

MEETING:	CABINET
DATE:	28 JULY 2011
TITLE OF REPORT:	UPDATE ON THE SHARED SERVICES PROGRAMME
PORTFOLIO AREA:	CORPORATE SERVICES AND EDUCATION

CLASSIFICATION: Open

Wards Affected

County-wide

Purpose

To update Cabinet on the progress of the Shared Services Programme.

Key Decision

This is not a Key Decision

Recommendation(s)

THAT the Cabinet:

- a) **Notes progress to date;**
- b) **Delegates the necessary authority to the Chief Executive of Herefordshire Council, who are the sole owners and shareholder in The Shared Services Partnership Ltd, to make a gift of shares in The Shared Services Partnership to NHS Herefordshire and Wye Valley NHS Trust**
- c) **Delegates the necessary authority to the Chief Executive of Herefordshire Council to exercise the voting rights in respect of Council's shareholding in The Shared Services Partnership Limited.**

Key Points Summary

- This report outlines progress made on Shared Services and the key steps required to implement the project.
- Seeks the necessary approval for to issue a gift of shares to NHS Herefordshire (NHSH) and Wye Valley NHS Trust (WVT) to enable their full participation in the shared services joint venture company (TSSP Ltd) as approved at Cabinet on 21st October 2010.
- Delegates the necessary authority to allow the Chief Executive of Herefordshire Council to

exercise the Council's shareholding in The Shared Services Partnership Limited.

Reasons for Recommendations

To ensure that Cabinet is briefed, and to agree the way forward to enable the projected benefits and costs savings to be delivered.

Introduction and Background

- 1 Herefordshire Council and its NHS partners already lead the UK in their unique and pioneering approach to partnership working. Great progress has been made in integrating services to the public and, in parallel, work is progressing to integrate and share the corporate and support services on which the partners' public services depend.
- 2 The Shared Services programme has the commitment of the Council, the Primary Care Trust and the Wye Valley NHS Trust and will:
 - Enable the three partners to work in true partnership, and be able to focus on their priorities, such as achieving a better quality of life, and improved health and wellbeing.
 - Revitalise local public services to help them become more efficient, joined up, customer focused and responsive.
 - Pool resources - such as human resources, information technology, finance, purchasing, estates management, transport and customer services - across organisations
 - Strengthen investment in new ways of working, so that employees are supported by modern systems, training and development, as we redesign our services more around the individual needs of local people
 - Boost employee skill levels, achieve best practice, increase capacity and flexibility, and improve communication and collaboration between organisations and service areas.
- 3 On 21st October 2010, Cabinet received a progress report on Shared Services Programme and agreed to adopt a 'multi-source' approach to corporate and support services and to set up a Joint Venture Company. The following recommendations were approved:
 - (a) Agree to enter into formal shared service arrangements with its partners, NHSH and WVT adopting a 'multi-source' approach; enabling different fit for purpose models to be used to deliver Shared Services for each service or group of services;
 - (b) Delegate the negotiation and agreement of the Heads of Terms for the Shared Service arrangement and for the establishment of the Joint Venture Company to the Chief Executive (with appropriate liaison with the Chief Executive of WVT);
 - (c) Instruct the Chief Executive to undertake a full consultation with employees within the scope of the Shared Services programme, in accordance with policy and procedure for implementing these changes;
 - (d) Instruct the Chief Executive to report progress of the implementation at three monthly intervals, linked to key milestones with risk management reports;
 - (e) Agree to establish a 'Shadow Board' consisting of representatives from the three

partners in order to provide strategic governance during the implementation phase.

Key Considerations

Current Progress

ESTABLISHMENT OF THE JVCO – THE SHARED SERVICES PARTNERSHIP LIMITED (THE PARTNERSHIP)

- 4 Following an appraisal of the strategic options, Cabinet agreed at its meeting on 21st October 2010 to participate in the establishment of a 'joint venture company' which would deliver corporate and support services to the three partners. The services initially in scope of the Partnership include: HR, Payroll, Finance, ICT and Revenues and Benefits. Procurement is expected to be transferred to the Partnership in October 2011.
- 5 The procedure for establishing the joint venture company which was recommended by the partners' legal advisors, Mills and Reeve, was that the Council should establish the company and then revise the company's Articles of Association to allow shared ownership via a gift of shares to its NHS partners.
- 6 In accordance with that advice, Herefordshire Council established the company under the working title of "The Shared Services Partnership Ltd" (The Partnership). A trading name for the company that meets the aspirations of the partners and provides an appropriate branding is to be agreed.
- 7 So that the ownership, management and operations of the company could be placed on a sound legal footing, four principal legal agreements have been developed:
 - Articles of Association: including provisions for the appointment of directors, arrangements for the board and matters reserved to the shareholders.
 - Shared Services Agreement: the contract for services between The Partnership and its three principal customers: Herefordshire Council, NHSH and WVT.
 - Financial Agreement: an annually reviewable statement of the principles by which fair and reasonable costs and savings will be apportioned to the three principal customers.
 - Umbrella Agreement: a commitment on the part of the three principal customers to co-operate to make a success of The Partnership.
- 8 Following confirmation of the NHS partners' intention to proceed, interim agreements have been reached, pending the resolution of some key issues, including pension arrangements for NHS staff. These consisted of letters of intent and the tri-partite umbrella agreement. The purpose of the letter of intent is to confirm the partners' intention to participate in a contractual arrangement with The Partnership and to take its services. The umbrella agreement confirms the commitment of the partners to work with each other and their specific commitment to participating in The Partnership once the pension issues have been resolved.
- 9 This enabled the necessary contractual arrangements to be put in place, together with formal acceptance into the LGPS scheme for Council staff and the TUPE transfer of over 300 Council staff into The Partnership on the 1st April 2011.
- 10 At The Partnership Board of Directors meeting held on 4th May it was agreed to recommend to The Partnership's Shareholder (ie the Council) the adoption of the revised Articles of Association and the appointment of the partners' nominated shadow board members to the Board of

Directors.

- 11 These Director arrangements are an interim measure until joint ownership is established via the gift of shares. This issue is currently dependent on the resolution of the pension provision the NHS and WVT staff.
- 12 A final review of the Shared Service Agreements has now been completed by the partners' Legal Agreement Group (a sub-group of the partners' Shared Services Board) with some minor amendments being applied. These can then be signed following agreement of financial agreement between the partners.
- 13 The Shared Service Agreement between The Partnership and its principal customers is largely identical to that for the other partners, although the term of the agreement for HNSH is two years (given the uncertainty over the future of PCTs), whereas it is five years for the other partners. Both NHS partners have indicated their formal intention to accept a gift of shares in the company.
- 14 The gifting of shares in The Partnership by the Council to its NHS partners will take place once all agreements have been signed and arrangements confirmed for the transfer of the NHS and WVT staff to The Partnership - 110 staff and 34 staff respectively.
- 15 The number of shares to be gifted will be calculated on the basis of the principal customers' anticipated contribution to the company's revenues. This will be subject to review every three years and the number of shares will be adjusted accordingly. On the basis of current estimated company turnover by partner, the allocation of shares would be approximately as follows:

Herefordshire Council – 65%

NHS Herefordshire (PCT) – 15%

Wye Valley NHS Trust – 20%

THE PARTNERSHIP PENSIONS ARRANGEMENTS UPDATE

- 16 The Council successfully applied for “admitted body” status to allow Council staff who have been TUPE transferred to The Partnership to continue membership of their current Local Government Pension Scheme (LGPS).
- 17 The Partnership, as the admitted body, and Herefordshire Council, as the letting authority, have worked with Worcestershire County Council, as the Local Government Pension Scheme (LGPS) administering authority, to finalise the signed and sealed Admission Agreement that ensures that council staff retained their LGPS membership following their TUPE transfer to The Partnership on 1st April 2011.
- 18 The Partnership is also seeking “direction body” status to allow staff currently employed by the NHS to continue membership of their current NHS Pension Scheme. The NHS Pensions Agency has received our formal application and has indicated that the Department of Health (DOH) in Leeds is expected to decide on the application by 31st July 2011.
- 19 Pending the outcome from the DOH we are also exploring the contingency of the staff of NHS and WVT being able to join the LGPS. Comparability calculations are being undertaken between the NHS and LG pension schemes prior to formal application to the Government Actuary's Department.

20 Staff side representatives have been reassured that no TUPE transfers will occur until satisfactory pension arrangements are in place for NHS staff.

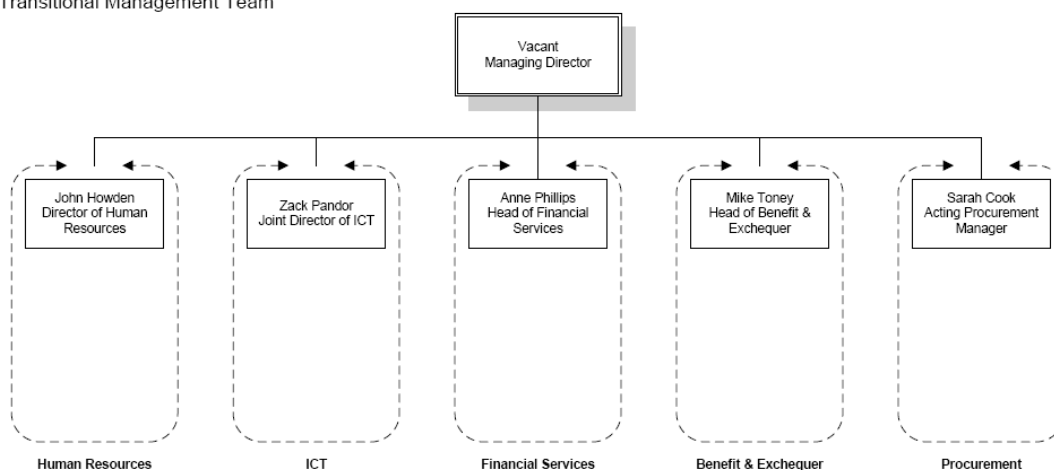
TSSP TRANSITIONAL MANAGEMENT ARRANGEMENTS

21 A transitional management team has established. This has the most senior officer from each of the services on the team.

22 The structure of The Partnership Transitional Management Team is shown below:

The Shared Services Partnership
(transitional management arrangements)
Transitional Management Team

Last reviewed 14th July 2011
Shared Services Team
v1.1



23 The process to appoint a permanent Managing Director is now underway and an appointment is due imminently.

24 The company's first business plan is now in development, involving all staff in The Partnership.

THE PARTNERSHIP TARGET OPERATING MODEL (TOM)

25 The first version of The Partnership's 'Target Operating Model' was approved in February. A revised Target Operating Model is being developed and a number of principles have been agreed in consultation with the partners' Shared Services Board. These principles include the need to achieve the savings set out in the first version of the TOM and also to engage more staff 'frequent' users.

26 Work is also underway to develop an outcomes-focussed Service Level Agreement. An outcomes-based approach to delivering support services is innovative and will help to ensure that The Partnership is focused on achieving the partners' strategic objectives.

SHARED SERVICES SUPPORT TEAM

27 The Shared Services project team is winding down from June onwards. A programme handover has been developed and work to implement this has begun with The Partnership's Transitional Management Team and the partners' Shared Services Board.

UPDATE ON WAVE 2 SHARED SERVICES

28 Cabinet agreed in October 2010 to adopt a "multi-sourcing" approach for the in-scope shared

services.

- 29 Options appraisals have now been completed for Audit and Legal Services’:
- 30 **Audit services:** The partners agreed to outsource their audit services through a joint procurement exercise and KPMG have been appointed as Strategic Partner and this exercise has resulted in substantial savings.
- 31 **Legal services:** A ‘Lead Provider/Commissioner’ model has been agreed with Herefordshire Council as the lead service and implementation is currently underway.
- 32 Work is underway to complete option appraisals for the other ‘Wave 2’ services listed below:
- 33 **Transport, Asset Management and Property:** A separate project has been established to examine the potential for benefits to be delivered by working with the Council’s existing Strategic Partner and undertake a market analysis against which any proposals would be tested for value for money.
- 34 **Emergency Planning:** This service transferred into Legal and Democratic services on April 1st and is now under review by the Assistant Director (Law and Governance).
- 35 **Communications:** This service is under review.
- 36 The timing of the options appraisal for services will be finalised shortly, including other services such as Customer Services and Transformation.

FUTURE REPORTING ARRANGEMENTS ON SHARED SERVICES

- 37 The transitional aspects of implementing the Shared Services models will be reported upon by the support team until this is complete. However, the operational and performance reporting aspects of The Shared Services Partnership Limited will be managed by the company’s Board of Directors and through the partners’ commissioning functions.

Community Impact

- 38 The implementation of Shared Services will deliver improved quality and 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; and will protect jobs and investment in the County in future. In particular, the preferred options provide an opportunity for the partners to provide those services to other public services providers in Herefordshire in line with the ‘localities’ agenda, maintaining and building on the strong sense of place that is characteristic of the county.

Financial Implications

Shared Services Benefits Realisation

- 39 This section reports progress on the six month review of shared services benefits identified in the Investment Appraisal Business Model (IABM) approved by NHS Boards and the Council’s Cabinet in October 2010.
- 40 In 2009, the original PA Consultants’ business case concluded that savings of between £4.1m to £5.3m could be achieved across the three partner organisations, based upon a strategic partner outsourcing option.

- 41 Following this external consultant's report, a detailed review and assessment was carried out by Directors across all three partners and a revised Investment Appraisal Business Model (IABM) produced and agreed with a net return of £1.7m in 2011-12 rising to £4.3m in 2016/17. This amounts to savings of £33.3m over 10 years.
- 42 The IABM developed above was again the subject of external review by Capita to ensure the assumptions made in the financial business case were consistent between the organisations, realistic and achievable.
- 43 Capita's findings confirmed there was a robust indication of the levels of savings achievable from the introduction of shared services. The Council's share of future savings was expected in October 2010 to be in excess of 70%, which would be in the region of £3.01m per annum.
- 44 The table below summarises the original overall financial position for the three partner organisations as reported to Cabinet in October 2010:

Original Shared Services costs and benefits across all three Partners at October 2010

	2010/11	2011/12	2012/13	2013/14	2014/15	2016/2017 Onwards
	£'000	£'000	£'000	£'000	£'000	£'000
Costs	-1057	-1795	-1316	-736	-718	-309
Savings / Benefits	1015	3510	4315	4569	4569	4569
Net Savings	-42	1715	2999	3833	3851	4260

NB – Negative figures represent costs and positive figures represent savings

- 45 The governance of the shared services project is vested in the Shared Services Board (SSB), chaired by the Deputy Chief Executive with Director-level representation from all three partner organisations. In May 2011, the SSB set up a review of shared services benefits to evaluate progress.
- 46 The six month benefits review has focused, in particular, on a number of new challenges to the delivery of shared services savings and increased system implementation costs. Furthermore, the refinement of management structures to reflect the balance between 'retained functions' and those functions transferred to The Partnership and the phased implementation of the Agresso finance system, have a potential to impact upon IABM benefits. However, the parameters set for the review stressed that the short to medium term financial plans of Herefordshire Public Services require that the agreed shared services savings targets must be met by individual Directorates.
- 47 Since October 2010 and following the review of benefits, it has been possible to identify

savings and costs by individual partner organisation and the table below shows the current assessment of Herefordshire Council's share of the shared services benefits which now rise to £3.4m by 2016/17 compared to £3.01m estimated in October 2010.

Revised Shared Services costs and benefits for Herefordshire Council at May 2011

	2010/11	2011/12	2012/13	2013/14	2014/15	2016/2017 Onwards
	£'000	£'000	£'000	£'000	£'000	£'000
Costs	-833	-1606	-969	-940	-642	-376
Savings / Benefits	639	2438	3201	3768	3768	3768
Net Savings	-194	832	2232	2828	3126	3392

NB – Negative figures represent costs and positive figures represent savings

48 The results so far of the shared services savings review show substantial savings have already been achieved by Herefordshire Council. In some areas, savings targets have been exceeded; some areas remain on track to achieve their initial savings; whilst some areas will require intervention to ensure that the overall financial business case is secured and projected savings realised not only for the Council but for all three partners.

Legal Implications

49 The options are fully set out in this report and the report provides the information needed to enable the Cabinet to take the decisions as recommended. The Cabinet must give consideration to the options and to the background information in reaching its decision.

50 There are no other legal implications and the Cabinet are lawfully entitled to reach the decisions as recommended.

Risk Management

51 A full risk analysis has been undertaken and is subject to weekly review. Current risks and mitigations include:

- a. *High Demands* - Interdependencies and demands on staff are under estimated and impact on programme delivery
- b. *Loss of experience and knowledge* - Loss of key staff involved in programme causes delays and additional costs

- c. *Programme Governance* - Complexity of governance arrangements between the partners and The Partnership creates additional bureaucracy and delays to decision making
- d. *Recruitment* - Delay in appointing MD to The Partnership causes lack of continuity and direction.

Conclusion

- 52 The first part of the implementation of Shared support services has been completed and benefits are starting to accrue in line with projections and the benefits realisation plans are being updated to reflect progress with this and other change programmes.
- 53 Other services are also progressing to implementation albeit under different models.

Consultees

- 54 Consultations have been undertaken and will continue to take place during the Shared Service Review with Members, Directors, and Heads of Service, Service Managers, staff, Unions, non-executive directors and partners. A comprehensive communications strategy has been developed to support this on-going work.
- 55 Overview & Scrutiny views were sought when the plans for shared services were agreed in October 2010.
- 56 All Political Groups received a presentation on the Shared Services programme.

Appendices

- 57 None

Background Papers

- 21st October 2010 – Item 4 - “Shared Services – Update on Progress and Recommended Next Steps” (Cabinet Report)
- 19th November 2010 – Full Council meeting