

MEETING:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	2 JULY 2010
TITLE OF REPORT:	SHARED SERVICES UPDATE
REPORT BY:	DEPUTY CHIEF EXECUTIVE

CLASSIFICATION: Open

Purpose

To advise the Overview and Scrutiny Committee of the progress and status of the Shared Services business transformation activity.

Recommendation(s)

THAT the Overview and Scrutiny Committee:

- (a) **Note progress made on shared services; and**
- (b) **Note that a further report seeking a formal decision to agree terms of the council's participation in the JVCo to be presented to Cabinet in September.**

Key Points Summary

This report outlines progress made on Shared Services.

- A joint Programme Board with membership from Herefordshire Council (HC), NHS Herefordshire (NHSH) and Herefordshire Hospitals NHS Trust (HHT) was formed in May 2008 to review potential approaches to and opportunities for the greater sharing of common support services. This would build on integrated services that had been established between HC and NHSH including; Human Resources, Communications, Emergency Planning and ICT;
- The Programme Board recommended an approach for the development of a shared services strategy for the wider partnership of HC, NHSH and HHT and that a specialist independent advisor be secured to support this work;
- PA Consulting were selected through a West Midland Improvement & Efficiency Partnership (WMIEP) framework procurement process in April 2009. WMIEP have also provided financial support for the review;
- The work commenced in May 2009 and was completed over a three month period delivering the key outputs of an option assessment, business case and action plan;
- The Business Transformation Board ratified the recommendations made in the business case in August 2009;

Further information on the subject of this report is available from
Dean Taylor, Deputy Chief Executive on (01432) 260037

- The business case for Shared Services and its recommendations have been accepted by the Joint Management Team (JMT) in September 2009, Cabinet and the NHS Herefordshire Board in February 2010. The Herefordshire Hospital Trust (HHT) accepted the PA business case in principle at the Trust Board meeting in Dec 2009.
- A number of recommendations in this business case have been implemented, including; establishment of a unified programme board (Business Transformation Board) bringing together the work of the Herefordshire Connects and Shared Services Programmes, conducting a soft market sounding exercise, establishment of a transformation team and development of a standard and quantifiable approach to benefits management and realisation, renegotiation of some procurement contracts;
- In order to determine the optimal model for implementing shared services, initial legal advice was sought from external expert legal advisers.
- This advice led to three models being explored in more detail. Each option has its relative strengths and weaknesses. The models considered were:
 - 1 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.
 - 2 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.
 - 3 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.
- The Business Transformation Board concluded, following a scored evaluation of the models, that the partners should establish a publically owned joint venture company (“JVCo”) which it is proposed will be the delivery vehicle for the provision and/or commissioning of some of the shared services;
- The JVCo would provide the vehicle to progress the procurement of and partnership with a private sector strategic partner jointly with its NHS and HHT partners if required;
- The business case made it clear that the strategic partner model is likely to be the most advantageous to secure benefits in the long term. However, the procurement process required to appoint a strategic partner(s) would take between 12 to 18 months following agreement of all partners. With a consequent delay in benefits realisation of 24 – 30 months;
- The Business Transformation Board recommended a two stage process; (1) the establishment of a public/public JVCo to deliver short to medium term benefits and (2) the further consideration of the strategic private sector partner option for the longer term;
- These recommendations were presented to Cabinet and NHS Herefordshire Board in March 2010 and were accepted;
- HHT remain fully committed to the principle of shared services in Herefordshire but the Trust Board has not adopted the JVCo model at this stage and have established a sub-committee to progress work in this area;

- Work is progressing in a number of areas:
 - a. Refinement of the Business case cost/benefits in line with the preferred option of setting up of JVCo;
 - b. The appointment of legal advisors to assist in understanding the legal requirements/ issues around the setup and operation of a JVCo, particularly around the powers (vires) of each partner to participate in the JV, the governance arrangements between the partners, HR / TUPE consideration and procurement issues
 - c. Appointment of Service Change Managers to continue work on the development of the organisation blueprint for the new operating model for the in-scope shared services. The establishment of a network of service change managers within the services, that will work with the Shared Services Transition Team will be completed during August;
 - d. Development of a Joint Procurement Strategy, including consideration of the required delivery structure e.g. establishing a Procurement Centre of Excellence.

Alternative Options

- 1 Alternative options have been evaluated as part of the options appraisal.

Reasons for Recommendations

- 2 To enable work on Shared Services to progress and to enable the projected benefits and cost savings for 2010-11 financial year to be delivered.

Introduction and Background

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

Key Considerations

Context

- 4 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 and sustainability for Public Services in Herefordshire
 - iii. Consideration the likely outcomes of the Public Sector Finance review 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

- 5 Since May 2009, with support from PA Consulting, Herefordshire Shared Services Partnership (HSSP) has been assessing the viability of sharing corporate support services across Herefordshire Council, NHS Herefordshire and Herefordshire Hospitals NHS Trust. The work of the Shared Services Review has resulted in a credible case in support of making the

change.

- 6 The shared services study identified that in scope services consume 526 full time equivalent (FTE) resources and £19 million per annum.
- 7 Transforming these services to a Shared Services environment could release between 104-140 FTE's, producing savings of between £3.4 to £5.4M recurring savings. Which includes savings of approximately £890K per annum have been identified by adopting a joined-up strategic approach to contract management and procurement.
- 8 Each of the in-scope services were 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

- 9 Cabinet received updates on progress in July and December 2009. The business case for Shared Services (See Appendix 2 for the Business Case Executive Summary) and its recommendations have been accepted by the Joint Management Team (JMT) in September 2009, Cabinet and the NHS Herefordshire Board in February 2010. The Herefordshire Hospital Trust (HHT) accepted the PA business case in principle at the Trust Board in Dec 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 has been set up. This team will have representation from all three organisations;
- d. A Centre of Excellence for procurement across the partnership;
- e. Development of a standard and quantifiable approach to benefits management and realisation.

Model for shared services

- 16 The Business Transformation Board has undertaken an options appraisal to identify a preferred delivery model and has presented to Cabinet in February 2010.
- 17 The Business Transformation Board have formed the view that the partners should establish a public / public joint venture company ("JVCo") which it is proposed will be the delivery vehicle for the provision and/or commissioning of some of the shared services.
- 18 The detailed blueprints for the first cluster of service areas (HR, Payroll, Expenses, Finance, Procurement and Legal) are currently being developed and the Business Transformation Board is not yet in a position to present the detailed business case and business model for each service area. Therefore it is not yet possible to provide full details of the service delivery arrangements for each service stream.
- 19 However, from the options appraisal it is clear that the provision of services through a JVCo vehicle is likely to be the most advantageous and likely to meet the design principles set out in the business case for the majority of those services currently in scope. Final decisions on this need to be taken on service by service basis recognising that the business model overall needs to be sustainable in market terms.
- 20 The business case makes it clear that the strategic partner model is likely to be the most advantageous to secure the longer term benefits consistent with earlier statement. If the partners wish to progress the procurement of and partnership with a private sector strategic partner in the longer term, a JVCo will also provide the vehicle for doing so jointly with its NHTSH and HHT partners.
- 21 That process will involve a number of significant work streams including:
 - a. The negotiation of the terms of the partnership and establishment of the JV Company, supported by expert legal advice;
 - b. Consultation and engagement with the Unions and staff on the implications for staff and ensuring all management of change policies and legal duties and responsibilities are complied with;
 - c. Dealing with all financial and commercial considerations;
 - d. Developing service blueprints, undertaking service transformation (Business process re-engineering) and preparation for service transfers as appropriate to the new public-public partnership.

Work in these areas is already underway. All work streams will be aligned as the shared services project progresses in order to achieve consistent outcomes and phased

implementation. The detailed work plans for each work stream are being developed and the Business Transformation Board will receive regular updates on all activities. A key activity will be engagement with elected members, non-executive Directors, staff and unions.

- 22 Therefore, the Business Transformation Board recommended that the partners establish a “shadow” JVCo and proceed with the work streams outlined in paragraph 21 without delay in order to realise the benefits (particularly the short term savings) and service improvements envisaged in the business case. The JVCo will then be ready to take over the services when required. The work on the establishment of the JVCo and the service blueprints needs to be concurrent in order to deliver the benefits in from 2010-11 as envisaged.
- 23 HHT have more limited powers than the Council and NHSH to enter into such arrangements and further work is needed to identify the exact arrangements between HHT and the remaining two partners. It is envisaged that HHT will be part of the public-public partnership but may be prevented from being a full partner in the JVCo. HHT understand the possible restrictions but are keen nevertheless to participate in negotiations with a view to establishing a public-public partnership.
- 24 The timeline for completion of this work is set out in Appendix 1.
- 25 The Cabinet paper of 18 March 2010 considered the options appraisal and confirmed its agreement to the establishment of a JVCo as the preferred model for shared services delivery and/or commissioning in the short to medium term. The Cabinet also authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish the JVCo as the vehicle for delivery of shared services. The DCE should do so in consultation with the Leader and Deputy Leader. The Cabinet will need to consider and agree the terms of its participation in the JVCo before any services are transferred to it and it is anticipated that a further report seeking the necessary formal decisions will be brought to Cabinet in due course.
- 26 In May 2010 the Trust Board established a Sub Committee with Non Executives from HHT and PCT provider-side to ascertain the detailed setup costs, benefits and legal implications of the JVCo in the context of the future Integrated Care Organisation. HHT remain fully committed to the principle of shared services in Herefordshire but the Trust Board has not adopted the JVCo model at this stage.
- 27 Work continues (with involvement of Service Change Managers) on the development of blueprints for the in-scope shared services (Finance, HR, Procurement, Payroll/Expenses, Legal and Estates). The Blueprint explains how the organisation, process and solution design will be developed and what it means for services and employees in terms of transition and implementation. The Business Blueprint also provides a summary of the business case, expected benefits and associated costs. The Business Transformation Board has asked for the services to nominate service change managers who will work with the Transition Team to develop and implement changes to the services in scope. Where appropriate external business process design skills will be brought in.

Community Impact

- 28 The preferred option outlined in this paper will deliver improved quality, more efficient and effective back office support to front line services across the three partner organisations, will release savings to deal with future financial constraints and/or for reinvestment in front line services, will protect jobs and investment in the County in future. In particular, the preferred option provides an opportunity for the partners to provide those services to other public services providers in Herefordshire in line with the Total Place agenda

Financial Implications

- 29 All the financial implications for the partners will need to be addressed and resolved as the initiative progresses. Before any transfer of services to a JVCo, a full financial and commercial appraisal for each partner will need to be prepared and considered. Agreement is being reached between the partners on apportionment of costs and benefits.

Legal Implications

- 30 There are a range of complex legal issues to be addressed and resolved as the initiative progresses. External legal advisors who are expert in the set-up of the public/public JVCo have been appointed for this purpose. These legal implications will be included for Cabinet consideration.

Risk Management

20. 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;
 - g. Impact of National Policy Changes. For example NHS Shared Business Services National initiative - This will be kept under regular review as part of governance processes.

Consultees

- 31 Consultations have commenced and will continue to take place during the Shared Service Review with members, directors, heads' of service, service managers, staff, Unions, non-executive directors (NHSH) and partners. A comprehensive communications strategy is being developed to support this work going forward. A shared services consultation group has been

set up, this consists of representatives from the three partners, Joint Consultative Forum, Staff Partnership board and Joint Negotiating Committee.

Appendices

- Shared Services Timeline (Appendix 1)
- Final Business Case Executive Summary (Appendix 2)

Background Papers

Shared Services Working Paper – as reported to the Programme Board – 10 December 2008

Shared Services Quotation Specification – as reported to the Programme Board – 2 March 2009

Shared Services Business Case – as reported to Cabinet 18 February 2010

Model & Options Paper - as reported to Cabinet 18 February 2010

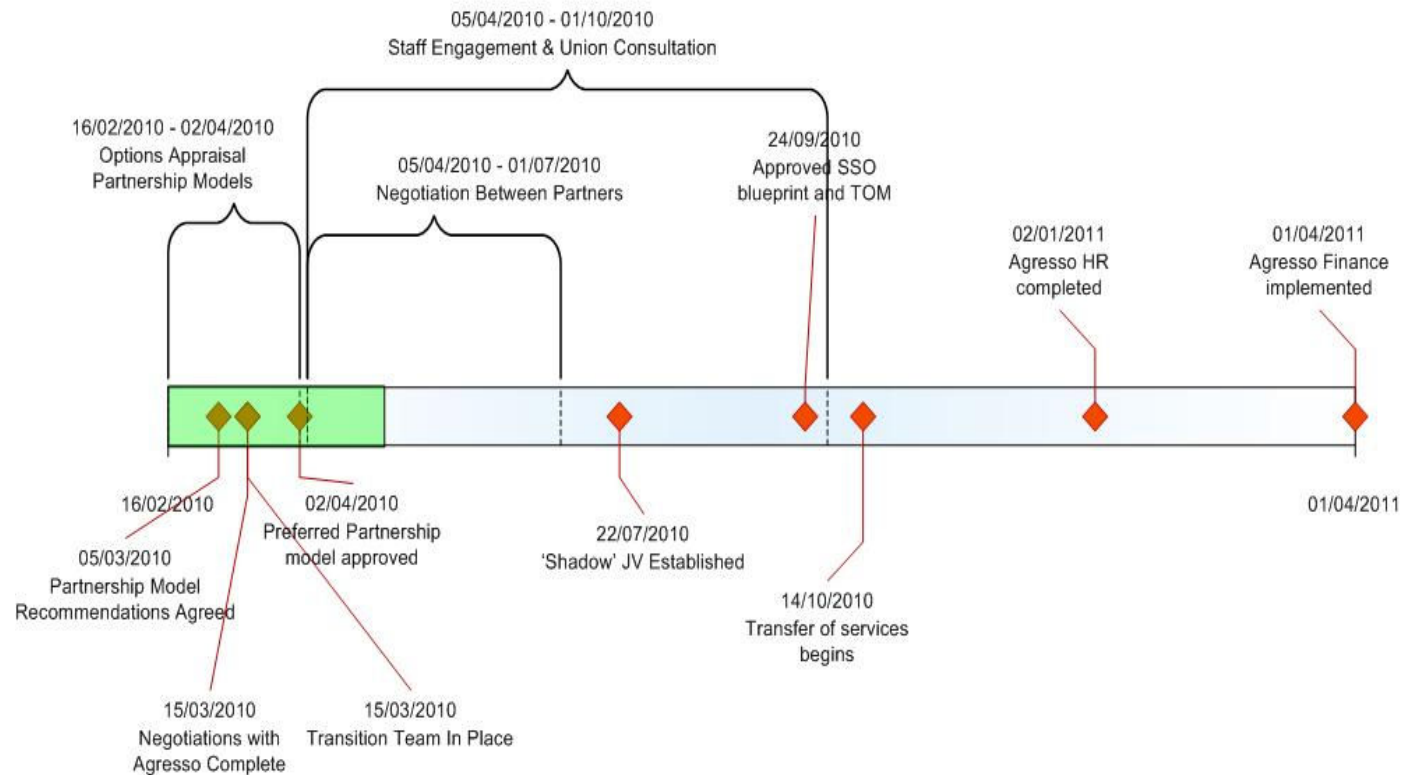
Options Appraisal - as reported to Cabinet 18 February 2010

Risk Assessment - as reported to the Business Transformation Board – 12 April 2010

Appendix 1 – Shared Services Timeline

High Level Timeline for Shared Services

Detailed Programme Plan Available



Further information on the subject of this report is available from
Dean Taylor, Deputy Chief Executive on (01432) 260037

Executive summary

Over the last 3 months the Shared Services Project Team has been considering how to implement shared services in respect of its corporate support functions. This builds on the successful sharing already in place across the three organisations. This work has now been completed and the Business Case – Management Summary was presented to the Programme Board on 6th August 2009. This confirmed the clear case for change and the meeting accepted the recommendations presented.

Context

The case for shared services can be referenced back to Sir David Varney's Report on Transformational Government and builds on the Gershon Efficiency Review. More recently the findings of the Operational Efficiency Programme¹ (OEP), a year long programme examining operational spending in public sector delivery bodies, e.g. local government, the NHS, Police and schools, was published on 21 April 2009 by the Treasury. OEP indicates scope for £15billion of efficiency savings and in particular draws attention to increasing collaborative procurement, improving IT and merging back office functions. Regular operational reviews will be required to drive simplification and standardisation. Herefordshire's Shared Services Strategy will be a key part in meeting the requirements of the OEP.

In addition it is clear local government settlements will become more severe. Furthermore, the PCT and HHT are currently undergoing a review to establish a local provider organisation, which could impact on this strategy. Shared services, therefore, becomes critical not just to improve the quality of services but also deliver savings, provide capacity and innovation and introduce new skills and learning.

Finally, the Government's initiative on 'Total Place' is likely to have key impacts on the way services are delivered, encouraging more joint working and in which shared services will play a key role, as will the developments both in health and local government around strategic/world class commissioning.

Analysis

The analysis and interviews have indicated costs of corporate support services under review to be in the region of £19m and include 526 corporate staff. This does not include HC's

¹ HM Treasury Operational Efficiency Programme: Final report April 2009

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Revenue and Benefits service, whose future inclusion was discussed and agreed at the meeting.

The benefits schedule (based on assessment of performance of each service) indicates a range of 104 to 140 staff reductions and cash savings of £4.2m to £5.4m per annum.

Services in scope are at various levels of maturity and the business case concludes that for ICT, Procurement, Finance, HR and Payroll there are major opportunities to deliver improved services and savings – some of which are quick wins.

A strategic partner or partners will be needed to improve quality of service, cost efficiency and sustainability.

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We advise that process improvements should be linked to standardised systems software - such as a good Enterprise Resource Planning (ERP) system. Whatever ICT solution is favoured, the Council, PCT and HHT should take no decision to invest in standard software without fully considering seriously whether or not shared services are appropriate. Shared services will have a major impact on the software selected and the design and implementation programme. We have advised that a soft market test be undertaken with potential strategic partners for a number of reasons such as raising with them the question of their preferred ERP for the proposed shared services.

Roll-out should involve a trade off between speed and organisational disruption. As an aside, one of the most common pitfalls is in under-estimating the extent to which enabling technologies such as imaging, scanning and workflow may be needed in addition to a standard ERP package.

Detailed work has also identified that significant new skills will be needed in delivering this strategy; namely commercial management skills, specialist support for procuring a strategic partner(s), change management and organisational development skills. Making the transition depends on a skilful combination of management techniques; change management, project management and risk management.

As well as under-investing in appropriate skills during the transition, another common mistake is reducing the attention and resources devoted to managing the initiative once the implementation phase is complete. We strongly advise that the partners invest in the appropriate skills to manage the transformation of services to the proposed shared services environment.

Finally, costs for transition and implementation support have been estimated setting out two options, one for an internal team (approaching £2m) and the other for a mixed team (approaching £4m) which includes external specialist support.

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High level plans

High level plans have been developed to take the project to implementation. We have set out in the business case an accelerated plan (which will need extensive risk management) and one which includes more careful preparations to ensure the partnership has a good state of preparedness in moving to the next phase.

Recommendations

Detailed recommendations are as agreed at the Programme Board meeting of 6th August 2009 (Management Summary included in Annex 1, p101). A series of actions required against each recommendation are proposed for early consideration - see page iv.

SRO recommendation

Since May of this year we have been assessing whether or not sharing corporate support services across Herefordshire Council, NHS Herefordshire and Herefordshire Hospitals NHS Trust is viable.

The work of the Shared Services Project has resulted in a very credible case in support of making the change. We estimate that in-scope services currently consume 526 FTE resources and £19M per annum. Transforming these services to a shared services environment could release between 104 and 140 FTE resources and £4.2 to 5.4M recurring savings.

The Programme Board has ratified the recommendation of the business case to move quickly to a soft market test with possible strategic partners.

Senior stakeholders have been involved throughout and subject to final approval from JMT, HHT management team, Cabinet, PCT and Trust Boards in September, a procurement exercise for one or more strategic partners can commence.

We estimate that at best we will have implemented the new arrangements by Spring 2010 and at the latest by Summer 2010. To make the change and do it within these aggressive timescales we will need to rapidly build a transition team that includes; commercial, programme management, human resources and change management skills.

We intend to appoint a commercial manager and shared services director as early as possible.

We will then build the right capability around these individuals so that we can make the change without jeopardising current levels of service.

Annie Faulder

SRO & Chair of Shared Services Programme Board