

<b>MEETING:</b>	<b>OVERVIEW AND SCRUTINY COMMITTEE</b>
<b>DATE:</b>	<b>27 SEPTEMBER 2010</b>
<b>TITLE OF REPORT:</b>	<b>SHARED SERVICES UPDATE REPORT</b>
<b>REPORT BY:</b>	<b>SHARED SERVICES TEAM</b>

**CLASSIFICATION:** Open

### **Wards Affected**

County-wide

### **Purpose**

The purpose of the report is to provide the Overview and Scrutiny Committee (OSC) with an update on the Shared Services programme and to seek its views on the proposals as they are being developed to be presented to Cabinet for decision.

### **Recommendation(s)**

**THAT:**

- (a) the Committee notes that the business case for Shared Services is being reviewed;**
- (b) the Committee notes that a number of options are being considered as models for delivering shared services in Herefordshire and that Cabinet will be deciding in October on the options available.**
- (c) the Committee reviews and questions the proposals on delivery models for Shared Services being presented by the Transition team and**
- (d) the Committee provide feedback to inform the decision making process.**

### **Key Points Summary**

- Since the last report to this Committee in July 2010, the revision of the business case is being completed. External advice has been received on the refined investment appraisal from Capita plc to ensure that the process is robust. Work is continuing with service change managers in each service area to refine and develop the individual savings and efficiency proposals in line with the overall business case.
- Legal advice is being received from Mills and Reeve LLP and they have begun the review of powers of the partners to participate in a commercial partnership and assess the suitability of each model, producing a Heads of Terms outline for use in detailed negotiations, providing advice on employment considerations and taxation.

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Further information on the subject of this report is available from  
Akif Kazi, Shared Services Team on (01432) 263898

## **Alternative Options**

- 1 The alternative options being considered as models for delivering Shared Services are set out from paragraph 17 below.

## **Reasons for Recommendations**

- 2 Feedback from the Overview and Scrutiny Committee will form part of the report to Cabinet in October on Shared Services.

## **Introduction and Background**

- 3 On 18 March 2010 the Cabinet agreed that the Council's preferred option for the delivery and commissioning of shared services would be a Joint Venture (representing a public public partnership) involving Herefordshire Council (HC), NHS Herefordshire (NHSH) and Hereford Hospitals NHS Trust (HHT).
- 4 The Cabinet authorised the Deputy Chief Executive (DCE) to progress and take all necessary steps to establish the Joint Venture in consultation with the Leader and Deputy Leader of the Council and Trust Boards. A further report seeking a formal decision to agree terms of the Council's participation in the Joint Venture was presented in July.
- 5 The OSC received an update on Shared Services on 2 July 2010.
- 6 The challenging economic environment has increased the need for all public sector organisations to reduce costs.
- 7 Herefordshire remains 'ahead of the game' in terms of transitioning to a Shared Service provision for 'back office' services.
- 8 Shared Services is part of the 'Streamlining the business' work-stream within the Herefordshire Public Services (HPS) Transformation Programme.
- 9 The Agresso project is progressing and will implement a new system for four of the key in-scope services – Human Resources, Payroll, Finance and procurement in April 2011. This will help in the transition to Shared Services.

## **Key Considerations**

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

- 11 The Comprehensive Spending Review will report in October 2010. This is expected to set out in detail the allocation of public sector expenditure for the duration of the current parliament. It is likely to require significant further efficiency savings.
- 12 In July 2010, the Department of Health published a white paper entitled "Equity and Excellence - Liberating the NHS". This report set out the future direction of key health organisations including the Strategic Health Authority and Primary Care Trusts. The Primary Care Trust network will cease to exist by 2013 with General Practice (GP) consortia leading the commissioning of health care services.
- 13 These changes are in line with Herefordshire's approach but further change will need to take place to ensure that adequate support is in place.
- 14 The current scope of services included in the Shared Services programme are:
  - Finance
  - Procurement
  - ICT Services
  - Human Resources
  - Payroll and Expenses
  - Asset Management and Property
  - Transport
  - Revenues and Benefits
  - Internal Audit
  - Legal
  - Communications and PR
- 15 A Service Change Manager has been appointed for each service and a detailed assessment is being completed as to which part of these in-scope services will transition to the Shared Services Organisation (SSO) and how each service will deliver the savings.
- 16 A key consideration will be ensuring that the service user requirements of the new Shared Service Organisation (SSO), such as front line service staff, are captured as part of the analysis.
- 17 The Committee will recall that the original PA business case was presented last year. This business case and its investment appraisal are being reviewed. This was done so as to ensure that it remains viable and takes into account changes in the national economic and political environment.

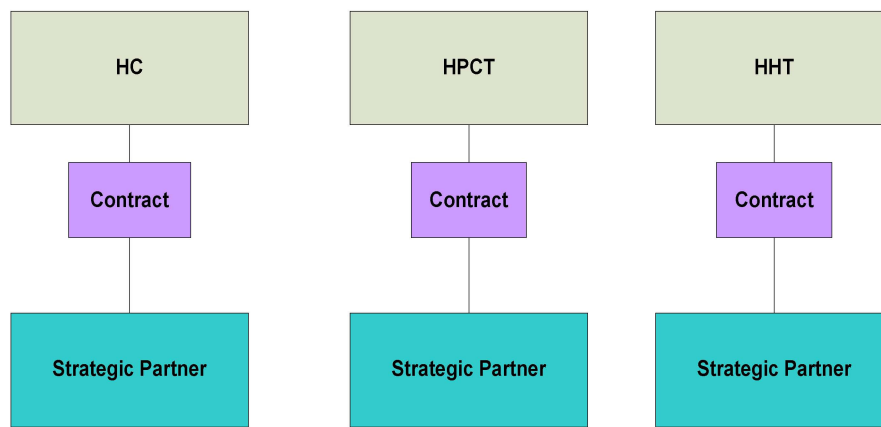
- 18 Independent advice has been received from Capita plc to ensure the integrity and robustness of the financial model.
- 19 Several models are being considered for delivering Shared Services. These are set out below. Additional models comprising mutual or other forms of social enterprise are also being evaluated.
- 20 A comprehensive evaluation is being conducted and members will be updated on the results of this assessment in October as part of the decision making process. This report is presented at this time to enable early scrutiny input into the decision making process.
- 21 The models under consideration are considered in the next section of the report.

## **2. Options for delivering Shared Services in Herefordshire**

- 22 Given the complexity of each model it is not possible to explain the merits of each option in great detail in this report. Therefore a summary is presented here.

### **Option A: Joint procurement:**

- 23 Under this arrangement, the 3 partners could conduct a joint procurement exercise resulting in 3 separate contractual arrangements under a shared framework with a strategic partner. The costs and benefits of each contract would be borne or realised by the partner organisation.



### Advantages:

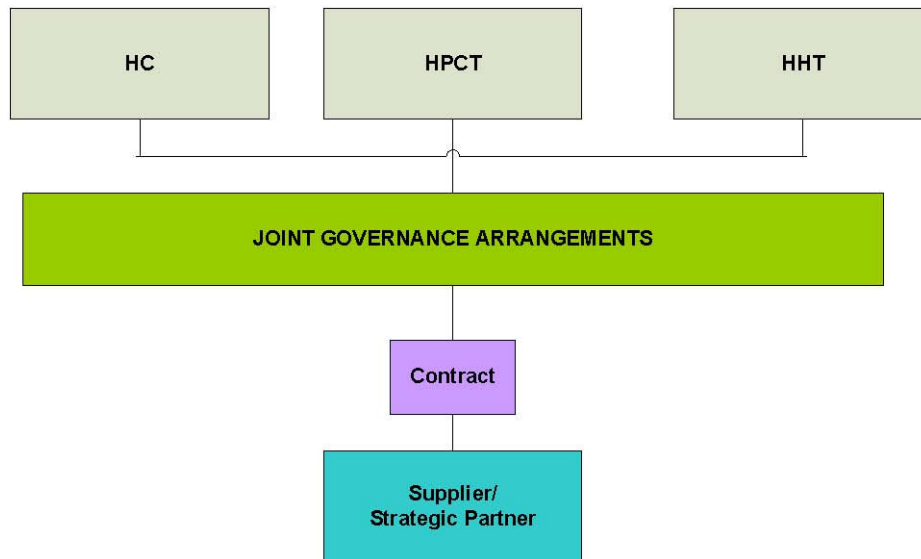
- Each partner free to specify own requirements.
- No need for detailed governance arrangements between the 3 partners.
- Separate financial liabilities.
- If requirements can be identified up front, might be possible to use the restricted procedure (or even the accelerated restricted procedure) as opposed to the competitive dialogue process, reducing the procurement timescales.

### Disadvantages:

- Whilst the three entities would have a common supplier/strategic partner, and there may be some integration by that partner, it would not achieve integration in the governance arrangements, management integration or service specification.
- This would not achieve a true shared service arrangement.
- Likely to limit cost savings opportunities, as the strategic partner will view each partner as a separate client. Cost savings will be in the hands of the supplier.
- Procurement issues in transferring additional services to the partnership later on, unless they can be properly specified and evaluated prior to contract signature.

### Option B - Transfer the services to a private sector strategic partner:

- 24 The three partner organisations conduct a joint procurement exercise to appoint a private sector party to run the support services on behalf of the three partners. In contrast to 2.1 (where three totally separate contracts are awarded with no joint governance arrangements), the relationship with the strategic partner is managed on a joint basis – either through a contract board mechanism (see paragraph 3.1 below) or through a formal joint venture company.



### Advantages:

- Able to access skills and expertise which may not be available within the 3 partner organisations.
- Can contractually incentivise strategic partner to deliver efficiencies/transformation/other benefits. Strategic partner can be committed to delivering investment and achieving efficiencies.
- Can procure on behalf of other Herefordshire organisations which may join later.

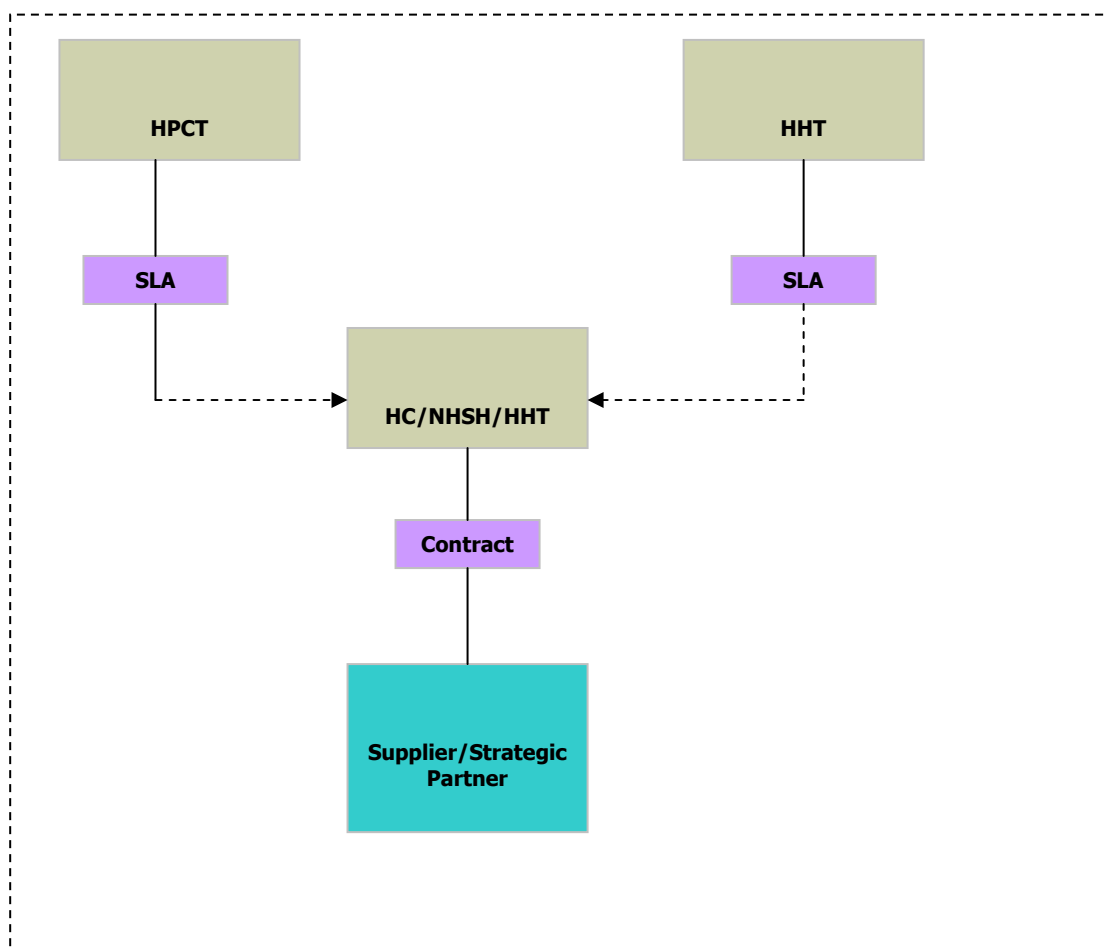
### Disadvantages:

- Appointment of strategic partner requires full OJEU procurement exercise which will take time and incur significant costs.
- Procurement rules require all services to be tendered and evaluated before contract signed, so this may constrain ability to transfer additional services into partnership later on and limit the extent to which other Herefordshire organisations with different service needs can join at a later date.
- Strategic partner likely to want medium/long-term contract to justify bid/investment costs.
- Even if only a joint contract board, there will need to be joint governance arrangements, and there will need to be an agreement on contribution/liability apportionment between the 3 partners.
- Consideration of Strategic Health Authority sign off required (particularly if a separate joint venture company is established).

### Option C - Lead commissioner/provider:

- 25 One of the three partners takes over the relevant support functions and staff, and then provides (or commissions) services on behalf of the other two partner organisations. The arrangements would be formalised into a set of Service Level Agreements (SLAs) between

the lead partner and the other two partners. By way of illustration the following diagram shows this arrangement with Herefordshire Council as lead commissioner/provider:



#### **Advantages:**

- The costs/benefits would be shared between the partners.
- Provided the SLAs do not constitute contracts for consideration, there should be no need for a formal procurement exercise unless the lead organisation commissions services externally.
- Potential to start off with limited scope allowing early realisation of 'quick win' savings. Different arrangements could be introduced for different services over time. Potential to move from provider to commissioner over time, if desired.
- Potential for employment costs savings to be achieved by co-location and integration of staff and bringing them onto a common set of terms and conditions.

#### **Disadvantages:**

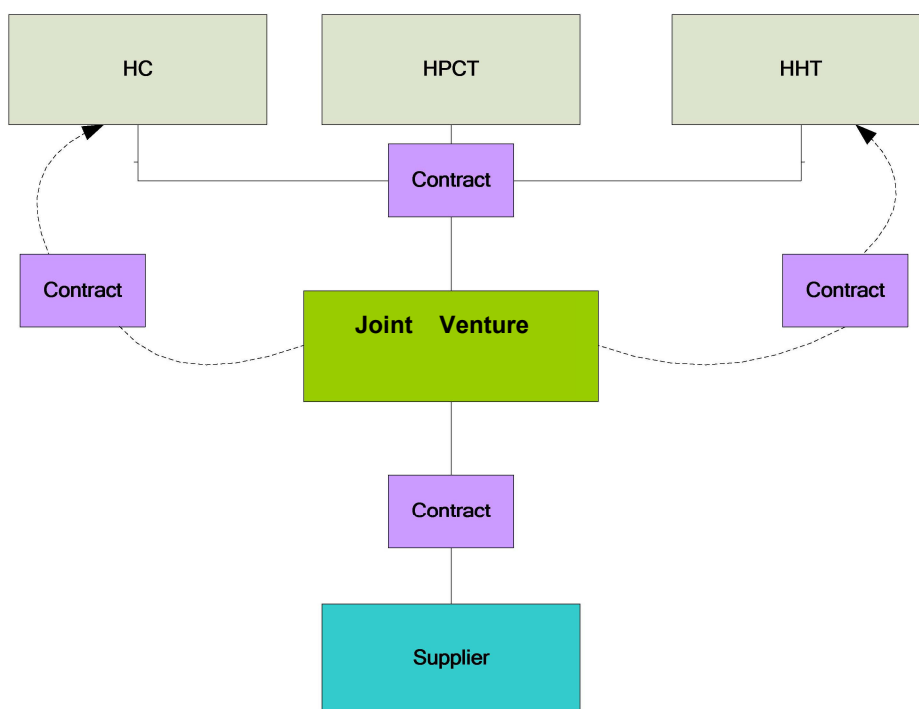
- Majority of risks will be transferred to the lead partner organisation and/or risk allocation between organisations lacks certainty due to SLA structure.
- If binding contracts between Hereford organisations are considered necessary, this may trigger need to tender these contracts under the public procurement rules.

- Ability to deliver savings (and speed of their realisation) depends on appetite/ability to drive out efficiencies.
- Need to consider possible governance issues.



### Option D - Establish public/public shared services entity:

- 26 The three partner organisations set up a shared services entity – a public/public joint venture acting as commissioner/provider – wholly owned (in agreed proportions) and closely controlled (by each of the partners).
- 27 The Joint Venture (JV) could either be a corporate Joint Venture with its own separate legal identity or could be a Joint Venture contractual partnership.
- 28 Both forms of the Joint Venture could both provide to and commission services on behalf of the partners, employ staff (on its own terms and conditions subject to TUPE compliance) and buy-in capacity and skills to supplement that transferring into it. For procurement reasons it could not provide services to third parties, save possibly to other public bodies which acceded as joint controlling entities. This could ultimately include an exercise to procure a strategic partner.



### Advantages:

- Can be undertaken on a phased approach, perhaps initially with co-location and then with staff/assets (including buildings?)/services being transferred over time.
- No need for procurement exercise to set up JV, so savings can be delivered earlier.
- Ability to ‘pick and choose’ right solution for each service – i.e. some delivered internally; some externalised.
- Can buy in additional capacity to deliver integration.
- Other Herefordshire public bodies can buy in/join in at any time.

**Disadvantages:**

- Ability to deliver savings (and speed of their realisation) depends on appetite/ability to drive out efficiencies.
- Establishment of JV will require focused engagement between 3 partner organisations and could take time to set up.
- More detailed consideration of Strategic Health Authority sign off required.

**3. Conclusion**

- 29 The process of assessing the models is continuing. The Cabinet and PCT/HHT Boards will be taking decisions in October on the proposals for implementing Shared Services.
- 30 Overview and Scrutiny views on the proposals on the delivery models will form part of this decision making process.
- 31 The Shared Services Transition Team will be giving a presentation to the OSC on 27<sup>th</sup> September and will facilitate a questions and answer and feedback session at the meeting.