decision

This is not a Key Decision.

Recommendation

THAT Cabinet:

- (a) accept the business case for shared services and confirm its support for the development of shared services to realise the benefits outlined;**
- (b) note there are three models under consideration for fully implementing shared services;**
- (c) agree that the Council should continue to develop the Shared Services using one or more of these models as appropriate;**
- (d) note that the Business Transformation Board will be responsible for implementing Shared Services; and**
- (e) authorise the Deputy Chief Executive to progress negotiations with partner representatives and to provide a further report seeking formal decisions from the Cabinet and/or individual Cabinet Member(s) as necessary.**

Further information on the subject of this report is available from Annie Faulder, Interim Deputy Chief Executive on Tel: (01432) 260037

Key Points Summary

- The business case for Shared Services and its recommendations has been accepted by the Joint Management Team (JMT).
- Steps have been taken, and continue, to implement the recommendations in this business case. These include setting up a unified programme board (Business Transformation Board) bringing together the work of the Herefordshire Connects and Shared Services Programmes, conducting a soft market sounding and setting up a Centre of Excellence for Procurement, transformation team and conduct and support Business Process Improvement work across the in-scope services
- The Business Transformation Board has ratified the recommendations made in the business case.
- In order to determine the optimal model for implementing shared services, legal advice has been sought from external expert legal advisers. That advice is reflected in Appendix B
- Their advice has lead to three models being explored in more detail. Each option has its relative strengths and weaknesses. The models under consideration are:
 - a. A lead commissioner provider model, whereby one of the three partners takes over the relevant support functions including staff. The Lead then provides (or commissions) services on behalf of the other two.
 - b. Transfer of part or all of the services to a Private sector partner. The three partner organisations conduct a procurement exercise to appoint a private sector strategic partner to deliver the in-scope support services on behalf of the partners.
 - c. Establish a public/public shared services entity. This would entail the three partner organisations setting up a joint venture company. This public/public venture will be wholly owned (in agreed proportions) by the partners and controlled as determined by the partners. This Joint Venture would have its own legal entity with a remit to both provide and commission services and to employ staff.
- It is possible to use one or more of these models in combination.

Reasons for Recommendations

1. To enable work on selecting a lead partner for Shared Services to progress.

Introduction and Background

2. The scope of this work is the implementation of a shared services strategy for the Council, NHS Herefordshire (NHSH) and Hereford Hospital Trust (HHT) which collectively form the Herefordshire Shared Services Partnership (HSSP).

Key Considerations

3. A number of key public service drivers underpin the Shared Services and Herefordshire Connects work, these include:
 - i. Making local public services more joined up, customer focused and responsive, so that they are easier to understand and access
 - ii. Maintaining a strong sense of place for Herefordshire
 - iii. Consideration the likely outcomes of the Public Sector Finance settlement and need to secure efficiencies and provide value for money
 - iv. Increasing the quality of service with against a background of increasing demand for many front line services.

Background Information

4. Since May 2009, with support from PA Consulting, Herefordshire Shared Services Partnership (HSSP) has been assessing whether or not sharing corporate support services across Herefordshire Council, NHSH and HHT is viable. The work of the Shared Services Review has resulted in a credible case in support of making the change.
5. The shared services study (contained in the business case at Appendix A) identified that in scope services consume 526 full time equivalent employees and £19 million per annum.
6. Transforming these services to a Shared Services environment could release between 104-140 Full Time Equivalent posts [FTE's], producing savings of between £3.4 to £5.4M recurring savings. Further potential savings of approximately £890K per annum have been identified by adopting a joined-up strategic approach to contract management and procurement;
7. Each of the in-scope services was assessed by current performance (Both financial and non financial) using a series of benchmarks and metrics. The gap to top-quartile performance was then calculated which represents the potential saving possible.

Current Position - the case for shared services

8. JMT have received and approved the detailed business case.
9. Cabinet received updates on progress in July and December 2009.
10. The three partners have a total combined FTE count of 526. Analysis shows that several of the larger in scope functions are bigger than they need to be. For example, the combined finance function is 35-40% larger than upper quartile performing functions. Similarly, HR is 36-39% off upper quartile performance.
11. Where Key Performance Indicators [KPIs] have not been available to size the target organisation PA have used their experience to estimate the savings range. Experience shows that a successful transformation programme, reviewing processes bottom up, can realise savings in the range of 10-25%. In most cases the savings potential is sufficient to justify moving to a shared service model, or at very least, a more detailed review of the options for sharing.

12. Adopting a shared service model could lead to savings in the range of 104 – 140 FTEs or £4.2m - £5.4m across the partners. The largest savings would come from a headcount reduction in Corporate support services. The business case suggests this could be in the order of 62 – 72 FTEs and cover repetitive or routine transactional work.
13. There are areas where savings will not be made by headcount reduction. For example, PA are confident that the procurement function can quickly realise savings from better contract management but may need to increase its strategic capability to do so.
14. The economic appraisal suggests cumulative benefits that range from £15.3 to 19.8M and cumulative costs range from £3.8 to 6.2M over the five-year period. All scenarios demonstrate significant positive benefits over the five-year period ranging from £8.6M to £13.7M.
15. Progress has been on a number of the recommendations:
 - a. A key recommendation of the business case was to create a unified governance board for shared services, Herefordshire Connects and ICT strategy work. This has now happened and has also led to a single unified programme board, called the Business Transformation Board.
 - b. The soft market sounding was conducted during October 2009, which yielded a very positive response from potential suppliers for the Strategic Partner contract.
 - c. A new transition team is being set up. This team will have representation from all three organisations.
 - d. A Centre of Excellence for procurement across the partnership. (The prime purpose was to understand the feasibility, capability, maturity and capacity of the supply market to act as a Strategic Partner(s) for HSSP. The exercise has yielded useful information, which has helped shape the recommendations being made to Cabinet.)

Model for shared services

16. The advice on models and options that could be adopted in order to implement Shared Services is reflected at Appendix B. As stated before, three options are now under consideration.

Community Impact

17. The objectives of the shared services programme, in producing efficiencies and cost savings to protect front line services is likely to mean a reduction in full time equivalent posts in back office services. The intention of the programme is to mitigate these reductions using measures to avoid or minimise the need for redundancies through redeployment, natural turnover, alternative work and other strategies that the Council is committed to.

Financial Implications

18. Initial costs have been borne from under spend in the Connects programme.

19. Issues around the governance and apportionment of costs and benefits will also need to be addressed and resolved as the initiative progresses.

Legal Implications

20. There are a range of complex legal issues to be addressed as this initiative progresses. Expert advice, in the attached models and options paper has been obtained. That advice identifies some of the legal issues to be resolved. These issues will be the subject of continued dialogue by the Transformation Board and all formal decisions required by partners will be sought as necessary from the Cabinet, NHSH and HHT boards.

Risk Management

21. A full risk analysis has been undertaken and is subject to regular review. Current risks and mitigations include:
 - a. *Programme Governance* - Strong leadership and sponsorship from the JMT, Herefordshire Hospitals Trust and the Programme Board will ensure that there is effective governance for the programme. New arrangements have been identified for the next stage of the programme.
 - b. That the recommendations are not approved by Cabinet and Trust Boards – Regular communications and updates, with clear presentation of case for change. All partners remain committed to Shared Services model, this complex relationship will require a high level of collaboration;
 - c. Lack of alignment between this work and other major initiatives - The integration of the key transformation programmes with a single governing board has been proposed.
 - d. Risk of the review having a negative impact on staff morale - This will be mitigated by a comprehensive communication strategy recognising the needs of staff and Trade Unions.
 - e. Return on Investment (risk that the business case does not justify the investment) - This will be mitigated by the regular review of the business case to regularly test that it is viable.
 - f. Outcome of Commissioner / Provider review (Within Health) could impact on the 'critical mass' for shared services – This will be kept under regular review as part of governance processes.

Alternative Options

22. Do nothing – This approach would prevent HSSP from realising any benefits identified in the Business Case. In order to achieve any savings it would be necessary to apportion cuts to budgets in an arbitrary way with the likelihood of serious negative impact on Service Performance.

Consultees

23. Consultations have commenced and will continue to take place during the Shared Service Review with members, directors, heads of service, service managers, staff, non-executive directors (Health) and partners. An action plan, which is updated monthly, outlines how each stakeholder group will be informed and engaged in the process.

Appendices

Appendix A: Business Case

Appendix B: Models & Options Paper

Background Papers

None