NLGN
NEW LOCAL GOVERNMENT NETWORK

# Shared Necessities

## The next generation of shared services

**Tom Symons**, **Olivier Roth** and **Joe Sturge**

*www.nlgn.org.uk*

New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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**Tom Symons, Olivier Roth** and **Joe Sturge**
*March 2011*

# *Foreword*

**We are entering into a period of radical change. Local government will be radically different in five years time. Throughout this period I believe shared services will be a fundamental part of the transformation process of English local government. It will be a major driver for collaborative working, workforce reform and a more flexible system of council boundaries. If put together with other key strands of change, such as community-based budgeting and the nurturing of a Big Society, the local government we see in five years time could be not only different, but better and more efficient.**

In Kent we have embarked upon an ambitious shared service programme. We now have service sharing arrangements with multiple organisations, covering service areas from the traditional back office, through to housing and social care. This covers a range of partnerships and types of sharing, such as trading, merged services and 'one-stop shops' delivering single access to a whole range of public services. The impact has been huge, but we are not all the way there yet.

As this report rightly notes, shared services can be a big part of meeting the spending challenge, but only if it is done on a truly ambitious scale, and only if it is accompanied by other forms of efficiency saving and transformation. This report sets a wider horizon for councils to look to when considering shared services. It is right that the question asked by Chief Executives and Leaders is 'why can't we share this' rather than 'why should we share'. It also gives councils new insights and ideas about how to share and the need for a varied approach that can respond to the varying needs of a service.

This report comes at a crucial time, as councils set their sights on how they will look and function at the end of this Parliament. I commend NLGN's research and insight into this area and hope that it will assist the public sector in emerging from the cuts leaner, brighter and better.

**Cllr. Paul Carter**
*Leader, Kent County Council*

# *Executive summary*

**Local authorities are facing unprecedented spending reductions. A fundamental shift towards localism, decentralisation and a reinvigorated civic society is changing the core nature of the relationship between local government and citizens. At this time, a narrow focus on generating efficiencies in the back office will not be enough to steer local authorities through the period of unprecedented change we are about to witness. Local authorities must embark upon nothing short of a programme of wholesale transformation in order for local public services to continue to meet the needs of their communities.**

During this period local authorities have two priorities above all others: managing the front-loaded spending cuts and improving outcomes for citizens. The two are heavily interlinked and the swell of innovation that is growing within the sector indicates few ideas will be 'off limits' as councils seek to meet these priorities. Many of the ambitions councils have aspired towards over the past decade, from shared services through to the complete and harmonious integration of the many arms of the local state, are now non-negotiable as mandatory objectives. This time though, it has to work.

A crucial component of these objectives is the revitalisation of the shared services agenda. The concept has been a buzzword in the public sector for over a decade, with councils striving to keep up with the scale and pace of implementation and success witnessed, or at least perceived, in the private sector. It has also become the method of choice for how the Coalition Government sees councils adapting to new budgets and protecting front line services. However, up to this point progress has been focussed primarily on the low-spend areas of the back office, such as legal services or financial, with a piecemeal and variable approach to any more ambitious sharing of higher-spend, front office services, such as adult and social care or waste collection. This has to change.

In this report, we show that shared services can deliver very significant savings for councils, but only if the concept is expanded out of the back office to cover all local public services. Shared services can provide the

bedrock for service transformation, provided they are supported by new business models, a new policy and legislative context, an in-depth understanding of the principles of sharing and an ambitious and innovative approach to remodelling the local state. With this in place, shared services will help councils traverse a new funding landscape while also securing better and deeper links with other public, private and third sector organisations. Finally, we outline a range of new options to assist councils over the coming years, sparking a wave of ambitious new approaches to an agenda that has not come close to reaching its full potential.

Our survey of progress made with shared services in 58 English local authorities found that the most commonly shared areas are back office functions (HR, finance, legal, procurement) and highways, environment and regulatory services. More councils (44) are sharing back office functions than front office (39), and those that are sharing in the front office tend to be doing so in discreet or niche areas that do not represent a high proportion of total spend and where potential savings are therefore limited. This focus on 'low hanging fruit' does not leave councils in a strong position to meet the efficiency demands placed upon them by the Comprehensive Spending Review 2010. The highest estimates are that back office functions account for just 8.9% of total spend, which means that even if councils were able to achieve savings at the top end of what is seen as possible – up to 40%, according to private sector specialists – they would only make savings of 3.6% of total spend. With some councils facing year 1 reductions of 8.8%,[1] a 'business as usual' approach to shared services would not even be enough for the coming financial year, let alone the following three years of continued spending reductions. Shared services are therefore a necessary tool in the arsenal for budget reduction, but cannot be sufficient on their own.

There are good reasons for this relatively slow progress. Councils face a slew of barriers to implementing shared services. Politicians can be unwilling to cede control of services that are highly visible and where service failure can mean electoral defeat. Managers can be averse to implementing change processes that may ultimately cost them their, or their colleagues', jobs. There are vast differences in the technological and procedural systems in place across

1 However some councils, such as Newham and Hackney, have argued that the presentation of 'Revenue Spending Power' is deliberately misleading, and the scale of cuts would be far higher were previous measures of Local Authority revenue expenditure used

even neighbouring local authorities, prompting protracted standardisation processes. Sharing can be accompanied by challenging legal and HR issues, not least redundancy and TUPE,[2] which can often off-set potential benefits. And finally, the business case for shared services has not always been as strong as it should have. We found evidence that all of these barriers are pervasive across the councils we surveyed and interviewed for this research.

Recent changes in policy, legislation and technology should help to overcome some of these barriers. Local Enterprise Partnerships (LEPs), formed around functional economic geographies, could assuage many of the political stumbling blocks by unifying politicians in a partnership that could represent a solid platform for sharing. The introduction of a General Power of Competence (GPC) for local authorities should help vanquish the risk aversion and legal uncertainty that councils often encounter in the presence of innovative and new ideas. Community-Based Budgeting, which brings together myriad public funding streams into a more logical and flexible format, should accelerate the process of pan-local sharing of services. In addition, advances in computing technology could eradicate some of the common barriers encountered in standardisation, data security and networking. The rapid pace of change generated through the Coalition Government's ambitious reform programme produces a range of potential new mechanisms for overcoming traditional barriers, and beginning to explore sharing in new service areas.

Within this new financial and policy context, we must think in the broadest possible sense about how and what services can be shared. The approach taken to shared services must match the level of ambition shown by the most innovative councils. This requires developing an understanding of the characteristics of successful shared services in order to gain insight into how the concept could be applied to high-spend areas where it is currently not commonplace.

Our research shows that there is clear potential for shared services to save money across all local government services, accrued through scale economies and service improvements. By analysing the characteristics required of a shared service, and understanding which services have which characteristics, even front line social care can be seen to be an area of potential savings. The key challenge for local authorities must be to understand how this potential

2 Transfer of Undertakings (Protection of Employment) Regulations

can be unlocked and to weave together a range of different approaches to shared services that combine council-to-council sharing as well as pan-local sharing across different public sector bodies.

Our research outlines a range of new models that could be used to help local authorities push the boundaries of shared services; this diversity is increasingly vital for councils, in particular in response to the highly complex nature of their service delivery and the individual contexts that each authority operates within. Each of the new models we outline have distinct benefits that will help councils to overcome the most challenging of their barriers.

The true potential for shared services lies in the consolidation of this theory with the more visionary top level transformation that councils are embarking upon. New models of shared services, from sharing chief executives and senior management teams to virtual shared services centres, are aimed at helping local authorities with the practicalities of sharing, as well as fitting them into much broader strategies for organisational change. A number of challenging discussions emerge through our analysis of shared services. There are implications for the nature of local authority workforces, and potential for reform of organisational structures to more generalist pools of employees, coupled with targeted incentives, to help combat the 'human' barrier to sharing. Sharing services also brings questions about the nature of local authority boundaries to the fore. While we are keen to preserve existing democratic structures, we feel that there is a vital debate to be had about the potential for the majority of council services to be merged together across economic geographies, as is emerging with the Westminster-Kensington and Chelsea-Hammersmith and Fulham 'tri-borough'. Finally, it is apparent that the 'market' for shared services is underdeveloped. We outline a series of reforms that would help this market to be nurtured, such as the creation of an online platform that acts as a virtual 'marketplace' for councils to gain a stronger understanding of the market and services that are on offer, and to help them find compatible partners.

Shared services are by no means a panacea. Alone they will not be enough, but in conjunction with broader transformations and with a far more radical and innovative approach, they could be a significant part of local authority efforts to emerge from this period of fiscal consolidation as stronger, more efficient and more effective organisations.

## Recommendations

***Councils to adopt a presumption in favour of sharing***
The burden of proof should be on why a service *can't* be shared, rather than why it could.

***A national platform designed to increase market liquidity and information***
NLGN recommends developing a national platform, possibly in the form of a website, where local authorities and public bodies could both search for prospective partners and enter their details in order to offer services.

***More extensive place-based budgeting***
NLGN recommends implementing place-based budgeting in order to facilitate shared services in an area, between different public bodies, local authorities, and private partners.

***LEPs***
NLGN recommends ensuring that LEPs are adequately funded and incentivised, so that they can become a cross-sectoral forum facilitating relationships, cooperation and where possible shared services, while ensuring that local specificities and circumstances are adequately taken into account.

***Public Agency General Power of Competence***
NLGN recommend that public agencies should be given the same legal freedoms to embark upon shared services as councils have, through wellbeing powers and the GPC.

***Invest-to-save Bonds***
NLGN recommends that councils investigate the potential for invest-to-save bonds to be used for finance the implementation stages of an extensive shared services programme.

***Local Authority Boundaries***
NLGN would encourage local authorities to explore deep and long-term integration of services between neighbouring authorities.

# PART 1 The current state of shared services

## 1 *Introduction: Why shared services now?*

**We need to revitalise the shared services debate. A new financial era for councils calls for new approaches and a new impetus for existing efficiency strategies. To meet the financial challenge set by the 2010 Comprehensive Spending Review, councils will have to be more innovative and ambitious than ever before. Implementing shared services is no different. The concept has been popular within the sector for over a decade, but so far progress has not matched the level of enthusiasm or potential on offer.**

The CSR 2010 announced that councils would see a 26% reduction in grant over the next 4 years. It also announced that this reduction was to be front-loaded, with the biggest cuts happening in years 1 and 2. Following the CSR, the Government announced the local government spending settlement for 2010-11 and 2011-12. The settlement focused on 'revenue spending power', with the maximum reduction to be 8.8% in both years 1 and 2. The maximum cut over 2 years faced by a council will therefore be 17.6%.[3] The median reduction is 5.82% in year 1 and 10.32% overall.[4] The settlement issued a huge challenge to local authorities. With such large savings demanded at the same time as protecting vital front line services, the answer has to lie in wholesale transformation. Local government is the most efficient part of the public sector, comfortably meeting Gershon savings targets in recent years. However, to meet the spending challenge, it has to become even more efficient, which will require a radical rethink of the way it operates.

We must think in broader terms about the ways in which sharing services fits into transformation and the changing nature of local public services and communities. Previously held assumptions about the limitations of shared services must be challenged, and the concept expanded across the full remit of local authority services. This report aims to add impetus at a crucial juncture, outlining the potential impact shared services holds for councils looking to cope with unprecedented spending cuts.

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3 Based on the final CLG Local Government Finance Settlement.
4 Median figures based on the provisional Finance Settlement.

## Report structure

This report argues the case for shared services to be used more extensively and more ambitiously within local government and the local public sector. The report is structured in a way that builds this argument throughout, concluding with a series of ideas that are achievable should the concept be expanded as we suggest.

Chapters 2, 3, 4 and 5 are dedicated to an analysis of the progress made with shared services so far, and the policy drivers that could take it further. Chapter 2 details the benefits associated with shared services, arguing that in many, though not all, circumstances shared services can be a big driver of efficiency savings. Chapter 3 then maps out the progress made with shared services so far, revealing the limitations of current approaches. Chapters 4 analyses the most common barriers to sharing by way of understanding why progress has been so limited. Chapter 5 sets out the new context in which shared services will operate, both from a policy and a technological point of view.

Chapter 6 asks how the concept of shared services could be expanded across all council services and the wider public sector. By breaking down the characteristics of a service that make it possible to make savings through sharing it is possible to see how the concept can be applied to services that are not typically the focus of sharing activity. Though not all characteristics apply to all services, we argue that the vast majority if not all council services are intrinsically 'shareable' on some level, whether this be with other local authorities or on a pan-local basis.

In chapter 7 a range of models are set out that tackle the complexities and barriers of sharing a variety of different services. These are designed to reflect that councils approach sharing services from different starting points, and their individual contexts will have a bearing on the way they can share. Similarly, council services span a large spectrum of distinct areas, and the nature of these service will also determine which models of sharing are applicable.

Chapter 8 deals with some of the potential consequences of shared services, drawing on how expansion of the concept could lead to wider, positive improvements in local government. We argue that increased use of shared services could lead to a more flexible system of local authority boundaries, a reformed workforce structure and the development of a virtual market for shared services. The possibility of funding large scale transformation through 'invest-to-save bonds' is also discussed.

# 2 *The benefits of shared services*

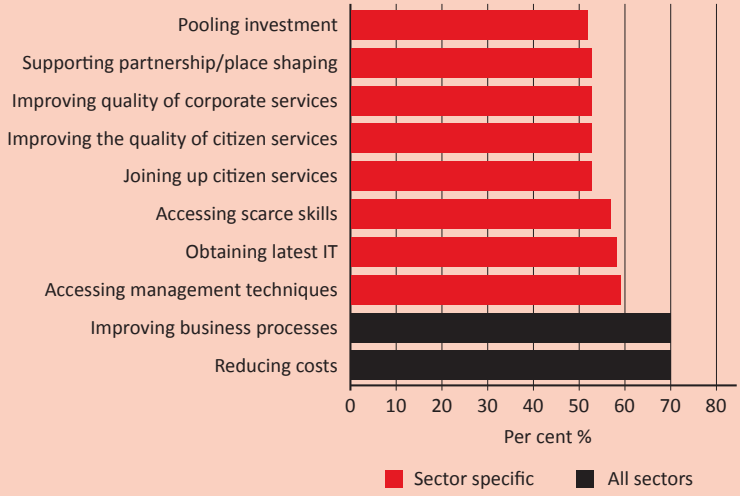
## Defining shared services

**For the purposes of this project we are defining shared services as collaboration between public sector bodies to deliver services or provide facilities. While internal sharing, or centralisation, of services (such as sharing ICT functions across a council's services) is capable of improving the efficiency of an organization, we are focusing on cross-authority or pan-local sharing rather than internal streamlining because centralisation is now widespread and the potential gains are subsequently limited. External sharing has greater potential to produce significant savings and is typically more complex.**

Shared services have typically involved neighbouring authorities sharing back office functions, but this reflects a very limited view of the benefits sharing can deliver. There are in fact a wide variety of models for sharing, and services that the concept can be applied to.

## Shared services benefits

**Figure 1** Key shared service benefits



Shared services have been seen as central to the local government efficiency agenda for many years, particularly in light of the Gershon Review. This is because shared services are capable of reducing costs while delivering qualitative improvements to service provision. Research conducted by CIPFA demonstrates that councils see a wide range of benefits in sharing services.[5]

## Reducing costs

Given a financial climate of substantial frontloaded cuts to councils' central grant combined with expectations of increased demand for services, the need to make savings is understandably a key driver of shared services.[6] Shared services are capable of delivering significant efficiencies by making better use of the existing strengths and resources of councils and taking advantage of economies of scale.

### *Making better use of existing resources*

Sharing can allow councils to make better use of the resources they already have by utilising excess capacity or by selling services in areas where they are particularly efficient. Coventry City Council and Solihull Metropolitan Borough Council, for example, decided to collaborate on waste disposal in 1992. Coventry had an incinerator with a capacity sufficient for both authorities and Solihull had a landfill site. The authorities collaborate through a jointly owned company, resulting in some of the lowest waste disposal costs in the country.[7]

### *Reducing costs economies of scale*

Sharing services can be a very effective way of making efficiency savings simply through economies of scale. Economies of scale refer to the cost advantages afforded to larger organisations or processes; these advantages involve the greater buying and borrowing power of larger organisations as well as taking advantage of increasing returns to scale whereby an increase in output does not require a proportional increase in inputs.

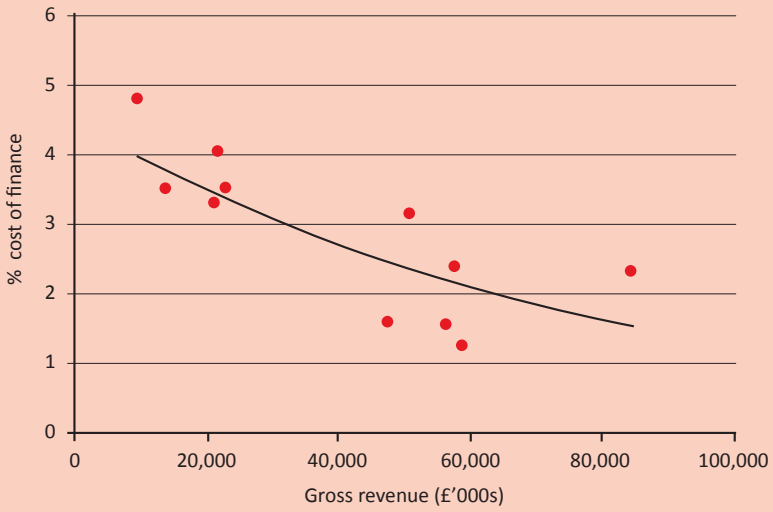
By sharing services councils effectively move from two or more small scale operations to one large scale operation and in doing so can capture the

**5** Based on a survey of 299 public sector Heads of Finance CIPFA, *Sharing the gain* (2010)
**6** NLGN, *Scanning Financial Horizons* (2010)
**7** NLGN, *Crossing Boundaries* (2003)

associated economies of scale. A fuller discussion of economies of scale follows in Chapter 6.

There is strong evidence that there is significant potential for economies of scale in local government. Research by CIPFA, for example, demonstrates that smaller district councils tend to spend a greater proportion of their resources on finance than larger ones:[8]

**Figure 2** Expenditure Vs % cost of finance




As shown above, a district council with annual gross revenue of £15m can spend roughly twice as much on finance as a proportion of its revenue, as can a district council which turns over £60m. Pooling the service is likely therefore to lead to lower proportionate costs.

The concept of scale has been applied across a range of back office functions. For example, Staffordshire Moorlands District and High Peak Borough councils now share a Chief Executive and Senior Management team, reducing the number of senior managers from 37 to 21 with estimated savings of £560,000 per annum.[9]

8 Reproduced from CIPFA, *Sharing the gain* (2010), p. 12
9 Ibid. p. 13

## Improving services

Cross-boundary working can enable services to be provided at a level that would not be possible without collaboration, particularly amongst smaller local authorities. Many shared services demonstrate significant success at delivering more consistent and reliable services with greater levels of satisfaction.[10]

### *Broadening the service offer*

Sharing can allow councils to offer services that individual authorities would not be able to provide alone. For example, Telford & Wrekin and Shropshire County Council operate a joint advisory service that is able to provide education services that neither Local Education Authority could match alone.[11]

### *Sharing risk*

Shared services allow local authorities to pool risk, making sharing an effective way of facilitating the development of new and innovative initiatives that individual authorities are unwilling to finance by themselves.[12]

### *Talent management, skills and deployment*

Sharing can allow local authorities to recruit and retain specialist staff more easily as well as better maintain an in-house career ladder and training programmes. Larger organisations can create new areas of expertise and generate greater flexibility. For instance, it is possible to group together tasks that do not require the attention of a highly-paid and skilled member of staff, allowing for highly-skilled staff to be better deployed.[13] The benefits are particularly stark for areas of skills shortage. For instance, social services managers are in short supply and cross-boundary working between boroughs and with PCTs has proved an effective response to the problem.

### *Learning from each other*

Sharing can also provide an opportunity for councils to learn from each other. Sharing requires that partners develop an awareness of the way

**10** Delivering public service transformation 2010: Developing the financial case for front office shared services (FOSS), IDeA, (2010)

**11** NLGN, *Crossing Boundaries* (2003), p. 11

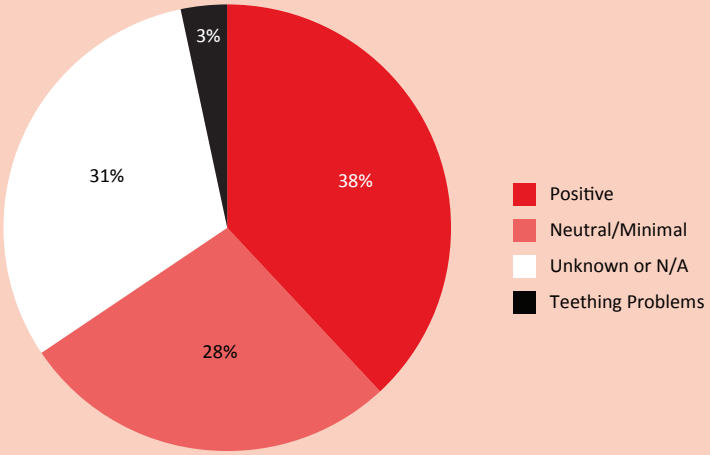
**12** CIPFA, *Sharing the gain* (2010)

**13** CIPFA, *Sharing the gain* (2010), p. 75

in which each other works and are prepared to compromise and move towards standardised systems.[14] Consequently, the process of preparing to share acts as a catalyst for change and forces elected members, management and staff to consider what they do, how they do it and how they compare to neighbouring authorities. As one council leader put it, a core benefit of sharing services is that it can "release staff from the drudgery of their old, siloed and out of date methods of working".[15]

The majority of the councils we surveyed as part of the research for this project reported that sharing services had either had positive implications (38%) for end-users or at least had had no negative impact (28%).[16] Only 3% of respondents noted any definitive negative impact on service quality or on end-users and both referred only to teething problems that were subsequently overcome.

**Figure 3** Impact of service quality and outcomes for end users




Of the 22 respondents who reported an improvement to services or a positive impact on end-users, 7 reported that services were now more resilient or reliable, 5 reported the wider range or greater quality of the expertise and skills available, and 2 reported a more responsive joined up

14 CIPFA, *Sharing the Gain* (2010), Appendix A2.1: *Maturity Model for shared services*
15 NLGN, *The Politics of Shared Services* (2006), p. 60
16 Based on a sample of 58 councils' see Chapter 3 for more on this survey

service. Greater consistency, the development of new services, and greater capacity were all reported by one council each.

There is a strong case that shared services can deliver reduced costs and improved services for councils. Furthermore this has been borne out in the wide variety of cases of shared service implementation and ambitious projects in development:

**Case Study**

***AGMA - Greater Manchester Integration***

***Who is involved?***
*The Association of Greater Manchester Authorities (AGMA); Manchester and Salford City Councils, Bolton, Bury, Oldham, Rochdale, Stockport, Tameside, Trafford and Wigan MBCs*

***What is being shared?***
*Planning to collaborate across all service areas including procurement, and integrating children's services and adult social care. Joint procurement of aids and adaptations for adult social care and collaborative insurance are already being developed as is sharing transactional finance services and social transport along with the development of a single transport management unit.*

***What model is being used?***
*A variety of models are being used in different service areas*

***What are the financial benefits?***
*The partnership aims to make savings of £578m over the next three years, £116m of these savings resulting from joint working.*

# 3 *Shared services in English local government: the story so far*

**For all the interest generated by talk of shared services over the past decade, practical progress has often been slow. Our survey suggests that local government has taken a conservative and piecemeal approach to sharing, with the emphasis on process-heavy back office functions rather than the big areas of service spending. While the majority of councils share some services, the agenda as it currently stands is limited in scope and will not make major advances into the financial challenges facing the sector. Local government needs to go further.**

## The data sources

We conducted a survey of 58 councils across England, targeting officials responsible for sharing services.[17] In addition, we have drawn from a compendium of data of 206 individual shared service projects from across the country compiled by the South West Improvement and Efficiency Partnership (SWIEP), and a recent survey on shared services carried out by Ipsos Mori on behalf of a law firm.[18]

Using these data sources we have produced a picture of local authority shared services in their current state, examining which service areas and functions are shared, how much councils are saving via shared services, which areas councils see as having the most untapped potential for sharing and the geographical dimensions of shared services.

In much of the following analysis sharing of front office and back office services are distinguished. For the purposes of this report, the front office is defined as anything relating directly to citizens, while the back office is defined as all internal council mechanisms.[19] In line with this definition, the Front office includes highways and transport services, environment and regulatory services, social care, housing, cultural services, planning, development services and revenues and benefits. The Back office includes

17 For complete survey data and results please visit www.nlgn.org.uk
18 Browne Jacobson, *shared services survey* (2011)
19 CIPFA, *Sharing the gain* (2010)

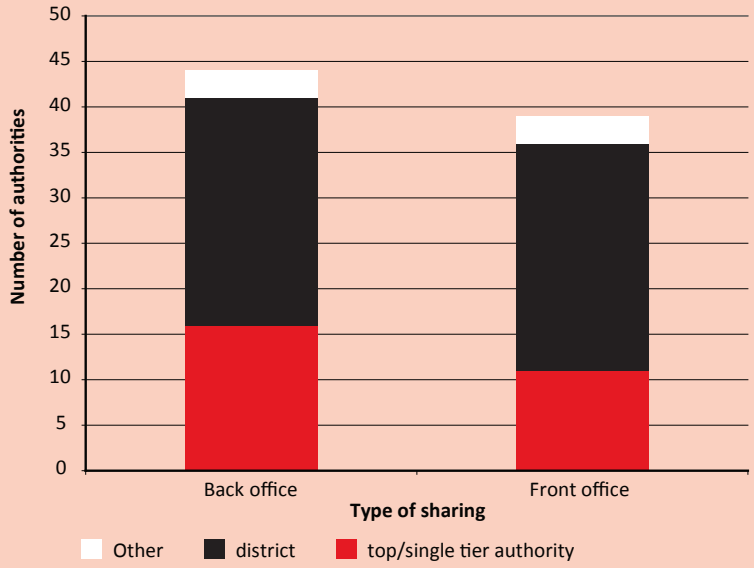
chief executive, senior management, policy, ICT, procurement, human resources and financial services.

## What services are and aren't being shared?

The vast majority of councils we surveyed (over 90%) were sharing at least one service. Similarly a recent survey by Ipsos Mori found that 89% of authorities were also sharing at least one service. Though there is a potential sampling issue – councils that are sharing may be more likely to respond to a survey on the topic – these results are demonstrative of a high prevalence of shared services within English local authorities.

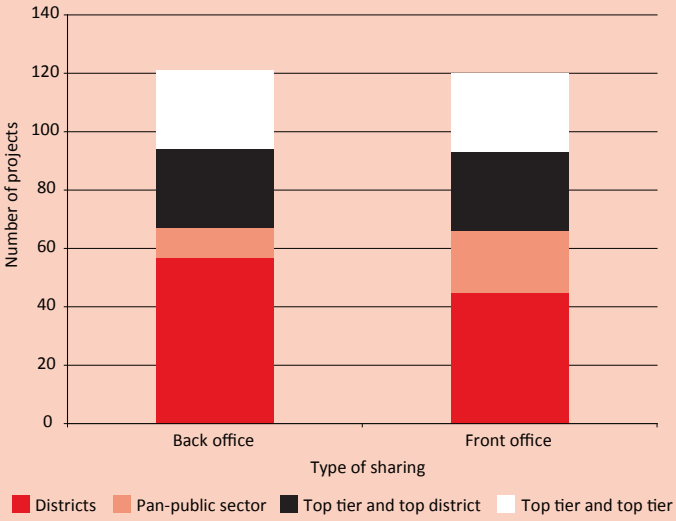
Our survey shows that when councils do share their services, more choose to focus on back office functions than front office services (figure 4). While the margin between the two is small, it widens when we consider how many discrete service areas are being shared within these categories; across our sample there are 118 cases of a back office function being shared, and only 74 of a front office function being shared.

**Figure 4** Back and front office sharing by type of authority (NLGN survey)



A similar picture is revealed by the SWIEP compendium of shared service projects, in which slightly more projects involved back office sharing.

**Figure 5** Back and front office sharing by type of authority (SWIEP survey)

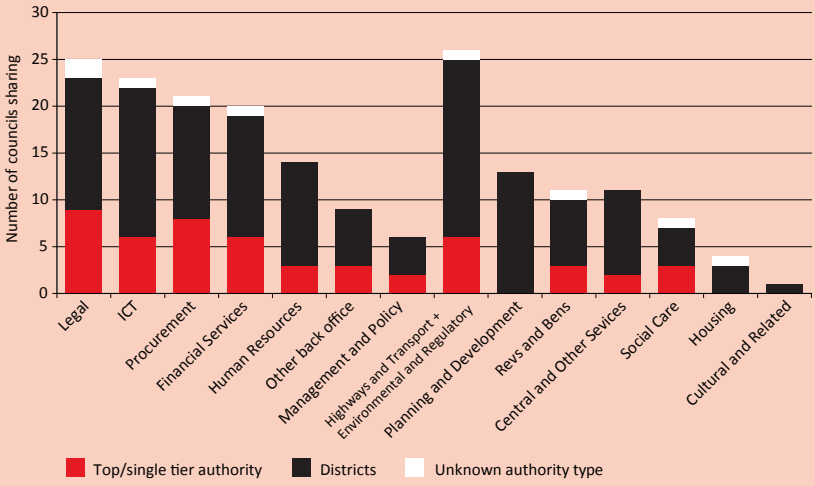



Evidence from the Ipsos Mori shared services survey also reveals a greater focus on back office sharing, with 11% more councils sharing back office services than those sharing front office services.

Our survey found that the five most popular areas for shared services are highways, transport, environmental and regulatory services,[20] legal services, ICT, procurement and financial services respectively (Figure 6). The least popular areas meanwhile were cultural services, housing, management and policy, social care and other back office functions.

**20** One limitation of this data is that many respondents indicated that they were sharing "frontline services (winter gritting, waste management)." It is not possible to determine for sure whether respondents meant by doing so that they were sharing either winter gritting or waste management, or that they were sharing a frontline service of some undisclosed sort. We have assumed that most councils will take this to mean the most visibly frontline services like winter-gritting and waste management, rather than services such as social care and housing. This explains why highways, transport, environmental and regulatory services have been categorized together and includes these responses. This means that this category has been overrepresented.

**Figure 6** Most popular sectors for sharing services (NLGN Survey)

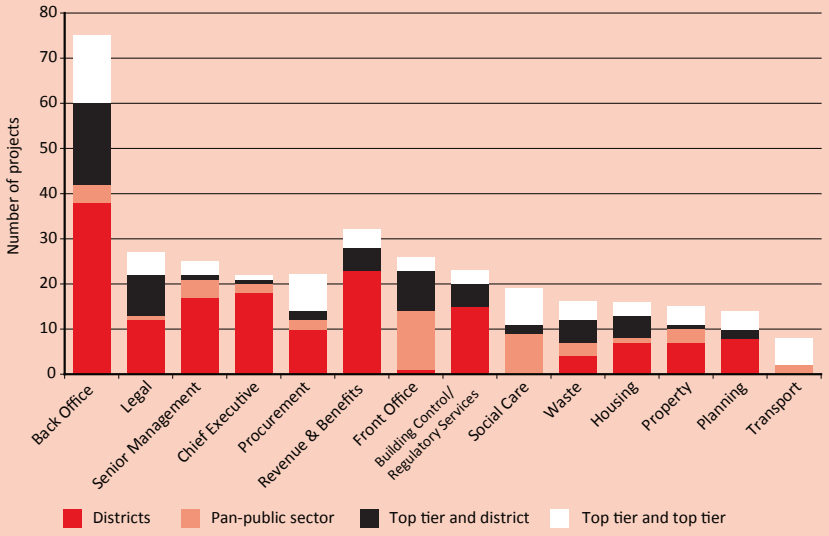



Of the shared services projects listed in the SWIEP compendium, the most popular service areas[21] for sharing were revenues and benefits, legal services, senior management, building control/regulatory services and procurement. Once again, the focus is primarily on the back office.

Not only does the evidence point to a focus on back office sharing, when shared services have been applied to the front office a less comprehensive approach has typically been taken.

21 Meaning discrete service areas, so excluding 'back office' and 'front office.'

**Figure 7** Most popular sectors for sharing services (SWIEP survey)




A council identified as sharing in some particular service areas is not necessarily merging all service functions in that area but may just be sharing one very small part of that service or even just some of the back office functions associated with that service area.

Taking social care for example; of the 13 operational shared service projects involving social care from the SWIEP compendium, none involve wide-scale merging of the council's whole adult social care or children's services teams. Two are only sharing senior management teams (SMT) between the council's adult social care team and the PCT, 2 are sharing some specialist teams, 4 are employing joint procurement or commissioning, 3 have developed a co-located hub providing some social care services, 1 has reviewed its system for awarding disabled facilities grants and 1 is sharing SMT and pooling some social care budgets.

This is indicative of sharing in frontline service areas; typically a small set of service functions are being shared and in many cases just some associated back office functions, rather than a complete merger of the service area in question. This is to be expected given the huge variety of service functions within social care, regulatory services or transport for example.

Councils identified as sharing a back office service, however, will typically be sharing that service more comprehensively. For example, of the 18 operational shared service projects from the SWIEP compendium involving legal, the majority have fully merged all of their legal functions.

Not only is back office sharing more widespread than front office sharing, back office sharing tends to be far more comprehensive relative to the service in consideration. This adds further weight to the view that front office shared services have been relatively limited in scope so far.

## Sharing and Spend

The most informative way to assess the current scope of shared services is to consider the current scope of shared services against the spend in each area.

As long as councils focus solely on the back office, they are unlikely to realise truly transformative savings. The best estimates suggest that management and support services only represent 8.9% of councils' total controllable[22] service expenditure.[23] If local government could make back office savings that match the very best achieved in the private sector - around 40%[24] - that would represent just 3.6% of their directly-controlled expenditure. This is a considerable saving, but it is not enough to help many councils cope with 'revenue spending power' (RSP) cuts of up to 8.8% next year, and a total grant cut of 26% over the next 4 years.

Savings of 40% across back office spend represent a highly optimistic estimate, and 20-30% is considered a more realistic prediction. The Cabinet Office for example have previously estimated shared services could generate 20% savings to back office expenditure across the public sector.[25] Using this more realistic figure, shared services across local government could only make savings equivalent to 1.8% of their directly controlled expenditure if confined to sharing back office functions.
The potential to make savings via back office sharing alone varies from

**22** By controllable expenditure we mean expenditure excluding that on education, police, and fire and rescue services. We have chosen to use such figures as this is the portion of the budget that councils have direct control over and as such has the most relevance to shared services.

**23** Based on subjective analysis return from annex 11 of http://www.communities.gov.uk/publications/corporate/statistics/revenue200910finaloutturn

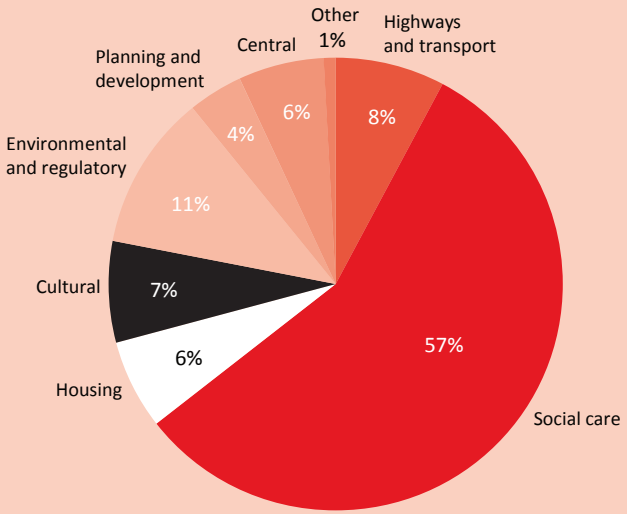
**24** Based on best of breed corporate shared services in the private sector http://www.pwc.co.uk/pdf/corporate_shared_services.pdf

**25** http://www.cabinetoffice.gov.uk/sites/default/files/resources/shared-services_0.pdf

council to council depending on their proportional spend on these functions. Typically, district councils spend comparatively more on back office functions. Audit Commission data, for example, shows that in 2007-08 back office spend represented 15%-30% of total spend for the vast majority of district councils, but only a maximum of 5% for a similar majority of single and top tier authorities.[26] Because county/top tier councils represent over 90% of English local authorities expenditure,[27] our estimation of a 'best case scenario' potential saving of 3.6% of total expenditure through solely sharing back office functions is highly unlikely to be an under-estimation.

The following charts break down total controllable revenue expenditure by service area:

**Figure 8** Controllable revenue expenditure by service area




**26** From http://www.audit-commission.gov.uk/SiteCollectionDocuments/AuditCommissionReports/NationalStudies/BackToFront8Oct08REP.pdf
n.b. this report doesn't include senior management pay under back office spend, the divergence between districts and single/top tier authorities is still telling.

**27** Based on CLG revenue expenditure budget data for 2010-11 http://www.communities.gov.uk/publications/corporate/statistics/revenuelocaldatabudget1011

Social care is by far the biggest spend area for top/single tier authorities; representing 57% of total controllable revenue expenditure. With pressure on adult social care services certain to grow in the coming years, this area is likely to increase as a proportion of council spend. Yet only 15% of top/single tier councils we surveyed were sharing social care services. Evidence from the SWIEP compendium of shared service projects shows that only 9.2% of all projects identified involved social care sharing.

The fact that even a small minority of councils are sharing social care services demonstrates that it can be done. For example:

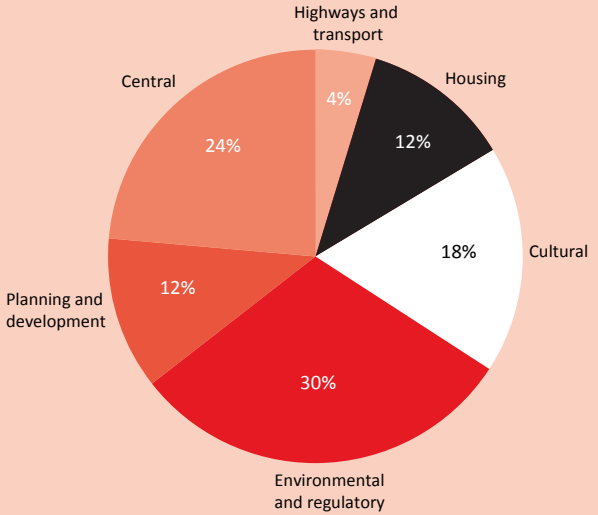
- St. Helens, Wigan, Halton and Warrington are developing a shared adoption service which should deliver £2.8m savings over 5 years.
- The Peninsula Group: Devon, Cornwall, Plymouth Torbay and Somerset, has established a Central Purchasing Group for commissioning children's placements producing savings of over £3m to date.
- AGMA (Association of Greater Manchester Authorities) are considering options to develop joint procurement of aids and adaptations for adult social care across Manchester.

Up to now though only a small minority of service sharing has been focused on the service area which alone constitutes the majority of service expenditure. This is indicative of the limited scope of shared services thus far.

The picture for districts is one of a closer correlation between proportional expenditure and the prevalence of sharing. However there is still a proportional overemphasis on the back office. Sixty-two per cent of shared service projects between districts in the compendium involve back office sharing compared to 49% for the front office, yet back office spend for districts typically represents less than 25% of total service expenditure.[28]

**28** The total is over 100% as some projects involved both front and back office

**Figure 9** Controllable revenue expenditure by service area (district councils)




In order to maximise the potential savings deliverable by sharing however, the focus should be shifted onto the more cost intensive front office services.

## Sharing and Saving

Our survey suggests that while most councils are making savings from shared services, even these savings are generally small in relation to councils' overall budgets. While our survey comprised a relatively limited sample of local authorities, the findings were nonetheless quite clear.

Of the 23 councils we spoke to who could provide estimated annual savings and start-up costs for their shared services, 21 have made or project to make net savings within the first year of sharing. Of the remaining two, one would make net savings by the end of year 2. The only council we spoke to who had made a long run net loss from service sharing had spent £150,000 setting up a shared waste service which fell through.

District councils were saving an average of £570,000 pa while top/single tier authorities were saving an average of £1m pa. One unitary authority was making savings of over £3.5m pa from sharing HR, payroll and expenses, and ICT, along with further undisclosed frontline services. The top saving district we spoke to was saving £3.8m pa following £2.4m start-up costs via wide-scale sharing of 10 discrete service areas including frontline services, senior management and most of their back office functions.

These achievements should not be underestimated. However, these savings look comparatively modest when put into the context of councils' overall spend. Of the 20 authorities we spoke to who were already sharing some services,[29] the majority are saving less than 1% of their total controllable service expenditure (2010-11).[30]

Average proportional savings for the seven top/single tier authorities we spoke to were 0.93%, and for the 13 district authorities we spoke to the corresponding figure was 2.1%.

While the majority of authorities were making very minimal savings via shared services, a few were making relatively strong proportional savings. The following table shows the top three proportional saving district and top/single tier authorities and what services they were sharing.

While general prescriptions should not be drawn from a few cases, it is worth noting that the councils saving the most via shared services are sharing across a wide variety of service areas and back office functions. This supports the intuitive conclusion that the wider the application of shared services the greater the potential for significant savings.

Most councils are only realising minimal proportional savings however. This is indicative of a conservative, albeit widespread, implementation of shared services.

**29** And that provided data on their resultant estimated annual savings and had retrievable figures for total service expenditure.

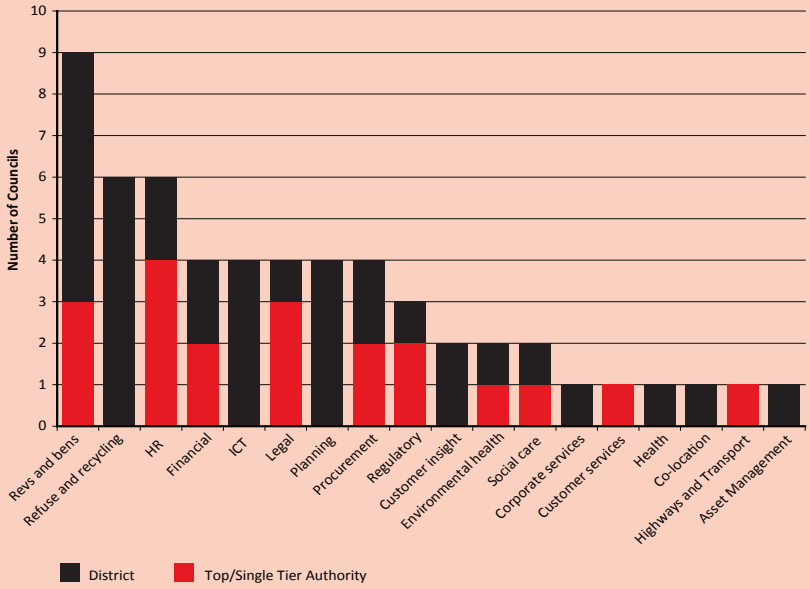
**30** Based on budget estimates from - http://www.communities.gov.uk/publications/corporate/statistics/revenue201011budget

| Which type of local authority do you work for? | In which areas is your local authority sharing services? | Number of Services Shared | Annual Savings/Total Controllable Service Expenditure (%) |
|---|---|---|---|
| **County** | Frontline Services (winter gritting, waste management), Procurement, Legal Services, Emergency Planning, Environmental Health, Trading Standards | 5 | 3.9 |
| **Unitary** | HR, Payroll and Expenses, ICT (Further frontline services have been shared but are in the process of disaggregation) | 3 | 1.7 |
| **County** | HR, Payroll and Expenses, ICT, Procurement, Legal Services, Estates, FM, Audit, Insurance, Organisational Development, Pension Admin and Investment | 9 | 0.64 |
| **District** | Frontline Services (e.g. winter gritting and waste management), HR, ICT, Procurement, Legal Services, Communications, Community Safety, Environmental Health, Land Charges, Planning Policy, Development Management | 9 | 7.3 |
| **District** | HR, Payroll and Expenses, ICT, Procurement, Finance, Health and Safety | 6 | 5.5 |
| **District** | Customer Services, Frontline Services (e.g. winter gritting, waste management), HR, Payroll and Expenses, ICT, Procurement | 6 | 3.9 |

## Untapped Potential

Our survey also asked council officers which service areas they saw as having the most untapped potential for sharing (figure 10).

**Figure 10** Areas of most untapped potential for shared services




We found that council officers see revenues and benefits as the area with the most untapped potential for shared services. Other popular choices included refuse and recycling, HR, financial services, ICT, legal, planning and procurement. The services that councils see as having the most untapped potential seem to be those that have been prominent on the shared services agenda for a long time.

Two conclusions can be drawn from this; on the one hand, it suggests that councils are aware of the 'low hanging fruit.' Conversely, it implies that councils have a limited view of the scope of shared services. Only two respondents cited social care as an area with significant untapped potential for shared services for example, yet this is the single largest area of council spend.[31]

The potential for savings to be made through sharing back office functions and revenues and benefits is far more significant for districts than for top/

31 Excluding education

single tier authorities as this represents a far greater proportion of their overall spend. The administration of revenues and benefits[32] for example accounts for 7.3% of total controllable service spend for districts but only 1.6% for top/single tier authorities.

This limited view of the scope of shared services is less problematic for district councils then, as the traditional approach is capable of delivering far greater proportional savings for districts than for top/single tier authorities. For these top/single tier authorities however, who account for the vast majority of spend across the country, the view that there is the most untapped potential for shared services in HR, revenues and benefits and legal services is a significant limitation.

## Geography

The geographical aspect of shared services has been limited in the vast majority of cases to sharing between nearby authorities, either within the same county, or between authorities within a group of neighbouring counties. Typically partner authorities are adjacent to each other although this is not always the case; Teignbridge and Torridge District Councils were the first non-adjacent councils to share a chief executive for example.

Evidence from the SWIEP compendium of 206 shared service projects is that all of these projects either operate between partners within county boundaries or within some contiguous set of counties. It seems then that there are no cases of sharing between authorities from different ends of the country.

- 88% of sharing between districts operates within county boundaries, 11% within some contiguous set of counties (1% unknown).
- 84% of sharing between top tier authorities and districts operates within county boundaries, 11% within some contiguous set of counties (5% unknown).
- 28% of sharing between top tier authorities operates within county boundaries (typically between unitary authorities within ceremonial

**32** We have used figures for the administration of revs and bens as this is the actual function that would be shared and could generate savings, if the actual inflows and outflows of revenues and benefits were taken into account this would misrepresent this as an element of council spend.

county boundaries, 50% between some contiguous set of counties, 13% within some contiguous set of London Boroughs, and 6% within some non-contiguous set of London Boroughs (3% unknown).

- All cases of pan-public sector sharing operate within county boundaries.

While neighbours may make the most obvious partners, in many cases there is no reason why authorities cannot share services with partners from further afield; in ICT, HR or procurement for example.

There may be situations where there are insurmountable barriers to sharing with a nearby partner that do not exist with some council further afield. In these cases an unnecessarily limited geographical view of shared services would be detrimental to the scope of sharing.

Shared services in English local government has up to now been characterised by an approach of limited scope; focusing on back office functions and failing to tackle councils' big spend areas in a comprehensive manner. This approach has typically delivered only modest savings. However we have also seen shared services implemented in non-traditional service areas, such as social care and waste and environment services, though on a far less comprehensive basis and often focussing on niche areas within these wider functions. It shows that sharing in these areas can be done, but that it tends not to happen very often. The next chapter seeks to understand why shared services have not already expanded to fill the higher-spend areas and establish the features of local government that act as a limitation.

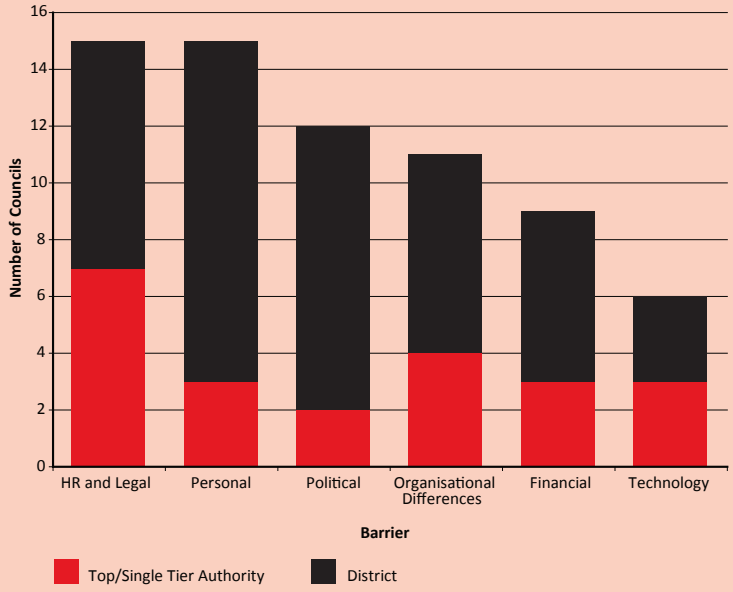
***For complete survey data and results please visit www.nlgn.org.uk**

# 4 *The barriers to shared services*

**As discussed in Chapters 2 and 3, the implementation of shared services across local authorities and public bodies has been patchy, piecemeal, and comparatively slow. Historically, the public sector has been slower than the private sector in adopting new cost-cutting or performance efficiency practices. "Public sector ethos", bureaucracy, employment laws, and the "silo" nature of government and public bodies have all contributed to preventing the sector from being as flexible and innovative as its private counterpart.**

Certain barriers inherent to the public sector and local government have prevented or slowed down the widespread implementation of shared services. These can be political, personal/HR, organisational, technological, or financial.

**Figure 11** What obstacles to service sharing have you encountered?



Successful implementation of shared services in local authorities relies on a number of factors, such as the engagement of chief executives, councillors, and officers, having a shared vision and mutual trust with the partner organisation, constructing a robust and effective business case, including service level agreements, and getting good technical and legal advice. All can become potential barriers if insufficient attention is paid to them.

In this chapter, attention will be paid to the historical and current barriers to shared services. Overcoming these barriers will be the focus of Chapter 7.

## Political Barriers

### *Democratic Accountability and Control*

*"The difficulty with sharing front line services, it's heavily the politics; the politics is horrible"* Private Sector Consultant

Politicians can be reluctant to engage in shared services for a number of reasons. Front office shared services are especially problematic as they touch upon services which voters directly come into contact with.

*"The other thing about refuse collection is that elected members often also refuse as they lose control if it goes outside their authority. And this is what they get elected on, things on the ground, like refuse collection. This is especially true for larger services areas."* RIEP Improvement Leader

This question of electoral accountability is problematic for councillors, and was the main barrier for many of the District Authorities that took part in the NLGN survey (see figure 11). Voters expect the politicians they elect to be in control of the services that matter to them. Councillors seem uncertain as to whether they can retain control under a shared services project.

Furthermore, shared services often require long-term thinking. Many shared services project can take up to three years to fully develop.[33] Such time periods may not fit comfortably with the necessities of the electoral cycle. This puts an onus on senior officers to maintain focus on long-term, transformational aspect of projects and the need for tangible benefits to sell within the electoral cycle.

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**33** http://www.localgov.co.uk/index.cfm?method=news.detail&id=91149&layout=2

This barrier is most problematic for shared services relating to specific front office functions, where citizens might directly feel the impact of the shared service venture. For back office shared services, or for front office services which are not clearly noticeable by citizens, this problem should not arise.

The importance of sharing services in order to preserve front line services is a message which members should communicate to citizens. In a recent Ipsos MORI poll, 59% of respondents thought it was possible to protect the front line services by making public services more efficient.[34] This argument can be presented in relation to both back office and front line services. If this is the only way a local authority can prevent making redundancies, or cutting back front line services, this stark choice should be explained to both the electorate and council staff. In the current climate, shared services is not about reducing staff to make efficiency savings anymore, but about sharing services so as to minimise potential redundancies, and protect services from front line cuts.

Service areas where this might be problematic:

- Waste & Refuse Collection
- Adult & Social Care
- Winter Gritting
- Children's Services

Service areas where this is not problematic:

- Back Office functions
- Transactional Services
- Housing, Building and Land
- Regulatory and Standards

### *Shifting political leadership*

These difficulties can be compounded by the fact that partner local authorities might change political leaders in the middle of a shared services

34 http://www.ipsos-mori.com/_emails/sri/latestthinking/aug2010/content/8_the-future-of-local-government.pdf

project. This has the potential to unravel shared services projects, especially if these are still at the development or implementation phase. It is not impossible for a newly elected incoming administration to have different viewpoints with regards to the provision or structure of public services. Such a development could hinder progress, or even force a redesign of the shared service, but should not jeopardize the whole project. Shared services can be a non-party political project, based around a business case and a common desire to provide public services at an affordable cost.

While this barrier has been historically very important, it is likely that the current climate will diminish it as the scale of the financial challenge will entail major change. Furthermore, the method of implementing such shared services, and the contractual arrangements that flow from it, will largely determine the success of the venture. Certain models, such as Joint Ventures with a Joint Committee or with simultaneous Executive meetings, can also help alleviate some of the political barriers. These will be examined more thoroughly in Chapter 7.

***Service areas***

There are no service areas which are completely immune to shifting political winds. Nonetheless, back office and transactional processes tend to be less controversial than front office sharing, and it is highly likely that such projects would not suffer from change in council leadership.

Service areas where this might be problematic:

- Front office Services (Waste Collection & Recycling, Adult & Social Care, Winter Gritting, etc…)

Service areas where this is not problematic:

- Back Office functions
- Transactional Services
- Housing, Building and Land
- Regulatory and Standards

This barrier can be partially alleviated by using the right model for shared services, which would add some certainty and ensure the longevity of the shared services programme (which will also be discussed in greater depth in Chapter 7).

### Personal - HR

***'Turkeys Voting for Christmas'***

While political barriers occur mostly when it comes to sharing front office services, the personal/human dimension often occurs during back office shared services projects. When sharing back office functions, it is almost inevitable that certain employees will be made redundant, or encouraged to agree to a change in terms and conditions of their contracts. This problem is compounded when individuals whose jobs are at risk are tasked with creating and implementing a shared services project.

*"You have two existing large departments, both headed up by a head of service, one of whom will lose their job if it goes through. Why would they encourage it, if they lose their job in the process?" RIEP Improvement Leader*

This problem is not inherent to local government, but the problem is made more acute by the political repercussions that job losses could entail.

*"Number 1 of things to overcome is political. There are winners and losers, and it's about overcoming personal gain/liability issue. The biggest obstacle is people, turkeys voting for Christmas. Technically it's not an issue." Private Sector Consultant*

This can happen both at the officer level, but also Senior Management, who will often be tasked directly with reforming their department. Redundancy remains a factor in these cases, but the loss of control, of influence, that an individual used to possess over a service area will usually act as a deterrent to shared services.

*"The other group were senior managers (and this is where I think we can see this a lot in local authorities) who suddenly think, "Well, hold on. I've still got the risk of delivering this. You're telling me instead of 60 accountants sitting outside my office; you're going to move them down to Wales?! And I'm sitting in London and that's alright?!" Private Sector Consultant*

Service areas where this might be problematic

- Front Office Services (Waste Collection & Recycling, Adult & Social Care, Winter Gritting, etc…)
- Back office (Legal, IT, Financial…)

Service areas where this is not problematic

- None

This issue can be difficult to overcome, and it will often rest with members to ensure that the benefits of shared services, and the consequences of inaction, are explained thoroughly to all individuals who might be affected by such changes.

*"The downside of that is weak members. Members should've been investing to get past the lobbying they would take from officers"* *Councillor, District Council*

Once again, the emphasis should not only be placed on the financial benefits that such a project would have, but on how this fits within a broader picture of public service transformation. This kind of leadership and vision must come from elected members.

*"If it's all about the money, then again that's not very strong, it weakens the business case and commitment to it. The political will is really important and can completely scupper any shared service if it's allowed to. You need to deal with this upfront and be honest about it."* *Senior Programme Manager, RIEP*

While the internal obstacles to shared services are important, it falls upon all echelons of a local authority to provide the drive for success.

***HR and Legal***

Sharing services often involve individuals changing their terms of employment. In the public sector, this can be difficult; even when the individual is not being made redundant. Creating a secondment arrangement

between authorities can be one way to overcome these problems, but this can also be problematic as employees doing a similar job may be on different terms and conditions. Furthermore, liabilities for pensions and redundancy costs can also be very expensive, and could negate some of the savings made through shared services.

*"HR and how to get staff, and work out management arrangement for staff, to be working for 2 councils at the same time: who's the employer, what conditions, what disciplinary arrangement. All of that requires comprehensive and detailed work between 2 partners." Chief Executive, District Council*

It is preferable to assess and sort out these issues early on, with the consent and participation of all the potentially affected staff. Once again, the current financial climate should go some way towards incentivising the search for solutions that do not involve job losses, rather relocation, change in terms and conditions, or to specific pensions arrangements.

Certain models of shared services will be more conducive to overcoming such barriers than others. Informal arrangements, for example can be a way to overcome HR issues.

*"One of the other barriers to success is the legal framework that enables you to do it. There are various ways to do it: a joint venture with private sector, or you can go down the "company" route but then there will be issues with EU law." Head of Shared Services, County Council*

For contractual arrangements, such as Joint Ventures or Lead Authority Models, staff are likely to be transferred or seconded: TUPE and secondment may result in staff on different terms and conditions working in the new entity, which would entail harmonisation. Staff may be unwilling or unable to relocate. If staff are retained by their own local authority, then TUPE will not apply. If, however, functions are delegated, then TUPE will apply.

Where a Company is established, this problem can become exacerbated: staff may be unwilling or unable to relocate, there are questions around the feasibility of long term secondments, and the combination of TUPE and the variety of terms and conditions may trigger harmonisation pressures.

In all these cases, secondment is a viable option: staff remain in an Authority's employment, industrial relations issues are more manageable, and it avoids some of the risks, uncertainty and disruption of a TUPE transfer. Moreover, the recruitment of new employees on public sector terms and conditions addresses "two tier" concerns, leading to a more cohesive workforce. Nonetheless, this isn't a panacea: risks remain that employees are legally employed by the private sector contractor, and tensions could arise between transferred and seconded employees. Finally, secondment isn't a very long-term option.

While certain models prove less troublesome than others, legal advice would have to be sought in any shared services ventures which include changes in the terms and conditions of staff, or redundancies.

## Organisational compatibility

### *Finding the right partner*

Research respondents also highlighted the problems of finding a suitable partner. Organisational difference, or the perception of difference, can prevent local authorities from engaging in front office shared services. One District Councillor pointed to a:

*"decrease in standard because partners are not as good as us".*

*Or the friction may emanate from the way the service is implemented:*

*"The different service standards of partner authorities; it's important to make sure that standards don't fall to that of the lowest common denominator. Similarly, different authorities have different expectations and ways of doing things. Different authorities work at different paces; often the whole project will end up operating at the pace of the slowest partner" Councillor, District Council*

Councils are often reluctant to engage with a partner who has an inferior track record, is geographically distant, or who are incompatible in terms of IT and standards.

This problem is compounded by the fact that the shared services market remains immature. Information is hard to come by, there is a lack of

transparency, and it is extremely fragmented. A local authority which wished to find potential partners to share legal services, and who had a specific IT platform, would be hard pressed to find a suitable partner. It could ask neighbouring authorities, or go on the LGID's Communities of Practice, but even then the information available might not be comprehensive enough.

This barrier shows the importance of finding the right partner with which to embark upon a shared services project. The competence and performance of a prospective partner, and the potential for raising such competence and performance, should be part of the due diligence process, but this process should, and can, be facilitated.

One such solution would be to develop a tool to make the market more transparent, information rich, and fluid. This could be done through transparency, by encouraging or mandating local authorities and public bodies to publish information relating to their IT platforms, their existing contracts, capacity, spending by service area and existing shared services projects.

Another method would be to develop a national platform, possibly in the form of a website, where local authorities and public bodies could both search for prospective partners and enter their details in order to offer services.

Finally, regional centres could also help, in linking authorities together and in promoting good practice.

### Technology

Technology is both an enabler and a barrier to shared services. Many of the existing shared services models would not have been possible without recent technological developments. The informatisation of processes, data, and services has created an opportunity for moving away from a labour-intensive, location-specific, time-constrained provision of services, to one that can be automated, virtual, and accessible from anywhere at anytime. This also applies to the back office and transactional functions.

This rise in IT processes has, however, meant that many systems and processes are brand dependent. Different ICT providers, operating systems, software, and data centre have partially reduced the opportunity for

collaboration. The issue of standardisation, or compatibility, has discouraged some authorities from entering into shared services with neighbouring authorities.

*"...the main barrier we've encountered has been standardisation. People refusing to standardise formats. When we first introduced processes to go through a shared service centre, some individuals were still persisting on using the old one. The process started in 2007, but the high levels of compliance were only reached in 2010. Internally, that's the biggest stumbling block, getting everyone on board to comply with the new standards" Corporate Director of Business Change, City Council*

Certain models, by their very nature, create their own standards and platforms. If local authorities decide to start a Company, for example, it is possible that such IT infrastructure would be created from scratch, and that a common standard could be agreed upon. Another option is to use Cloud Computing, as under this system software is operated remotely, quickly upgraded, and can be changed or updated relatively easily.

The cost of "IT Failure" can also be extremely expensive[35], both financially and for the council's reputation. Meanwhile, security can be an issue in some instances: if the data being shared is sensitive, or if access to the data could compromise legal requirements. Technological progress and due diligence should ensure data security, especially with the advent of safer networks and cloud computing.

## Financial

The final barrier encountered in interviews and our survey relates to the costs of setting up shared services. This barrier has become more prominent due to the current budgetary pressures imposed on councils. While the front-loading of cuts has increased the urgency of creating efficiency savings, up-front investment has become harder to find.

*"Another barrier is probably that shared services will deliver benefits over the medium-long term and there is a short term investment needed. We need quick wins, and this will take a long time to implement properly." Head of Shared Services, County Council*

**35** http://www.zdnet.co.uk/news/systems-management/2008/12/16/mps-condemn-dft-shared-services-failure-39578367/

***Service areas***

This problem applies to all service areas to varying degrees. Creating a one-stop shop for citizens, such as the Greenwich Front Office Shared Services Centres, requires major investment up-front. Other schemes, such as sharing Chief Executives and Senior Management teams require less investment, and can generate up front savings.

Service areas where this might be problematic

- Front Office Services (Waste Collection & Recycling, Adult & Social Care, Winter Gritting, etc…)

Service areas where this is not problematic

- Most back office functions
- Transactional processes

There is a shifting paradigm within the barriers to shared services. Historically, shared services were seen as a way to cut costs, especially with regards to back office functions. The barriers involved in terms of reputational risk, staff issues, internal resistance, and technology were often seen as a price not worth paying.

The situation, however, has changed. Traditional barriers, such as fear of failure, reputation risk, and personnel issues are dwarfed by the necessity to make efficiency savings. Conversely, the financial investment needed to make deep, structural changes to implement ambitious shared services programmes has become a major barrier.

The front-loading of the cuts has also meant that savings must be immediate, thereby adding urgency to any shared service endeavor. This urgency has had another knock-on effect, in that Local Authorities must find suitable partners over a relatively short time. Finding the right, compatible, and suitable partner can be extremely problematic, especially considering the lack of regional platforms designed to bring partners together.

# PART 2 A new era for shared services

# 5 *The new context*

## Introduction

While the implementation of Shared Services in the local government sector has not been as quick or comprehensive as first anticipated, a new policy landscape is emerging. Many of these policies are based around the Coalition Government's vision of "localism", aiming to devolve power from the centre, enabling local authorities to become more independent, pro-active, and innovative. This chapter seeks to analyse what policies and developments could facilitate a wider implementation of shared services.

## Policy Changes

### *Incentives to Shared Services*

Some respondents felt that central government could be more proactive in incentivising shared services through specific policy changes:

*"They could help by letting us capitalise redundancy cost, over a longer period, that would sweeten the deal. The employment legislation also hinders a bit of what we do. There are lots of bits and pieces in employment legislation which just add to the show, they don't make the employee any more secure, they just delay the project."* Councillor, District Council

*"It needs to incentivise organisations to share more and to share more services. Might need an extra push to get people to take that next step. Without that, some of the barriers will too strong without the final push." Head of Shared Services, County Council*

Others, however, recognised that shared services were an incentive as and of themselves:

*"the incentive is there already with savings and resilience, it has its own incentives built in to it" Senior Programme Manager, RIEP, Senior Programme Manager, Improvement East*

And that the only step that was needed was to share good practice and information:

"Not sure there is more policy work, apart from sharing good practice, and being able to share the concept." *Chief Executive, County Council*

Considering the current financial climate, it seems extremely unlikely that central government would create direct financial incentives for shared services. Other policy changes, however, could contribute to making shared services more widespread.

***LEPs***

Local Enterprise Partnerships (LEPs) are partnerships between local authorities and businesses within a specific geographic area, replacing the Regional Development Agencies. Their aim is to drive economic growth and job creation within a specific area, using their local knowledge, connections, and experiences, to create economic growth hubs.

This process is still in its infancy, and LEPs are not expected to be fully operational until April 2012. It is not surprising, therefore, that, as one expert put it, *"The role of LEPs is yet to be defined" Corporate Director, Local Partnerships*. Nonetheless, some chief executives, saw the potential of LEPs in bringing local authorities closer together, by creating a platform for dialogue and cooperation:

*"All of the forums that we've got have the potential to lead to Shared Services or partnership arrangements." District Council Chief Executive*

This could help overcome some of the political barriers to shared services, by bringing together authorities with a similar outlook and purpose. *"It comes back to the mutual trust and mutual vision. If you're in a LEP because you trust each other and want to work together, the natural next step could be shared services. If they've agreed to form a LEP, they're on the same wavelength at least." Head of Shared Services, County Council*

A closer relationship between local authorities and certain businesses could even facilitate the design and implementation of specific shared services, through an incremental approach to shared services:

*"What we're doing there is sharing economic regeneration staff or budget. Once you start discussing things in a functional way, it does lead to other opportunities to share, or be more effective" District Council Chief Executive.*

The geographic angle of LEPs is also important, as some services that can be shared rely on geographical proximity for their implementation.

*"Our LEP means we'll talk to [a neighbouring county] about which areas we could share, economic development team, regeneration team, it's that push. Moving towards transactional, professional areas, where I think it's inevitable." Chief Executive, County Council*

The real potential of LEPs for shared services, however, will only be achieved if LEPs develop into a broader structure, allowing for sustainable and stable working relationships between local authorities and businesses.

*"At the moment, they're intended to be mostly economy angle, but they could develop into a new tier of regional governance, and if they did, it could help Shared Services." Senior Programme Manager, RIEP, Improvement East*

As seen in the previous chapter the shared services agenda is still somewhat hostage to political fortunes, and still suffers from a lack of platforms designed to bring possible partners closer together. By creating and incentivising closer relationships between geographically proximate local authorities, LEPs could potentially become a catalyst for shared services. This might be more of a long-term endeavour, however, as LEPs are not due to come into being until April 2012, by which time many councils will have had to make substantial cuts to their budgets.

### *A General Power of Competence: a freedom to innovate*

The Local Government Sector, amongst others, has long argued for the power to do anything that is 'legal and reasonable'.[36] The existing principle governing local government is the doctrine of *ultra vires*, which states that councils are only allowed to undertake activities which have been granted to them through the use of Parliamentary legislation. The General Power of Competence (GPC) would invert this *ultra vires* principle, meaning that councils could do anything unless specifically prohibited from doing so by legislation.

**36** "Doubts Grow over Competence Powers", Dan Drillsma-Milgrom, LGC, February 2010

*"We're not able to class financial benefits as being an "intrinsic benefit for the community". GPC should clarify this and make it easier for us to operate more straightforwardly." Councillor, District Council*

Although the new power will still be constrained by any legislation already in place which explicitly limits activities they want to carry out, it may help local authorities create new joint ventures that trade, invest, and deliver services in an innovative and cost-efficient way. One such example could be arm's length Foundation Trusts for services such as Children's Services of social care.

The GPC could also help streamline the process of establishing Shared Services centres. Under the Local Authorities (Goods and Services) Act 1970, local authorities can sell goods and services to other public bodies but these have to be explicitly listed in secondary legislation. Some bodies one might expect to be covered are not. The GPC should allow more flexibility of service provision across public bodies.

The GPC could facilitate the governance and decision-making pooling powers of different entities within a "Community Budget" area, by allowing new service options, community engagement or purchasing on behalf of the local community to be devolved to the neighbourhood or street level.[37] Furthermore, the GPC should give Local Authorities more confidence in their own power to innovate. Previous rulings, especially in the LAML case,[38] have dented council's confidence in setting –up creative ventures. The GPC should, to an extent, alleviate these concerns.

### *Place-based budgeting – Total Place*

Community budgets should be a facilitator of shared services within an area, by incentivising the sharing of processes between local authorities and other public bodies, enabling efficiencies, but also service redesign and improvement. Widely implemented community budgets, where local authorities would create sustainable partnerships with other public bodies within an area in order to jointly deliver on outcomes would certainly facilitate the sharing of both back office and front office functions.

**37** "Going Nuclear? The Power of General Competence and the new Government", N. Keohane, NLGN, 2010

**38** R v Risk Management Partners Limited ex parte The Council of the London Borough of Brent and the London Authorities Mutual Limited and the Council of the London Borough of Harrow (Case CO/4667/2007)

Community budgets, however, are only to be implemented in 16 areas, and only targeted at families with serious problems[39]. Shared Services could be an important part of this process, but it would need to be extended geographically and thematically for it to function on a meaningful scale. This viewed was echoed in NLGN interviews:

*"They should be more supportive of the place-based budget approach; more should be done on this subject" Local Government Director, Private Sector Consultant*

### *Other policy changes*

There seems little doubt that platforms that enabled pan-public sector, or cross-sectoral collaboration, such as LAAs, Total Place, or RIEPs, were seen as a facilitator of shared services. Any forum which encourages public bodies and local government to come together and discuss practical issues relating to shared services would be a welcome catalyst.

Furthermore, the fragmentation of public services, through elected police commissioners, GP consortia, and free schools, make it slightly more difficult to conduct shared services, as services become more independent from one another. The introduction of choice and competition in public services can also act as a hindrance to further collaboration and sharing of processes.

## New technologies

*"Technology is crucial. It's a key enabler." Corporate Director of Business Change, Metropolitan Council*

In the past, technology was the main factor in enabling shared services through models such as Customer Service Centres, Data Sharing, Information Management and Assurance, or Identity Management. The rise of IT processes in implementing shared services, however, has been a double-edged sword. This process has been punctuated by high-profile and public failures,[40] but also by important successes.[41]

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**39** Localism Bill

**40** House of Commons public Accounts Committee, "Shared Services in the Department for Transport and its agencies", Fifty-seventh Report of the session, 2007-08

**41** http://www.publictechnology.net/content/14403

These high profile learning experiences have instilled a fear of failures amongst certain councils:

*"There's a real battle that messes up the opportunity, and that is the degree to which the fear of flak from the system is preventing a good use of the system. The tussle for data security versus the service and the freedom that could come if we didn't have to worry about that."* *District Council Chief Executive*

***Standardisation***

The main barrier posed by technology relates to standardisation problems, with different councils or public bodies operating on different softwares, or different versions of a software:

*"Having a common financial database is always useful to share services. But most authorities have different financial systems, or even different versions. But in an area like benefits, they must work on a common system, otherwise they will struggle. Common systems are key in an area like this. Accounting, for example, could easily be shared. But because they need common systems, it tends to break down. If one authority has just implemented a new system, it's expensive to change it."* *RIEP Improvement Leader*

This issue was neatly summed-up by one officer:

*"Technology can also be a barrier as IT systems don't talk to each other."* *Corporate Director, Local Partnerships*

**Case Study**

*When the State of Israel decided to lay the foundation for a modern e-government infrastructure, they used SAP technology to implement shared platforms across the siloe'd Ministries of Israel's Government. The aim was to reform the accounting system from cash to accrual based; centralize procurement through a unified catalog; collaborate more efficiently with approved suppliers; and replace an outdated human resources system.*

*The Merkeva project (Hebrew for "Chariot") was the largest single IT project in Israeli history. Some 10,000 staffers working throughout 52*

*government offices are now using SAP ERP, with a focus on finance, procurement, and HR. The software is also used for enterprise asset management – to manage real estate and other assets – and for issuing bonds and debentures for capital requirements.*

*One-third through the rollout, Israel has already eliminated 143 legacy systems and reduced IT expenditures by 45%. An online tender for a government energy company resulted in a 65% higher price and US$100 million in extra income. A procurement auction for PCs, supported by the SAP Supplier Self-Service component, reduced the previous price by 50%. Suppliers enter the auction via electronic sign-on cards for secure identification and access.*

*The Israeli government is not only saving money – it's achieving collaborative outcomes between ministries and agencies. The Ministry of Immigration and Absorption, for example, uses SAP software to cross-reference applications for immigration with the Ministry of Housing and the Ministry of Health, enabling it to check things like housing availability and vaccination compliance.*

*Benefits:*

- *Effective collaboration between agencies*
- *Improved service responsiveness to public*
- *Improved public value*
- *Elimination of 143 legacy systems*
- *45% reduction in IT expenditures*
- *Ability to generate more revenue (for example, $100 million in additional revenue generated for energy company via Internet auction)*
- *Reduction in procurement costs (for example, PC procurement price 50% less than previous purchase)*
- *Greater overall efficiency and better customer service*

***Authentication***

The vast improvements made by IT platforms relating to authentication of users could open the gates to a much broader application of front office shared services.

*"Front office in general depends on issues of authentication, making sure we identify the right persons, end-users, or that only the right person gets access."* *Corporate Director of Business Change, City Council*

Such developments could facilitate 'one-stop shops' for customers, citizen, or end-users trying to get access to a specific service, enabling to access all the information they need within a single portal. Conversely, these authentication processes could streamline the process from the point of view of the service provider:

*"Let's say you have a bereavement, what are all the contacts you will need? You need some public ones, but you also need some private ones. How do you develop that? Some of it is public, some private, we need to join-up the two."* *Corporate Director of Business Change, Metropolitan Council*

However, security issues remain, as much of the data being handled by local authorities or other public bodies is extremely sensitive.

*"If technically there was a way, like paypal, you could build a wall that really only allows the stuff that doesn't matter to much to be in an open area, this could unlock some massive benefits for Shared Services"* *District Council Chief Executive*

Overcoming these barriers, however, could help create a more intelligent, responsive, and personalised service, based on customer/citizen intelligence. By mapping out their journey, circumstances, and needs, councils and IT providers could be able to offer instantaneous and personalised support to citizens, through a single portal, linking data from different public and private agencies together.

*"Business intelligence is also a key missing ingredient. Business Intelligence should help make shared services more affordable, instead of these static reports, you can really see where shared services are needed, and how they should be implemented. The cost of these products is coming down, so you can see how more information management would be good for shared services."* *Senior Business Analyst, NDPB*

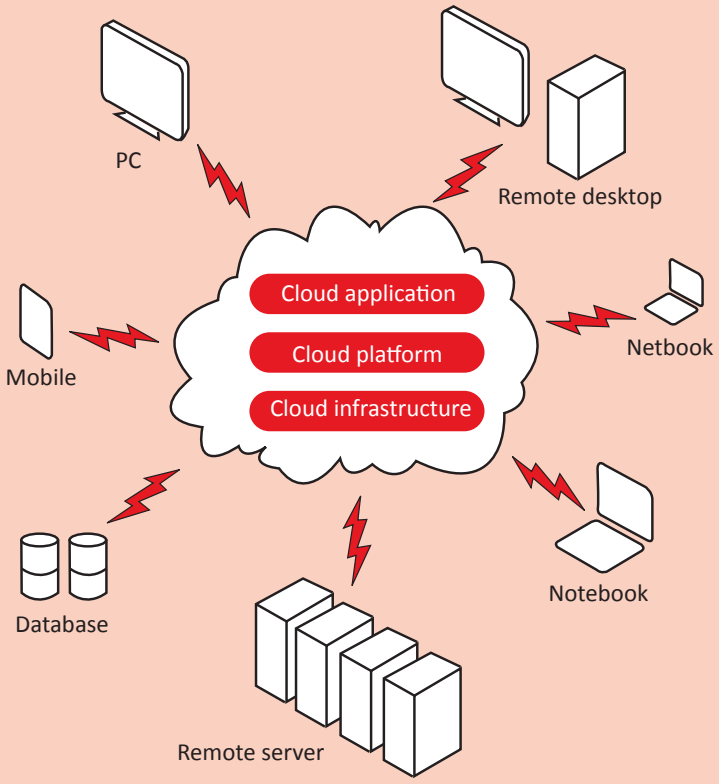
### *Cloud technology*

The most important recent technological development with regards to shared services seems to be the advent of 'Cloud' computing. Cloud computing is a

system whereby all of the computing infrastructure, processes, and software, are located away from the end-user. This includes computers and servers, but also software and applications. Cloud computing customers do not own the physical infrastructure, such as the servers, and therefore avoid capital expenditure by renting usage from a third-party provider.

*"The "Cloud" technology is very useful in this respect, as it encompasses so many different aspects of shared services: cyber-security, shared drives and servers, in a mobile and flexible way, it's a very vast topic that wraps many things with it." Local Government Director, Private Sector Consultant*

**Figure 12** Cloud computing



***Cloud benefits***

- Flexible: Cloud Computing allows for greater flexibility, as the amount of storage needed can be increased or decreased almost instantly, without having to purchase or dispose of physical support.
- Scalable: Service providers can't always anticipate the number of users that will access a particular service at any point in time, and the number of users trying to access a service might increase dramatically. Cloud enables the service to be designed to scale upward for high periods of demand and downward for lighter ones
- Customisable: Cloud includes the ability to add new infrastructure at a reduced cost, and relatively rapidly. For shared services, this means that new partners can be added onto, or withdrawn from, a certain project rapidly, cheaply, and without having to invest heavily on new hardware or software.
- Self-service: Users can access cloud services without going through a lengthy process. This applies to both service providers requiring more storage space, or users of a service requiring particular information. All this can be done through a single gateway, virtually in real-time.

Cloud computing could therefore play an important part in many aspects of Shared Services:

- Back Office functions: Cloud computing could help by freeing up physical space, reducing hardware costs, allowing for greater flexibility and responsiveness. It would also facilitate the addition of new partners into a shared services back office functions, by making it quicker, cheaper, and less cumbersome. Cloud computing also helps reduce the geographical dependence of shared services, by allowing any authority in the country to join a shared service project simply by transferring its processes to the existing cloud.
- Front Office functions: In addition to the above, Cloud could allow citizens, customers and end-users to access data from different agencies, from almost anywhere, in real-time, without putting undue pressure on servers. It could facilitate 'one-stop shop' services, by gathering all the relevant data onto an easily accessible 'Cloud'.

**Case Study**

***City of Los Angeles, California***

*Project Email and productivity*

*The City of Los Angeles has 34,000 employees across 40+ departments. In 2009, the City faced a $400 million deficit. This budgetary crisis and the resulting IT staff layoffs exacerbated existing frustrations with the City's in-house IT systems. The City's Information Technology Agency sought to find a new e-mail and IT provider which would streamline productivity and create more efficiencies in day-to-day operations. The City received 15 proposals for possible replacements to its in-house system.*

*In October 2009, the City of Los Angeles announced plans to transition to Google Apps with the help of systems integrator, with a five year services contract. The City plans on having all employees on cloud-based e-mail by June 30, 2010. The City has begun initial use of other products within the Google Apps Premier Edition suite and to the cloud as city employees have become more familiar with using the Cloud for workplace productivity.*

*The City's Chief Technology Officer estimated a direct savings of $5.5 million over five years as a result of the implementation, with the potential ROI for increased productivity possibly reaching $20 to $30 million as city employees become fully trained on cloud-based applications. The City is now able to offer each employee of the City 25 times more storage space, and can provide much more capability and add new users without ever needing to worry about hardware availability on city servers. City employees will also benefit from cloud-based integrated instant messaging, video conferencing, simultaneous review and editing of documents by multiple people, and the ability to access their e-mail and work data from any computer or mobile device. While at first some City Council members and staff were sceptical about moving city data outside of direct city control, the vendors have ensured that from a security and disaster recovery standpoint, data being stored in the cloud environment exceeds both the City's contractual requirements and current environment. The city's new*

*system and its data will be safe from earthquakes and other potential natural disasters that could and have affected the city. In addition, the City of Los Angeles retains full ownership of all data on the servers and the vendors must request access to see City data, stored in the clear. These were critical hurdles the system had to clear before being recommended by staff and accepted unanimously by the City Council.*

## Lessons from the private sector

- Recent developments in shared services in private sector

The private sector has long been engaged in implementing shared services. While these often take the form of Shared Services Centres, they relate to areas as diverse as research and development, supply chain management, or treasury management.

*"Supermarkets, who ordinarily compete to death, will happily collaborate on supply chains, trucks, delivery, without it being visible to customers."* *Local Government Director, Private Sector Consultant*

The main advantage the private sector has over the public one, however, relates to costing and business intelligence: knowing the costs of different processes, contracts, and systems. This allows to identify the areas where shared services can be implemented with maximum efficiencies more easily, and therefore to make the most out of shared services.

*"Private sector is much more advanced in terms of costing operations, so then it's easier to identify the areas that need to be shared. When you don't have performance management systems, it's much harder to make the case for shared services"* *Senior Business Analyst, NDPB*

*"Private sector has gotten smarter at analysing the costs and value of contracts, as it is benchmarked much more thoroughly."* *Private Sector Consultant*

There are obvious differences between the public and private sector: contractual, pensions, employment laws, are all much harder to change and navigate in the public sector. Public sector entities are not in direct competition with each other, and hence have more scope to share services. Private sector is generally more flexible, and responsive to the demands and wishes of the Chief Executive.

# 6 *Expanding the concept*

**There is a growing, urgent swell of ambition within local government. Wholesale service transformation, totally new partnership working arrangements and even a radically rethought approach to which services are provided by the local state are all under active consideration across England's councils. As the previous chapters have made clear, a 'business as usual' approach to shared services over this period will not generate the level of savings that are required. It is crucial that instead the approach taken to shared services, across the board, matches the level of ambition being shown in the most innovative of councils. We must think in the broadest sense about where and how services can be shared – nothing should be left off the table. By gaining an understanding of the characteristics of a service that are needed in order for sharing to be appropriate in generating savings we can then look across the full remit of local public services and assess where there are still substantial savings to be made.**

In this chapter we seek to understand whether a sound theoretical argument can be constructed for higher spend areas where sharing is currently not common place. To do this we must first understand the benefits of shared services and what they tell us about the characteristics of a service that is ripe for sharing. Following this, we can build a theoretical framework around which we can assess the viability of certain services for sharing.

The financial benefits of shared services derive broadly from two angles; scale economies and service improvements. The former are typically purely financial benefits, whereas the latter can include both cashable savings in addition to non-quantifiable improvements in outcomes or customer experiences. It is important for such added value to be incorporated into shared services business cases and discussions about which new service areas the concept could be applied to. The table below summarises these benefits.[42] [43] [44] [45] [46]

**42** Deloitte Stop, Start, Save (2009)
**43** IDeA, Building the Business Case (2009)
**44** CIPFA Sharing the Gain (2009)
**45** SOCITM *Modern Public Services: Shared Services, Bigger, Cheaper, Better?* (2006)
**46** CLG, Developing the Shared Services Market (2007)

| Scale economies | Service improvement |
|---|---|
| • Asset rationalisation<br>• Increased purchasing power and ability to shape markets<br>• Reduced management costs<br>• Reduced headcount<br>• Investment in larger, more sophisticated and efficient technology and assets<br>• Use of common ICT and shared platforms | • Process efficiency and Improved productivity (drawing on the 'best of breed' from various processes when merging together)<br>• Increased ability to meet local priorities<br>• Leveraging the expertise across multiple organisations<br>• Reduced duplication of work<br>• Reduce amount of unnecessary customer contact<br>• A more integrated and efficient service for citizens that improves outcomes<br>• A platform to develop trading opportunities with other organisations |

## Scale economies

Economies of scale, in a pure micro-economic sense, derive from decreasing average costs as the scale of output increases. That is to say, there must be the potential for a lower or constant number of inputs to be able to provide the same or a greater number of outputs. There are certain fixed costs that must be expended no matter what level of output is being achieved. A council will always need an office, ICT and other support, staff members and managers no matter what quantity of a service is needed. Scale economies can be achieved because these fixed costs can be spread across more units of output/service as output increases. For instance, a council may be able to take on another council's ICT service without having to spend any more on offices, managers or its ICT platform. There may be some additional expenditure on

increased variable costs (such as additional labour), but overall average costs will decrease as output increases. In addition, savings can be made via scale of capital resource e.g. a new office could be built which accommodates more workers but ultimately has lower per unit running costs.

To generate financial benefits through scale economies, there are a number of physical and technical characteristics required of the service. There must be scope for the components of the total spend on a service to be spread across a greater number of outputs. This comprises; office space, technology, commissioning (where appropriate), managers and staff. The extent to which these are present will depend largely on the type of service being delivered. These components are broken down, before analysis of which council services possess them and therefore have latent potential for shared services.

## Scale economies of location and assets

Local authorities in England own an estimated £82.5bn worth of office, buildings, community and infrastructure assets. The Audit Commission argue that councils could make far greater use of these assets, either through sales or rationalisation.[47] The scale economies of assets through shared services expands upon the benefits of general asset management to consolidate asset holdings across councils and other public bodies. Through merged or shared services councils may be able to relocate staff in vacant office space and dispose of unneeded offices, or use the increased scale to move into larger, modern buildings with lower per-unit running costs (again financed through the disposal of unneeded assets). Further benefits can be obtained through the co-location of front office services in the same buildings. Here expenditure on building costs can be reduced at the same time as improving outcomes, decreasing failure demand and minimising unnecessary customer contact. However, if the nature of the service delivery is geographically specific, this can offset the benefits associated with asset rationalisation.

The Total Place pilot Kent Gateway Programme' evidenced the benefits to be found through scale economies of assets. The programme integrated access to public services across the county through co-location of the various arms of the state into single 'one-stop shops'. Kent estimate that through the geographical harmonisation of these organisations there could be savings

47 Audit Commission Room for Improvement (2009)

of £2.2m per annum through lowering the level of transactions. In addition, Kent and Worcestershire predict that by rationalising assets across their counties they could produce savings of up to 10 per cent per year.[48]

## Scale economies of technology

Technology can apply to the ICT that supports the operation of council services, such as the various pieces of software or Customer Relations Management (CRM) systems that are used to manage complex work areas. It also applies to the physical technology needed to run a service, such as waste and recycling centres or street cleaning. By merging or sharing services, and increasing the total amount of output, investment can be justified in larger or simply more sophisticated technology that is more efficient and runs lower unit costs. A number of authorities have found this to be the case through shared waste management facilities, which through the increased scale of several authorities can be more expensive, and hence more advanced, technology that reduces average costs for everyone, creating an economy of scale.

A joint waste management partnership is being developed between Bath and North East Somerset, Bristol City, North Somerset and Gloucestershire councils. The partners are developing joint commissioning of waste processing facilities including introducing an interim waste treatment solution to divert waste form landfill and a low carbon renewable energy facility. They predict to make savings of £44m over 5 years and reduce biodegradable waste by 75% via shared procurement and economies of scale.

## Scale economies of management

This can be achieved through either spreading a management resource across a greater number of outputs, or through the sharing of chief executives and senior management positions between councils. Management processes can be streamlined through redesigned systems, or through the implementation of management techniques such as ‘lean’. Shared senior management teams are often seen as a mechanism for driving more extensive sharing at lower levels in an organisation, but do

48 HMT Total Place – the final report (2010)

in themselves generate a saving through lower fixed labour costs for the same or increasing levels of output, and therefore decrease average costs. Reducing management to staff ratios has been found to produce savings of between 20-30% on baseline costs.[49]

South Oxfordshire District Council and the Vale of White Horse District Council have adopted a shared management team, saving £750,000 per year following an initial set-up cost of £1.2m. By sharing management teams the three councils were able to move from 2 chief executives, 5 directors and 14 heads of service to 1 chief executive, 3 directors and 8 heads of service. Heads of Service have been tasked with identifying further service integration, and it is expected that integration of the next tier of management will yield an additional £350,000 per annun in savings.[50]

The example is also given of shared management teams between the council and the PCT. Hammersmith and Fulham and Herefordshire council both share a single Chief Executive and joint management team with their PCT. It is estimated that continued sharing at deeper levels across these organisations could yield savings of £4-5m per year.[51]

## Scale economies in commissioning

Savings through increasing the scale of commissioning and procurement can be derived in two ways. The costs of the commissioning process itself can be reduced through the sharing of commissioning across councils/public bodies where there is similarity in need, strategic priority and demographic profile. As long as there is agreement between the organisations involved about the service being commissioned, the same amount of resource as would be used to commission for one organisation can be used to commission for more than one organisation. The costs of commissioning account for a sizeable amount of total spend in areas such as social care, thought to be in the region of 5-10% for some councils.[52] The act of shared commissioning can also decrease the costs of service itself, as the increased buying power

**49** CLG Developing the Shared Services Market (2007)
**50** IDeA Shared Chief Executives and Joint Management (2009)
**51** HMT Total Place report (2010)
**52** For example a 7% average across the Tri-borough councils: WCC, RBCK, LBHF Tri-borough proposals report (2011) p.46

can reduce costs. There are a number of examples of shared commissioning between local authorities and PCTs, using pooled adult health and social care budgets, which are expected to generate savings over the course of the partnership. For instance, in Lewisham, the Strategic Partnership has pooled £200m of adult health and social care funding between the council and the PCT and £40m of children's budgets.[53]

## Scale economies of labour

The extent to which there are scale economies on offer for labour is highly dependent upon the nature of work. Economies of scale through labour are predominantly found in process-heavy services where there is a flexible relationship between the quantity of labour input e.g. human time to the quantity of output. In these instances there is scope for specialisation among labour, e.g. work loads could be divided differently when increased in scale so that they become more specialised and efficient. Similarly, it may be possible to spread a fixed number of labour inputs over an increased number of outputs where the work is highly process oriented or there is a technological aspect.

In this report we have differentiated labour from management as much local authority work involves dealing with citizens. This is different from the work of a manager, and as such there are different considerations around whether this can lead to scale economies.

Scale economies of labour are more difficult to achieve in services which are predominantly focussed on citizen interaction  This is particularly true where demand for the service cannot be controlled and the council has limited discretion over its management of demand. For instance, merging three neighbouring social care functions would not decrease significantly the amount of labour that must be put into delivering the service on the front line in terms of citizen contact time. For a number of front line, high-spend areas it is staff that will be the main expenditure item, particularly in a service such as social care where there are few capital infrastructure requirements or technological aspects to the service. This limits the scope of savings within these service areas where the service is being shared with

**53** HMT Total Place report (2010)

other authorities, though there may remain potential to share front line services with other public sector agencies.

Therefore there are very specific circumstances in which scale economies of labour will be possible. It seems likely that front line services will not yield such savings easily and they may be limited to back office or transactional services where there is more scope for specialisation and/or technological improvement.

This provides five characteristics of a service that must be present to generate scale economies. Not all characteristics would need to be present for any one service, though it would seem logical that the more that are present the higher the savings can be. In addition to these, there are potential savings to be made through reductions in duplication and greater process efficiency. These do not require a particular scale, though there may be substantial start-up costs which will need to be weighed up against the potential savings on offer.

## Service improvement efficiencies

In addition to scale economies, savings can be generated through general service improvements. These are derived typically through remodelling of processes and procedures during the implementation stage of shared services. Whether the approach taken is to adopt the most efficient process of the various organisations involved in sharing, or a complete blank slate whereby a new process is adopted in entirety, there is potential for working methods to be streamlined and rationalised. This may include the elimination of aspects of the process that add little or no value, standardisation, reducing the amount of top-down managerial control that is exerted or driving out unnecessary costs. Process re-engineering and standardisation has been found to yield savings of between 10-25% on baseline costs in the private sector.[54]

## Reductions in duplication of labour – internal and external

The work that contributed to the Total Place pilots showed the extent of duplication that exists across local public services. From a front line

54 CLG Developing the Shared Services Market (2007)

perspective there is huge potential for savings to be found in reducing the level of external duplication of labour. The CBI estimate that through sharing back office functions across all of the public sector £3.6bn could be saved each year.[55] Furthermore, the internal wiring of the state is far from perfect, and there are significant areas of overlap between the services provided by its various arms. The findings from Total Place pilots revealed how much money is spent by the state dealing with complex problems, such as drug and alcohol misuse, reoffending and chaotic families. The Total Place pilots found that in Croydon, £250,000 is spent each year on public services for just 200-300 'chaotic' families[56], highlighting the scale of public service involvement there can be for complex issues and the various parts of the state that may be working with the same citizens for the same reasons but without doing so in an integrated way, risking potential duplication.

In addition to the characteristics of service identified above, there are a number of considerations of filters that must be applied when considering whether or not a service has the potential to be shared. These are factors that may make the service unsuitable for sharing, even where the characteristics identified above are present. The below is a consolidated list taken from *Stop, Start, Save* by Deloitte, a report about the use of shared services in local government.[57]

| Filter | Description |
|---|---|
| **Risk** | The nature of sharing means, at least to some degree, a loss of control, but retained responsibility for future service failure. Therefore the risk-level presented by the service must be an active consideration. Councils must ask themselves whether they are willing to accept responsibility for a failure within that service, be it ICT, waste management or front line social care, after it has been shared and they do not have direct control over it anymore. |

55 CBI, TIme for action (2010)
56 HMT Total Place final report (2010)
57 Deloitte Stop, Start, Save (2009)

| | |
|---|---|
| **Scale** | What will be the return on the investment made? Is the level of spend high enough to justify the outlay that must be made on implementation? This does not necessarily mean that shared services only applies to high spend areas, more that there must be a proportionate relationship between the start-up costs and the level of savings that will be possible. This is of particular consideration when the process of sharing is likely to be complex and difficult, where there will need to be significant savings offered to justify this. |
| **Locality** | What is the geographic dimension of the service? Must it be delivered in a specific locality, or could the same service be provided remotely? |
| **Standardisation/ Uniqueness** | Organisations need to consider the extent to which the main outputs and outcomes of the service are required by other organisations. If the service is unique to the organisation and its specific demographic needs then there is reduced potential to share, while if there is a common need for the service in a standard format there is far greater potential. |

## Pan-public locality sharing vs local authority-local authority sharing

The final dimension to add to considerations of which services can be shared is the distinction between sharing across local authorities and sharing in a pan-public sense across the various arms of the local public sector. To bring out this distinction, consider the two cases of HR and front line social care. In the first instance, HR, it is highly likely there will be process efficiencies, standardisation and scale economies through sharing across local authorities. However, it is not as clear that these would be present were HR to be shared across the police, health, job centre plus and local housing associations, where there will be much more marked differences in the requirements of the HR function. However, the second case of front line social care will have more limited opportunities for scale economies across other local authorities.

As a major part of the cost is in the interaction of the professional and the citizen, it would not be possible to reduce average costs significantly across local authorities by increasing the scope of the work. However, as noted above there may be considerable duplications of front line contact time between various public sector agencies which does present the opportunity make efficiency savings (as well as improve outcomes) through sharing or integrating these services.

## Building a framework to analyse – to share or not to share

To establish how far the concept of shared services could be expanded we can analyse them through a matrix of the variable discussed above. This should provide an indication of the potential that may be on offer through the sharing of various services, including those not previously at the forefront of discussions about shared services. We have chosen to break council services down into the following categories for the purposes of this analysis:

### *Different areas of the front line*

- Front line professionals – e.g. housing officers, case-workers, social workers, floating support, domestic violence support, carers, health, adoption services etc.
- Transactional - e.g. Call centres – dealing with either transactions and processing – calls about rent, repairs, council and housing benefits, or as an intermediary between the customer and another front line professional.
- Front line services to benefit citizens but not directly engage them – waste and recycling, street cleaning, caretaking.

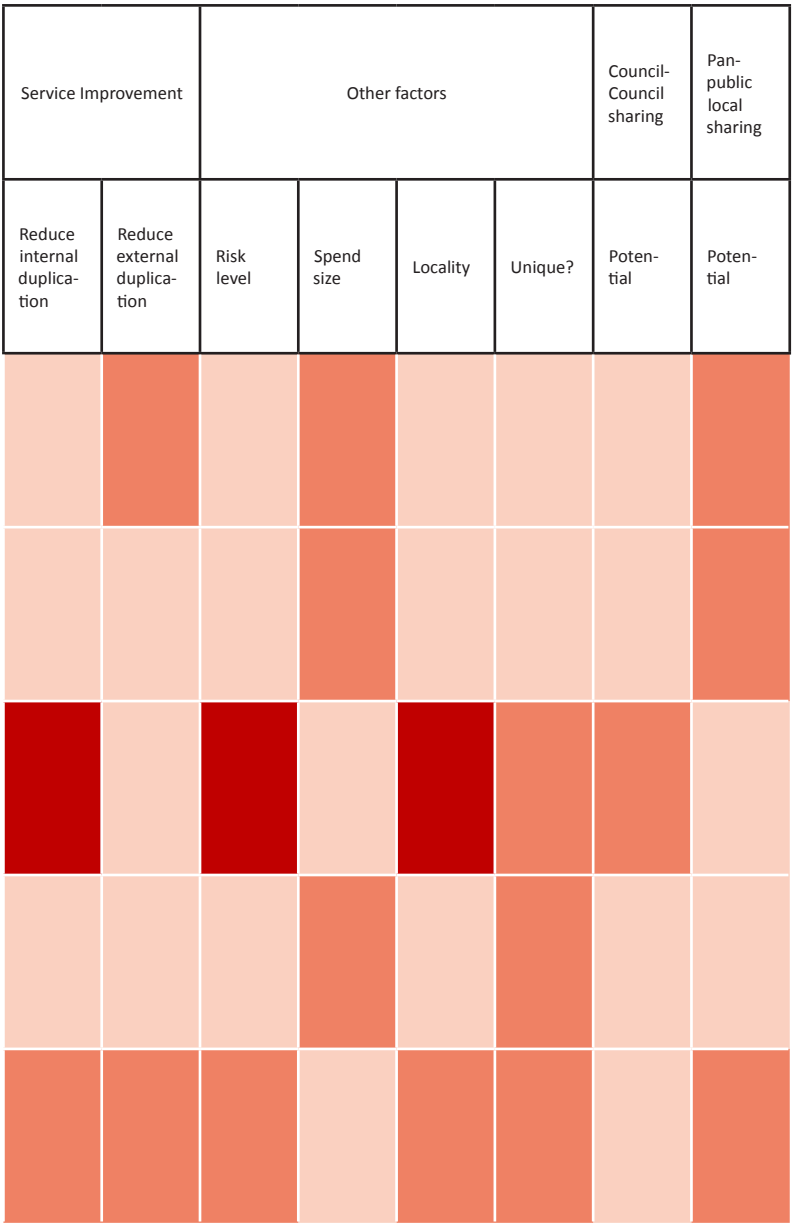
### *Back office*

- Professional services – ICT, HR, finance, legal
- Other – procurement, asset management, policy, SMT

This matrix indicates that there is significant potential within big spend areas such as front line services and waste management to share services, albeit in a less conventional way than for sharing of back office functions. Councils should not be deterred from considering all areas of their service for sharing, as long as there is an understanding of the dynamics that make sharing worthwhile.

**Potential**
Low
Medium
High

| Service type | Example | Scale economies: Assets | Technology | Management | Commissioning | Staff | Service Improvement: Process efficiency |
|---|---|---|---|---|---|---|---|
| Back Office | HR, ICT, Finance, legal | High | High | High | Medium | High | High |
| Back Office Other | Procurement Asset Management | High | High | High | High | High | High |
| Front office – citizen contact | Social work, housing officers | Low | Low | Medium | High | Low | Medium |
| Front line – transactional | Benefits processing,call-centres | High | High | Medium | Medium | Medium | High |
| Front line – non-transactional, non-citizen contact | Waste and recycling, street cleaning, caretaking | High | High | High | High | Medium | High |


Service Improvement
Other factors
Council-Council sharing
Pan-public local sharing
Reduce internal duplica-tion
Reduce external duplica-tion
Risk level
Spend size
Locality
Unique?
Poten-tial
Poten-tial

## The Tri-Borough Model

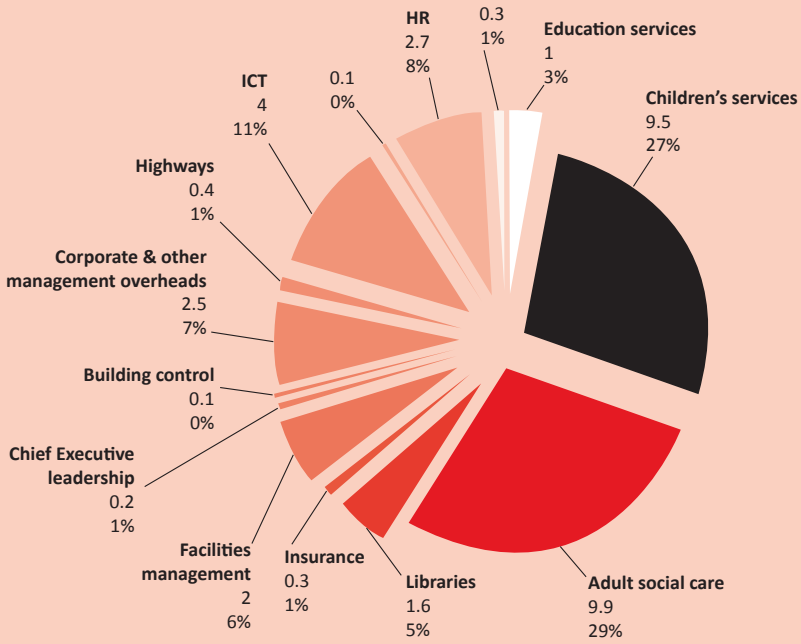
A tri-borough has been proposed by Westminster, Kensington and Chelsea and Hammersmith and Fulham as an extensive shared services mechanism to save £34.6m a year by 2014/15, 20.1% of the total £171.5m savings demanded by Central Government's austerity programme.

The tri-council model involves sharing 2 Chief Executives between 3 councils, extensive sharing of back office functions and integration of children's services and adult social care. The tri-council places fundamental importance on the retention of individual sovereignty and local democratic control.

The principles of design service sharing that have been applied are:

- Presumption in favour of sharing
- Retained sovereignty in policy making
- Co-ordination of radically redesigned services, focussing on each borough's strength
- A new commissioning structure, enabling councils to clearly specify what they are willing to pay for
- Accountability achieved through a structure of 'lead commissioners'
- Each department to identify savings of 50% in management posts and 50% in overheads
- Encourage employee and community-led service takeovers

**Figure 13** Tri-borough savings by 2014/15




These proposals[58] show that shared services need not be limited to sharing in the back office and that sharing can deliver savings across a variety of frontline services areas while protecting levels of service provision and local responsiveness.

More than half of the projected savings are to be made in children's services and adult social care. The Tri-Borough Proposals Report details where these savings can be made and provides strong evidence for the potential of shared services in service areas where the concept has not traditionally been implemented in a comprehensive manner.

The tri-borough savings are projected on the basis of halving overheads and management costs, however they have also made some specific proposals that could lead to further savings via rationalisation, joint commissioning and joint service provision:

58 http://www.rbkc.gov.uk/pdf/tri-borough%20proposals.pdf

***Children's services***

- Shared senior management
- Integration of specialist services including youth offending, fostering and adoption, placement service, strategic commissioning with health, court assessments and local safeguarding board
- Rationalisation of quality assurance and support staff
- Plan to develop integrated approaches to other services

***Adult social care***

- Merge the three boroughs adult social care directorates to halve overheads
- Joint commissioning  across adult social care and with the NHS
- Integrated approach to preventative care including public health management and provision, and transitional care

The tri-borough proposal highlights the future direction of shared services with ambitious and widespread application across service areas; realising savings by cutting overheads and managing costs and further savings via the economies of scales and elimination of duplication produced by joint commissioning, joint service provision and process rationalisation.

The aim of this chapter is to demonstrate that there is theoretical potential in sharing almost all council services. Though it would need to be approached in different ways, depending on the dynamics of the service provision, there should be the potential to exploit either economies of scale and/or service improvement savings through the process of sharing. This outlook is reflected by the proposal of the tri-borough council, which has excluded just 4 areas from sharing out of its total council remit. We feel councils can gain maximum value from the shared services agenda through adopting a presumption in favour of sharing.

**Recommendation:** *There should be a presumption within councils in favour of sharing. The burden of proof should be on why a service cannot be shared, rather than on why it should be shared.*

# PART 3 Making a new generation of shared services a reality

## 7 *New models of shared services*

**Many different models and vehicles exist for sharing services. The most appropriate model/vehicle will depend on a number of criteria: the size and type of the council, its financial situation, the barriers it faces, the relationship it has with neighbouring authorities, its political make-up, the type of service being shared, as well as the external circumstances and opportunities presented to it. Specific models will be more appropriate for sharing certain kinds of services, for overcoming specific obstacles, or for maximising benefits. An analysis of the different models that exist and of models that could be developed in the future, will enable us to propose specific solutions to overcoming the barriers.**

Shared services models can be broadly divided into two categories: Public-Public partnerships, and Public-Private partnership. The former involves sharing services between public bodies, without the long-term participation of a private firm, while the latter will involve a private partner playing an active and on-going role in the venture. This division is not always clear-cut, as Public-Public partnerships will sometimes involve the contribution of, say, a consultancy firm for specific purposes, or a technological firm to standardise processes and IT systems. Once these specific issues have been dealt with, however, Public-Public partnerships will exist independently of those private firms.

Within each of those models, there exists a large number of different 'vehicles', each possessing its own benefits and disadvantages.

Because this report is focused on sharing which occurs between different public bodies, vehicles such as in-house centralisation and straight-forward outsourcing fall outside the remit of this publication.

## Public – Public Vehicles

### A. Informal Collaboration

***What is it?***

Informal collaboration is a process whereby different councils agree to collaborate and help each other on specific issues, as and when they arise. This often involves smaller, adjoining councils, who use staff flexibly and informally to help each other out at times of peak workload, on a reciprocal basis. Practical applications of such models can be found in the form of networks, sharing learning and best-practice, collaborating to run services together, offering expertise on specialist areas, or offering the use of spare staff capacity.

***What are the advantages?***

- Little or no staff displacement.
- Allows sharing of scarce skills & tackles recruitment difficulties
- Low litigation risk
- Inexpensive
- Builds trust, mutual vision, and collaboration
- Can serve as a first-step towards more holistic shared services

***What are the disadvantages?***

- Weak governance, which can lead to the partnership breaking down rapidly
- No sustainability
- Limited savings
- No service redesign/improvement
- Short-term
- Possible implications for terms and conditions where staff have to travel to service or support work for other employer
- Providing council must have the capacity to meet the external demand.

**Case Studies**

***Who is involved?***
*Teignbridge District Council, Torridge, Mid Devon, Torbay, Dartmoor National Park and South Hams on a formal basis while Teignbridge Town Councils, NHS, Police and a number of local businesses. on an informal, pay-as-you-go basis.*

***What is being shared?***
*Pooling resources to enable the delivery of a joint training programme offering a wide range of training opportunities to staff, developing the skills and capacity of the workforce.*

***What model is being used?***
*Formal and informal partnership arrangement*

***What are the financial benefits?***
*N/A yet*

***Other benefits?***
*Greatly increases the range of training opportunities available and can reduce time and cost of travelling as venues are within the county.*

***Characteristics needed for it to work***

*Essential*

- Mutual vision and trust
- Reliable partners
- Excessive capacity by one of the partners

*Desired*

- Geographical proximity
- Political affiliation between the partners

*Especially relevant for service areas such as:*

- Back Office functions
- Legal
- Financial
- IT

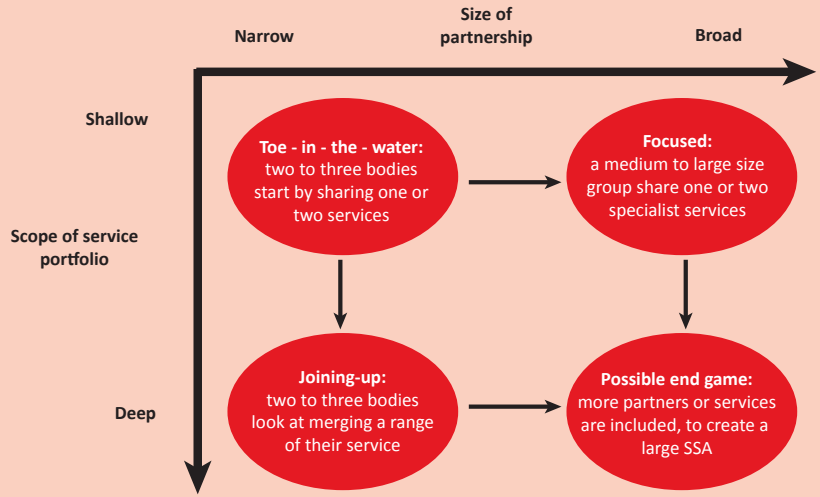
### *Barriers this can help overcome*

Political: Informal arrangements are a good way to overcome barriers relating to politicians' fear of losing control over services. Under informal arrangements, local authorities retain control over the decisions being made in any shared services project. This model also allows for an incremental approach to Shared Services, by enabling potential partners to build a common vision, to create trust between them, and to lay the foundations for a more holistic approach to further shared services. That is to say, taking a "shallow and narrow" approach to shared services, as opposed to a 'deep and broad' one (see figure 14).[59]

Personal: Informal arrangements entail little or no staff displacement, allowing for the sharing of scarce skills and tackling recruitment difficulties. They also pose a low litigation risk, and are relatively inexpensive.

Financial: Simpler models, such as informal arrangements, are cheaper to set-up as they do not involve relocating staff, creating a new space or building, or setting-up a company. Starting small and reinvesting the savings generated into a larger shared services enterprise could be another solution to this problem.

**Figure 14** Approaches to shared services




59 CIfpa, Sharing the Gain, 2010

## B. Joint venture

***What is it?***

A formal arrangement between public partners designed and established to deliver specific services to public bodies or to citizens. This usually involves formal contractual arrangements between local authorities involved. It is, however, not as formal or necessarily as permanent as setting up a trading company or other legal entity. Policy is usually determined by either a Joint Committee (made up of local authority members), or simultaneous executive meetings.

In some scenarios it may be agreed that there is no need for member level governance involvement at all with both councils being content that the arrangements are made at officer level.

Service delivery is managed by specific officers. A contract defines the co-operation, and each participant is liable for its own share of costs. No separate legal entity is created through this process, with a committee taking decisions for all participating authorities. This arrangement is especially appropriate for councils wishing to come together for a specific project, or for a specific period of time.

Because the agreement is based on a specific contract, the arrangements for governance and delivery should be specific and watertight. Clear and effective governance arrangements, which have the support of all the parties involved, are an essential requirement for a successful joint venture.

***What are the advantages?***

- No need to set-up separate legal entity
- Participants retain control and independence
- No VAT liability or additional tax
- Explicit governance arrangements
- Can serve as starting point, to “road-test” mutual trust and vision, before engaging in more holistic shared services approach
- Does not require structural changes

***What are the disadvantages?***

- Joint Committee cannot employ staff, or enter into contracts in its own right
- Restricted in scope and application
- Can lead to duplication of processes
- May raise issues of public procurement unless the arrangement is carefully structured

**Case Studies**

***Who is involved?***
*Adur District Council and Worthing Borough Council*

***What is being shared?***
*All services except Leisure and Cultural in Worthing and Housing in Adur. Joint Chief Executive and Management Team, joint staff under a single employer within the joint services that have been joined up.*

***What model is being used?***
*A single officer structure serves both councils, which remain as separate legal entities. The joint activity now represents over £26 million per annum gross expenditure (in the context of net budgets of £11 million for Adur and £16 million for Worthing).*

*The governance of the joint work operates through a Joint Strategic Committee, comprised of the two cabinets. A Joint Overview and Scrutiny Committee oversees the joint work and provides advice on future initiatives.*

***What are the financial benefits?***
*Revenue savings to date amount to c £3 million, plus c £2 million of procurement savings. The base budgets of both councils have been reduced by an aggregate of £2.5 million.*

***Other benefits?***
*Extra resilience has been created from the combined bigger teams now in place. The ground breaking approach has stimulated other*

*partner organisations locally to join up, thereby creating more efficient dialogues with local stakeholders. A new single Police command unit, a single branch of UNISON, a combined Local Strategic Partnership, a joined up group representing local business are some of the examples.*

***Characteristics needed for it to work***

*Essential*

- Mutual vision and trust
- Reliable partners
- A robust and flexible business plan and timetable
- Buy-in from all levels of the councils engaged in the project: officers, directors, members, and chief exec

*Desired*

- Geographical proximity
- Political affiliation between the partners

*"The continuity is important to staff buy-in. Change is unlikely to go down well if it's perceived to have been implemented solely by an external team."*
*District Council Partnership Programme Manager*

*Especially relevant for service areas such as*

- Sharing Senior Management Teams
- Back Office functions such as legal, HR, IT
- Front Office functions such as waste & recycling, street cleaning, customer transactions

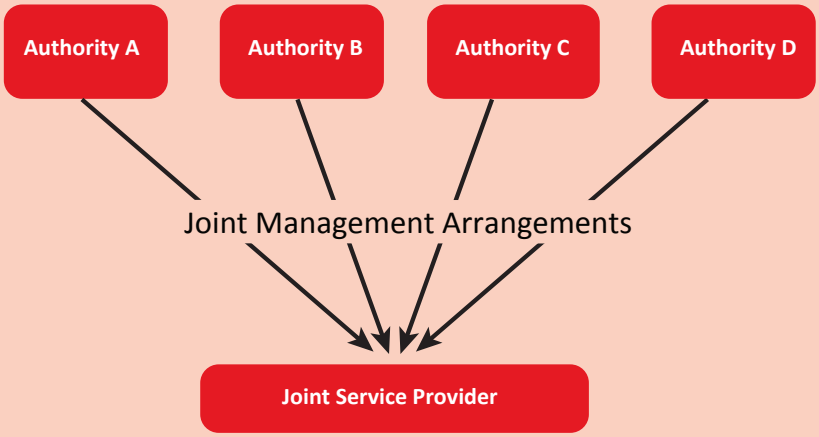
***Barriers this can help overcome***

Political: a Joint Service Model, where a formal arrangement is established for a specific purpose between local authorities, can help overcome a member's fear of losing control over services. Under this model, policy would be decided by local authority members, either with a Joint Committee,

or through simultaneous Executive meetings. This would ensure that members retain some element of control over the provision of service.

Financial: Joint ventures can be relatively cheap to set-up as they do not usually involve relocating staff, creating a new space or building, or setting-up a company. They can also act as a starting point, allowing quick savings which can be reinvested to generate a larger shared services enterprise.

**Figure 15** Joint Management Arrangements




### C. Lead authority model

***What is it?***

A model whereby one authority supplies services, or certain aspects of services, to another authority or authorities. The arrangements are delegated, and the lead authority might take on ownership and management of the resources required for the service. The services are therefore delivered and managed within the decision-making framework of the lead authority.

Lead Authority models share some similarities with Joint Ventures in that both comprise of councils coming together, under a contractual arrangement, for a specific purpose. The Lead Authority Model, however, implies that one council is better placed to deliver services, either because of extra capacity,

or because of typology, than its partners. Under a Joint Venture, partners share the risks and rewards, whereas under a Lead Authority Model, one authority is the recipient of services provided by the Lead Authority.

There are different types, and scales, of Lead Authority Models. On a smaller scale, such a model can simply involve one authority providing part of a back office function to another authority, as is the case for Bedford DC providing payroll services to Mid-Bedfordshire and Uttlesford District Councils. The contractual and staff arrangements have been straightforward: Bedford has extended the hours of existing staff while Uttlesford and Mid-Bedfordshire have not replaced leaving staff.

On a larger scale, this can involve a council providing a wide range of services to partner councils. A planned partnership in the South East will begin with ICT services delivered by one authority, with a different authority delivering Revenues and Benefits Services in the future, but there is no reason why such arrangement could not cover most back office functions, as well as some front office ones.

The technical and HR issues involved in such a model tend to be more complex than for Joint Ventures and informal arrangements. If the model involves staff displacement, or redundancies in one authority and job creation in the Lead Authority, this could prove difficult politically and internally. Furthermore, employment issues such as TUPE issues could arise: if the staff is retained by either each authority TUPE won't apply, but if functions are delegated, it could. Under Section 113 of the Local Government Act 1972, Authority A can make its staff available to Authority B, which would then be treated as Authority B's staff. This does require the consent of the 'seconded' staff, entailing that Authority B would pay Authority A. Under this scenario, Authority B would be instructing 'its own staff' to do the work. This does mean, however, that TUPE and secondment may result in staff on different terms and conditions working in the new entity, which could create harmonisation issues.

***What are the advantages?***

- Incurs no additional tax or VAT liability
- Scarce or expensive skills can be effectively pooled

- Real economies of scale in staffing are possible
- No need to set up separate legal entity
- Explicit governance arrangements
- Can create economies of scale for legal and procurement costs
- Quick to implement, and does not require commercial returns

***What are the disadvantages?***

- Separate one-to-one agreements are needed for each authority participating in the process
- Each authority needs to agree to specific contractual obligations regarding delegation arrangements
- Need for Service Level Agreements
- Staff displacement can be sensitive internally and politically
- Splitting the project manager and employer roles between two partners may blur responsibilities for HR issues.
- Long-term secondment may present problems when staff return to the authority at the end of the contract

**Case Studies**

***Who is involved?***
*Hinckley, Bosworth, North West Leicestershire and Harborough*

***What is being shared?***
*Shared Revenues and Benefits*

***What model is being used?***
*Shared revenues and benefits service involving 3 districts. This would be centralised at Hinckley's refurbished Atkins Building as part of the proposed transition. Governance arrangements for the proposed partnership are a Joint Committee, with a Lead Authority within 12 months of commencement of any shared service. The intention is for each Authority to retain their own staff and second them to the partnership and as such there are no TUPE considerations.*

***What are the financial benefits?***
*N/A yet*

***Other benefits?***

- *Increased resilience offering the opportunity for improved performance*
- *Economies of scale providing a robust and flexible service capable of reacting to change*
- *Significant savings on technology and staffing*
- *Better access to services for customers through improved technology options*
- *A consistent approach to service delivery aiming for best practice/ excellence*
- *Consolidated demand for formal training and greater scope for staff progression*

***Characteristics needed for it to work***

*Essential*

- Mutual vision and trust
- Reliable partners
- A robust and flexible business plan, timetable, contractual, legal and HR arrangements
- Buy-in from all levels of the councils engaged in the project: officers, directors, members, and chief executive of all the authorities involved
- One larger authority ready to lead on project and smaller authorities ready to relinquish some control in order to cut costs.

*Desired*

- Geographical proximity
- Political affiliation between the partners

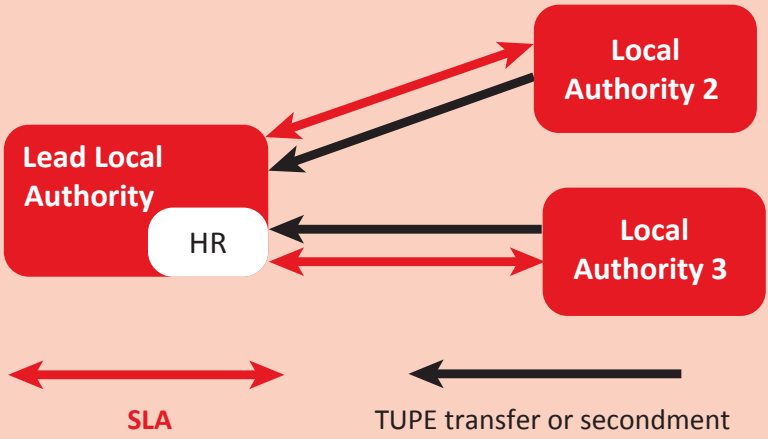
Especially relevant for service areas such as:

- Back Office functions (HR, Legal, Finance, etc)
- Font Office functions such as waste & recycling, street cleaning, customer transactions

*Barriers this could overcome*

- Political: Larger local authorities, whose members might be afraid of losing control over services, could look for smaller partners under a Lead Authority Model. This would involve members of the Lead Authority retaining control over the provision of services, while benefiting from economies of scale by selling extra capacity to smaller councils.
- Organisational: As the Lead Authority, the council would be able to keep its existing standards and practices. The authorities 'buying' into the process would not reduce or damage the services provided by the Lead Authority.

**Figure 16** Lead Authority Model




### D. Third party entities

***What is it?***

Third Party Entities entails the establishment of an arm's length entity to deliver services. There are different delivery vehicles for this, such as a

company limited by guarantee, a company limited by shares, or even a company based on a co-op, or 'mutual', model, whereby employees of the newly formed entity would be the main shareholders of the entity. Fundamentally, this concept revolves around the establishment of a separate public sector owned entity. The entity would provide specific services to constituent authorities. The likely model would be for the staff to transfer or be seconded to the separate entity.

As the entity is functionally independent, it needs to contract with the founding local authorities as well as other parts of the public sector, potentially providing the greatest economies of scale of any sharing model. If it is controlled by the owning authorities and there is no private sector involvement, the authorities can contract directly with it without procurement.

The costs and political opposition involved can, however, be significant especially in tight times of tight budgets and front-loaded cuts. Furthermore, there are significant legal and regulatory controls – local authorities must currently recover the costs of anything provided to the company so are unable to subsidise it (though this will change with the introduction of the Localism Bill) and EU procurement rules will apply if there is private sector involvement forcing local authorities to go through a formal tendering process.[60]

As things currently stand, the public bodies involved in such a project need to be able to demonstrate the improvement of economic, social, or environmental wellbeing in an area in so doing. Efficiency savings might not be sufficient. However, again, this will be freed up by the new general power of competence.

While the establishment of such a company might be appropriate for back office functions, it may pose problems of democratic legitimacy for front office services, as citizens will have no direct way of influencing the actions of the Entity (although this will be 'controlled' in two ways – through the authority ownership and through the contract to deliver its services).

**60** ODPM, *General Power for Local Authorities to Trade in Function Related Activities Through a Company: Guidance on the Power in the Local Government Act 2003* (2004)

***What are the advantages?***

- Scarce/expensive skills can be effectively pooled
- Seal economies of scale in staffing are possible
- More partners can be added on to the project
- Creates stability and offers opportunity for long-term strategic planning
- It can address political concerns about equal quality of service and control of the shared service
- Functions for both back office and front office services
- Opens wider trading opportunities with the private sector
- Opens potential for future sale of whole or part and realisation of value

***What are the disadvantages?***

- Long-term secondment might not be feasible
- TUPE – variety of T&Cs / harmonisation pressures
- Possible redundancies
- More complexity of legal arrangements
- Potential conflicts of roles
- The necessity for back-to-back legal arrangements between the lead and the other partners to secure their interests
- Functions cannot be delegated to such a body unless a Deregulation and Contracting Out order is obtained.

**Case Studies**

***Who is involved?***
*Essex County Council, adult community support, the equipment, employment and inclusion services.*

***What is being shared?***
*Adult Social Care*

***What model is being used?***

*In 2009 Essex County Council created Essex Cares as an alternative to outsourcing adult social care. Essex Cares in an independent trading company with its own board and an interface into a Council Shareholder group of five councillors and lead officers*

***What are the financial benefits?***

*In its first nine months of trading, the group has delivered results slightly ahead of expectations. Profit before tax was £0.4 million, which is ahead of plan by £0.2 million. Essex Cares has a business plan over 3 years to deliver efficiency savings and a dividend return to the council.*

***Other benefits?***

*The company is seen by councillors as one way to deal with the implications of the increased use of personalised budgets and direct payments in adult social care as it is seen to introduce greater flexibility. It is anticipated that the company might bid to run services for other local authorities or PCTs if successful.*

*Service improvement was another benefit, with 66% of people receiving the Reablement Service needed less on going support as a result of the care provided by Essex Cares, while 40% were self-caring at the end of the programme.*

***Characteristics needed for it to work***

*Essential*

- Mutual vision and trust between authorities setting-up the entity
- Reliable partners
- A robust and flexible business plan, timetable, contractual, legal and HR arrangements
- A representative and effective governance arrangement
- Commitment to the long-term nature of the entity

*Desired*

- Commercial nous

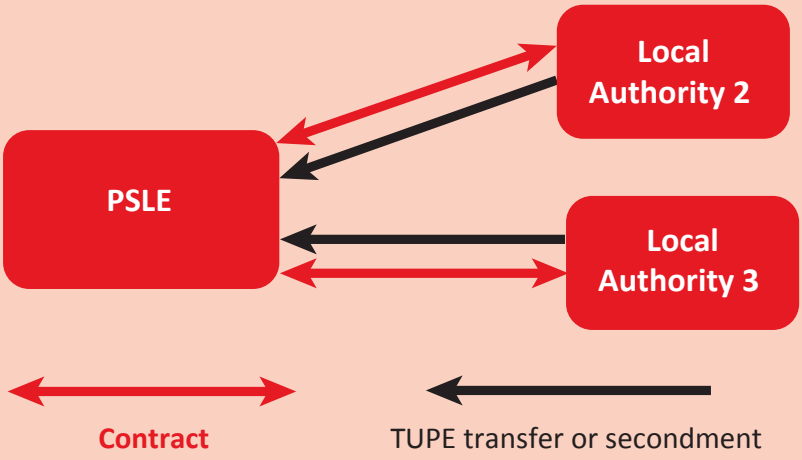
*Especially relevant for service areas such as*

- Back Office functions (HR, Legal, Finance, etc…)
- Font Office and transactional functions

***Barriers this can help overcome***

Organisational: Setting-up a separate entity can help overcome the instability due to shifting political alliances. In the case of, for example, waste management, this could involve creating a Joint Waste Authority (JWA), responsible for implementing and running the shared services project. The advantages of such a scheme would be that the JWA would be free-standing, could enter into contracts, employ staff and own assets and liabilities. A JWA would also be more difficult to dissolve – requiring agreement of the Secretary of State, and therefore more immune to changing political winds.

**Figure 17** Separate Public Sector Entity




Other forms of shared services can fit into a couple of these categories. Collocation, whereby staff from different authorities are located in a single building, can happen either through a Lead Authority Model, or a Joint Venture Model.

Most of these models, however, involve similar principles. The 'right' model to choose will depend on a host of factors, ranging from the type of service being shared, the types of authorities involved, the HR issues of the relevant parties, geographic proximity, trust, political affiliation, or organisational culture. These models can all relatively easily adapt and shift into other ones, and so can be seen as 'steps' taken on the Shared Services journey, building trust, confidence, savings, and expertise.

While all these vehicles were purely 'public' models, many shared services models include the participation of some private entity: an IT, HR, or legal specialist, or even companies involved in service delivery.

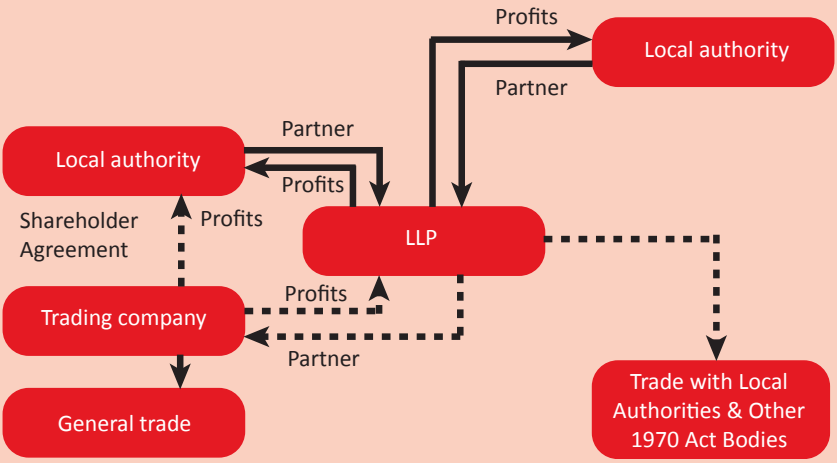
## Public – Private Vehicles

Public – Private Vehicles are similar to their Public – Public counterpart, but include the involvement of a private company. This can be beneficial as it allows the private company to bring in some expertise (whether it be technological, financial, experience) and investment. This can be a very effective solution for enabling ambitious shared services projects, based around service redesign and improvement, in times of budgetary cuts.

The most common model for Public – Private Shared Services is through a Joint Venture Company (JVC) involving local authorities, other public bodies, and private partners. The JVC will often be a Company Limited by Shares, as private firms will most likely want to be able to increase and redistribute profits, but it could be a company limited by guarantee, or a Limited Liability Partnership (See Figure 18).[61]

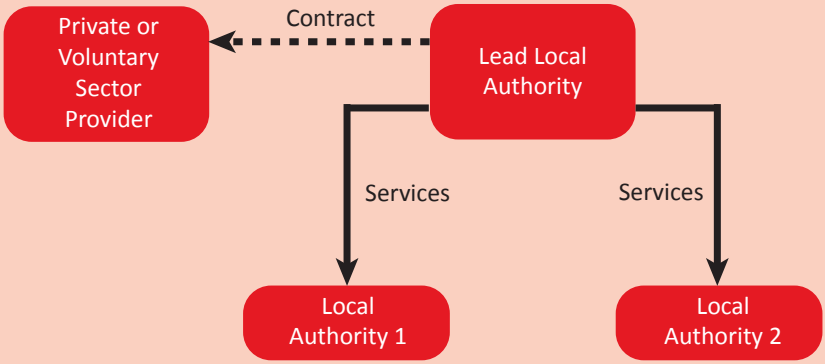
**61** Private Sector Consultant example

**Figure 18** Limited Liability Partnerships




Most of the models described in the Public – Public Vehicle section, such as the Lead Authority model, can also feature a private company (see figure 19)

**Figure 19** Lead Authority Model



The setting up of a company structure will need to follow Companies Act requirements and the selection of the private sector partner will involve EU procurement (if the proposal is to set up an organisation which will have a contract back with the councils to supply services).

JVCs are formed for defined purposes, such as provision of services, development, investment, to which two or more partners contribute, and in which they share the risks and rewards. Flexible financial arrangements are secured on the assets and activities of the JVC[62].

The Company Limited by Shares model has the advantage of being able to raise capital, and redistribute profits amongst its shareholders. The Company Limited by Guarantee model is made of up of members, as opposed to share holders, who agree to pay a fixed sum to cover the losses of the Company. This is appropriate for non profit distributing arrangements.

In the Limited Liability Partnership approach, a group of public bodies and private firms come together to create a new legal entity to handle specific services or processes. The participating entities would each maintain their current legal structure and separate identity. A limited liability corporation would be created to handle specific administrative, leadership, and service delivery functions and participating bodies would contribute equity as well as dues/fees for specific services and benefits.

Functions of the councils cannot be delegated to an arm's length body unless a deregulation and Contracting Out order is obtained.

**Case Studies**

***South West One Limited***

***Who is involved?***
*Somerset County Council, Taunton Deane Borough, Avon, Somerset Constabulary and IBM*

***What is being shared?***
*Wide range of back office services including; customer contact, finance, ICT, strategic procurement, property and facilities management, HR and design and print.*

62 Shared services in local government: improving service delivery By Ray Tomkinson

***What model is being used?***
*Joint venture partnership*

***What are the financial benefits?***
*Southwest One has a target to deliver approximately £200m of procurement savings for the Partnership over the course of the contract.*

***Other benefits?***
*Delivery of significant improvements in access to services through a shared Customer Contact centre for the councils which delivers consistently high levels of customer satisfaction. Transformation of finance, HR and Procurement services across the Partnership by introducing a new ERP platform. The delivery of significant procurement savings by the Strategic Procurement Service by introducing innovative ways of delivering Council services, including Adult Social Care services, whilst at the same time saving the service millions of pounds. Wider social and economic benefits for Somerset, including bringing new jobs to Somerset.*

***What are the advantages?***

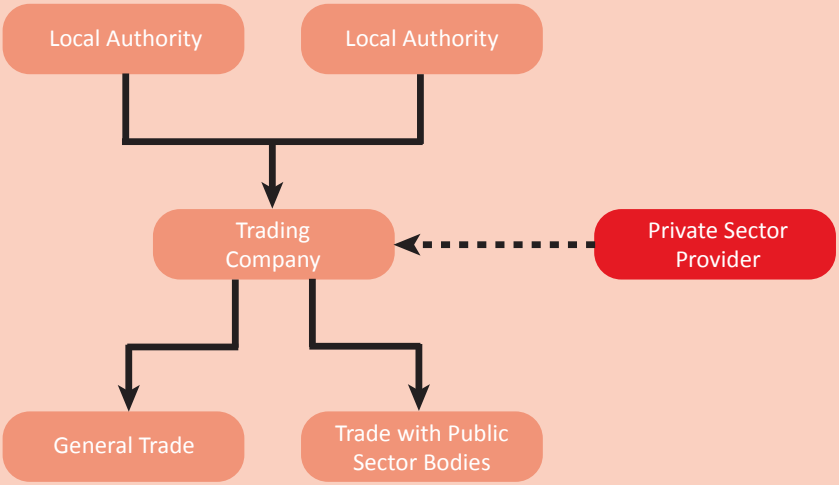
- A company has its own legal entity; it can own and deal in assets, employ people, and enter into contracts.
- Ability to maintain legal autonomy and separate identity while contributing to and enjoying the benefits/protections/responsibilities of a legal partnership
- Professional staff who can focus exclusively on fiscal management, human resources, service improvement, etc.
- Best practices for policies and procedures, software adaptations, management protocols, etc.
- Access to higher level service contracts for IT, financial services, etc.
- Better risk management from shared experience
- Stronger organisations through building common goals and sharing expertise
- Allows for private expertise and experience

- Can provide long-term value, as local authority should hold a stake in the company

***What are the disadvantages?***

- Can reduce public accountability
- Can be expensive to set-up, and risks exist should the project make a loss
- Risk of insolvency, which would entail a loss of equity stake, and a discontinuity of service
- Can be perceived as outside remit or control of local authority
- Can create a 'culture clash' between different partners in vehicle

**Figure 20** Trading Company and Shared Services




## Innovative Models for Shared Services

Certain innovative models are emerging, because of technological innovations or creative thinking from Local Authorities, which can help over come some of the more intractable barriers to shared services.

## A. Virtual Shared Services Centres (VSSC)

The development of Cloud Technology and improvements in data security have created a mini-revolution in the way processes for shared services can be handled. This is particularly useful for transactional processes, and can apply to either the back office (HR, payroll, IT, etc) or front office transactions (council tax, revs and bens, etc).

The concept would involve partnership between local authorities, public bodies and a private firm. It enables Local Authorities and public bodies to dispose of their hardware, such as servers, data processing computers, and other IT infrastructure, which would be located remotely. These are usually owned and operated by the private firm. The private firm would also own and operate all the required software and data processes. These can be upgraded, modified, and customised easily, cheaply, and remotely, and can be accessed from any computer or hand-held device, from anywhere in the world.

At its most basic, this concept could involve two local authorities deciding to use Cloud Computing to share their transactional processes, such as payroll. Both authorities would transfer their IT platforms, software, and specifications to the "Cloud", which would process all payrolls from a distant location. Both authorities could access all the information they need, in real time, as could the employees being paid.

The real advantage of such an approach would be that additional partners can be added to the process at minimal costs. There would be no need to purchase extra hardware, to standardise processes or platforms, or to be geographically close to either the VSSC or to participating authorities. The flexibility of such an arrangement would therefore be enormous, as would the potential for expansion, or contraction.

VSSCs could also be extremely useful for redesigning transactional processes around citizens or customers, or for creating virtual one-stop-shops for citizens. Taking a 'total place' approach, this could enable public bodies within an area to pool their software, data, and systems onto a cloud, which could be remotely accessed by citizens from anywhere, with any web-enabled device. They could simultaneously access council tax payments mechanisms, register a complaint to the police online, and apply for child benefits, remotely, in real-time, and using a single portal.

Such a venture would require deep and sustainable collaboration from public partners within an area. Nonetheless, the flexibility inherent in cloud computing means that the venture could start with two or three partners, and expand as the venture proves to be successful, or as IT contracts run out.

***What are the advantages?***

- Does not require geographic proximity between partners
- Enables profound service redesign and improvement, based around the citizen/customer
- Can be applied to most back office and front office transactional processes
- Does not require staff relocation
- Enables new partners to join venture without additional costs relating to hardware or physical assets.
- Provides enormous flexibility, customisation, and adaptability

***What are the disadvantages?***

- Requires participation of private firms specialised in cloud computing
- Lack of case-studies

***Barriers this model can help overcome***

- Personal: VSSC do not require any physical transfer of staff. Staff from different organisations can be working on different projects, but using similar software and servers in the VSSC. This can alleviate some of the problems related to contractual arrangements, transfers, or secondments.
- Technology: By having all hardware and software remotely located, operated, and easily updateable, VSSC ensures that standards and compatibility is much less problematic, and where differences exist, these can be resolved without too much difficulty.

## B. Mutual Shared Services Centres

One of the main obstacles to shared services is still the sense that shared services entails changes in staff T&Cs, redundancies, or relocation. The incentive for officers or directors of services to participate in Shared Services is not always obvious. One solution would be to create Shared Services Centres using the 'John Lewis' model, where employees from local authorities or public bodies being moved to the shared service centre would become 'shareholders' of the venture.

While this would lead to less profits than a standard Company Limited by Shares which would be partly owned by a private provider, it would ensure that all members of the SSC have a vested interest in the success of the project. It would reduce the organisational resistance (by ensuring that the public sector 'ethos' would remain), the personnel resistance (by keeping similar T&Cs whilst incentivising the staff to succeed), and the political resistance (by ensuring buy-in at all levels of the project, as well as being seen to create shared services for the good of the community, as opposed to private interests).

For such a project to work, buy-in from participating staff would be crucial. Staff would also have to take a 'leap-of-faith' in deciding to embark upon this project before the potential for profits was ensured. Nonetheless, it would turn council staff into 'entrepreneurs', who have a stake in the success and sustainability of their new service provision vehicle. It would modernise councils, and enable them to create some form of service redesign, owned by the council staff.

This model could be used for all council services from the back office (having a MSSC for legal, IT, financial services between neighbouring councils or public bodies), to the front office (creating a MSSC delivering Care services, establishing a 'one-stop-shop-front' for citizens, or simply for transactional services).

### *What are the advantages?*

- Enables profound service redesign and improvement, based around the citizen/customer

- Can be applied to most back office and front office transactional processes
- Removes many political barriers
- Removes many personnel/HR barriers
- Ensures success of the project by creating in-built incentives for staff

***What are the disadvantages?***

- Requires robust business case, long-term strategic thinking, and sustainability
- Might require geographical proximity for front office services
- Requires procurement

***Barriers this could help overcome***

Personal: This would apply as much to directors as to officers; creating a 'Mutual' or 'co-op' Shared Services centre, where transferred staff would own shares in the shared services company being created, should not only reduce the internal resistance to change and motivate staff to accept transfers and secondment to the new Centre, it should also incentivise officers and directors to really engage with the Shared Services project.

### C. Sharing chief executive and senior management teams

While this model might not be the most 'innovative', it can be a profound enabler for further shared services. Most of the barriers to shared services are either political, personal, or financial (due to the front-loading nature of the cuts), and this model enables the removal of most of these, though not all.

By creating a common internal structure, this model removes some of the barriers associated with directors or officers having their personal sphere of influence for which they are responsible. A Director of Finance responsible for two authorities will be much more likely to share processes and systems between those two authorities than two separate Directors would. A Chief Executive will similarly have a holistic vision of the way both councils operate. All the Senior Management Teams are therefore much more likely

to identify areas where services could be shared. Any process which could be considered duplication will be eliminated, leading to quick efficiency savings. Staff are also more likely to accept the need for shared services when their managers and chief executives have already begun taking an active part in the process.

Finally, savings can be made almost instantaneously, by cutting salaries of Chief Executives and SMT in half. This requires very little investment, and enables immediate returns. While in large councils the efficiency savings made from cutting Chief Executive and SMT pay in half might not amount to much as a proportion of overall spending, this saving will be substantial for smaller District councils, where this pay accounts for a much larger proportion of total expenditure. Conversely, the further savings that can be made through service transformation and further sharing of services between those two councils will be much larger for larger authorities, where the scope and range of services that can be shared will be much higher.

This is not to say that this model is a 'silver bullet'. Issues of democratic legitimacy might arise. Such a merge also requires political affinity between councils, geographical proximity, and the right opportunity and circumstances (when a Chief Executive retires, for example).

***What are the advantages?***

- Quick, and in some cases significant, upfront savings, without the need for investment
- Can lead to, and facilitate, profound further sharing of services
- Removes many internal barriers to shared services

***What are the disadvantages?***

- Requires political affinities, conducive circumstances, and geographical proximity
- Can lead to democratic accountability deficit
- Not sufficient on its own to generate substantial savings

### Barriers this model can overcome

- Personal: Sharing Chief Executives and Senior Management Teams is a very effective way of ensuring that further sharing of services is not hampered by professional obfuscation. Under this model, Directors would be responsible for specific service areas in both councils, and would therefore encourage, rather than obstruct, shared services.
- Organisational: This model can also help different authorities overcome some of the cultural differences that exist between councils, by creating a joint management structure.

# 8 *Integrating Shared Services with wider transformation and reform*

**This chapter seeks to understand the relationship between shared services and the much broader transformations and shifts that are occurring in local government. This chapter explores five areas in which we believe there is a crucial and mutually reinforcing relationship between shared services and broader transformations. These are all areas where change would both assist the furthering of the shared services agenda and where shared services can in turn assist with other improvements.**

In this chapter we discuss five areas which we think are crucial to helping councils implement ambitious and far-reaching shared services schemes in tandem with wider transformations, within the context of front-loaded spending cuts and the need for redesigned services and improved outcomes. Within these five sections we present new ideas on a conceptual level. It is important to note that at present they may not be suitable for implementation without further work. The aim of this chapter is to test the conceptual strength of these ideas, justifying further work in the area should potential be identified.

## Developing a strong business case

A solid business case should enable local authorities to avoid the bulk of the barriers and risks associated with shared services. Whilst it is impossible to completely eradicate either the risks (every new venture contains inherent risks) or the barriers (change always encounters resistance), both can be minimised to a manageable level.

The business case is an evolving creature: it should be developed and refined as the journey develops, adapting to new circumstances, new participants, new data, figures, or circumstances. It should:

- Provide some background and context to the venture, in order to frame the debate accurately.
- Provide a rational for what is expected of the shared services operation,

to ensure that all levels of staff and all partners understand the objectives being set-out, and therefore "buy-in" to the project.

- Set out different options, each supported by predicted costs, savings, risks, rewards, and metrics designed to ascertain the success or otherwise of the venture.

Most business cases usually revolve around two benefits: service improvements and economies of scale. Other factors do exist, such as increasing the skills of staff, increasing expertise, learning from shared experience, but these will be subordinate to the main benefits.

There are usually three distinct phases to a shared services business case:[63]

- **A Business Outline:** the reasons why an Authority would engage in shared services: this can be to drive service improvement, to make efficiency savings, to redesign services around the customer, or a mixture of all three.
- **A Strategic Business Case:** This should include the options available, with commensurate costs and benefits, in order for decision-makers to come to an informed decision
- **A Full Business Case:** Once detailed savings and costs have been calculated, and a preferred option has been identified, the full business case should include a detailed financial model used to support the preferred option.

These phases of the business case will support the Evaluation phase in the cycle of Shared Services projects. Once the evaluation has been completed, the project can move on to the Implementation phase, which will itself be followed by the Evolution phase.

- **Evaluation:** This phase is critical in ensuring that the groundwork of the project has been done, and that it has solid foundations. This includes research into stakeholder assessment, options identifications, and business rationale. Feasibility studies will have to be done to identify the drivers for change, the options for models of shared services, the

**63** Sharing the gain, CIPFA, 2010

benefits to be gained from it, and the Strategic Business Case. Finally, Strategic thinking will have to be applied, in order to confirm the scope and model chosen, the partners likely to come on board, risk analysis, a more detailed set of figures relating to costs and benefits, and the Full Business Case.

- I**mplementation:** The implementation phase will usually consist of designing the Shared Services venture, that is to say agreeing on processes and service levels, on the business model, on the technological aspects of the project, and drafting and agreeing upon a service agreement, and on building the project itself, that is to say organising the facilities where needed, the policies and procedures, and ensuring standardisation in technology.

- **Evolution:** The evolution phase is extremely important, as successful shared services ventures tend to be the ones who are able to adapt and evolve, be responsive, agile and flexible. This phase includes managing the service agreement managing the risks, and improving the quality of the service and reducing the costs. Potentially, the Evolution phase will also look at increasing the scope of the project, and the engagement of partners.

## Checklist of business case elements

### *Benefits from economies of scale*

- Choice of right partner, and adoption of a new 'best in class' operation (determine business case figure by comparative benchmarking)
- Reduced management structure
- Accommodation savings
- Reductions or economies in licenses for application software.

### *Benefits from improved service*

- Choice of 'best of breed' approach from the constituent operations, or adoption of a new 'world class' operation
- Application of the savings derived from economies of scale (identify priorities for improvement or 'wish list' of projects)

- Increased depth and breadth of skill sets from a larger unit, greater breadth of experience (identify costs of downtime and show as avoidable cost).
- Enables service redesign, based around citizen/customer-intelligence.

***Cost items***

- Project team
- Software licenses
- Accommodation for a shared services centre (both acquisition and running costs)
- Additional infrastructure (servers, networks)
- Training in new working methods and systems
- Inefficiencies during start-up

## New approaches to Invest-to-Save models

The debate about council spending cuts has often been caricatured as a choice between short-termist 'salami-slicing' versus long-term service redesign and organisational transformation. While this is an overly simplistic interpretation, there remains some truth in its basic premise. In many instances, savings demanded in a short-time horizon are easier to find through cutting services and reducing workforce numbers, where redundancy costs can be met through 'capitalisation' or reserves. Savings found through shared services, decreasing duplication of effort, enhancing preventative approaches, managing demand and building services around citizens can only be achieved in the medium to long-term, and often require substantial upfront investment.

The most ambitious shared services arrangements, such as those seen earlier from AGMA and the 'tri-borough' concept in London make minimal savings in the first year but deliver significant financial benefits by years 4 or 5 after start-up. In addition, at the beginning of these processes investment must be made in order to co-ordinate the sharing of services and integration of council functions. This presents a conundrum for councils; front-loaded cuts demand the largest savings in year one, while the optimal way to achieve

these savings is through deep service integration and redesign which will not yield savings until later on down the line.

One solution for councils may be to access finance from new sources in order to implement invest-to-save shared services models. We recommend that councils investigate the potential for **invest-to-save bonds** to be used for finance the implementation stages of an extensive shared services programme. Building on the concept of a social impact bond, these would be able to yield interest to bond holders through the savings generated by the shared services programme. This would require that the total savings generated through the sharing of services be sufficient to plug holes in the council's finances while also paying a return to the investor. This type of approach would most likely be suitable for ambitious projects where there are expected to be delays but very high savings made. This would of course increase the risk-level, and the correct balance between risk and return would have to be carefully sought.

Councils could also look to using their accumulated reserves as a source of invest-to-save money. Though not held evenly across the sector, local authorities have built up reserves of over £10bn in recent decades. Some of this money is held for specific purpose while the rest is held for emergencies in funding. Were a council's level of reserves high enough, this could be used as a calculated risk to implement a change programme that generates significant savings in the medium term.

However, it must be remembered that for councils, challenges and uncertainty are not confined to spending cuts. The Coalition has embarked upon a major programme of reform across the whole public sector, particularly in the NHS, and the ramifications of these reforms at a local level are not yet known. There exists the potential for NHS reform to have a significant impact on the costs of the local health economy if it does not work as planned. Similarly, there could be unexpected costs to the state should the impact of front-loaded cuts be felt in front line, particularly preventative services. For these reasons councils may not feel comfortable parting with their reserves in case a bigger financial shock may be waiting.

## Local Authority Boundaries

The nature of local authority boundaries can appear arbitrary. It is often not clear why they are where they are, and whether or not this is the optimal formation for the execution of council services, or for the functioning of local economic entities. The boundaries, which will traditionally demarcate where one council's service ends and another's begins, now pre-date an era of modern service delivery, with the incorporation of technology and new management techniques.

The concept of the efficacy of shared services, if taken to its logical conclusion, asks challenging questions about the appropriateness of local authority boundaries. If a service can be delivered better and more cheaply when shared between four councils, why are there four councils and not one in the first place? Why does a city such as London have 33 boroughs, while by comparison a city of similar size and profile, such as New York City, only has 5?

As shared services have progressed they have developed from relatively piecemeal sharing of single services areas towards deeper integrative relationships between councils, in the most ambitious of examples. These relationships involve the sharing of multiple services, along with senior management and Chief Executives. The deeper the integration, the more blurred the line becomes between individual councils and a merged service delivery entity. The councils in such arrangements make it a priority to preserve individual sovereignty but it remains one step closer to a new local authority structure.

The need to protect existing democratic structures is at the forefront of concerns about such processes. A strong argument can be made to preserve the local democratic connections that currently exist, and the scale at which they occur, for the purpose of both democratic legitimacy and participation. The case for this may become even more compelling as the architecture of service delivery becomes less demarcated by traditional distinctions between public agencies. Where it is less obvious who is delivering a service, the more the public may feel the need to have recourse to strong democratic representation. We are therefore clear in this report that the development of shared services should not interfere with existing democratic structures, and that it is vital for these to underpin the evolution of public service design.

As evidenced in the earlier case-study of the tri-borough shared services model in London, there can be significant gains through the advanced integration and merging of local authority services. This demonstrates that, in a service delivery context, while local authority boundaries may be relatively arbitrary, they are not impermeable. Without changing the essence of existing structures, it is possible to take a more fluid approach to the organisation of local authorities and deliver efficiencies and better outcomes at the same time. Where there exist similarities in the profile, demography and contexts of local authorities, there may also be a strong argument to merge multiple functions between the councils.

The need for fluidity in approach to local authority boundaries cannot be over-stated. While merging services between councils in a relatively 'monogamous' way can be beneficial, councils may also find that there are benefits to sharing some services with some neighbours, and benefits to sharing other services with different neighbours. In our vision, a logical end-point for this argument could be a series of democratic council structures and below it an amorphous and fluid collection of service delivery arrangements and structures that no longer resemble the framework of local authority boundaries that currently exist. We encourage local authorities to explore such arrangements, searching out opportunities to develop deep links with multiple organisations where there is advantage in doing so.

## Developing a Shared Services Market

The evolution of shared services has not been accompanied by the growth of a dedicated 'market' across local authorities. The absence of such a mechanism makes it difficult for trading of services to occur between authorities. Some conditions of a functioning market already exist – such as low barriers to entry – but crucially the market is fundamentally lacking in information about the various services on offer. Without a high level of information, it is very difficult for buyers and sellers to accurately gauge value and make rational decisions. To assist the ongoing development of shared services we propose that an online 'market place' be created to enable councils to profile and match services according to their specific needs.

An 'online marketplace' would serve two functions. Firstly, it would give councils a far greater quantity of information about the services there

are to buy and sell. This would add far more transparency and create a more efficient market for services. Secondly, it would represent a simple mechanism through which councils could trade services, reducing the administrative and transactional costs of the shared services process.

We recommend that the online market place combine elements of the eBay concept with that of modern online dating websites such as eHarmony. The market place requires easy and accessible viewing of different services on offer according to type and location, searchable as both wanted and sold. The market place should also be able to offer comparators across similar service sharing offers, and provide a useful benchmarking tool for councils on unit costs. The market place must also align councils according to compatibility. By inputting various requirements and information about profile and context, councils should be able to match themselves up with councils in a similar position. This could be particularly useful for sharing in a non-geographically proximate way.

A common criticism of the trading model of shared services is that all councils want to buy and none want to sell. We believe this is an assumption that has not been fairly tested because the market for shared services does not yet exist in any proper sense. By creating an online market place, and therefore embedding one of the key features of an efficient market – high quality and quantity of information – we believe that the potential for councils to trade with one another has far greater potential to be explored. Without this, the market will continue to be underdeveloped and the full savings possible through shared services will not be realised.

## Changing the nature of a local authority work force

Council workforces tend to reflect the hierarchical structures of the organisations themselves. Services are organised into departments and further into sub-divisions and discreet teams. Each team has a specific focus and historically have worked mainly in isolation. Recent efforts to integrate services have typically encountered the phenomenon of 'silo working', making partnership working a significant challenge.

This approach to work-force has a number of by-products, such as feelings of ownership or belonging to particular parts of the council, territorialism and

silo mentality. It is now well acknowledged that such insular mentalities do not mesh with the need for services to integrate both within councils and across the wider public sector. Coherent, responsive and competent services cannot be delivered adequately by such vertical, hierarchical structures.[64]

It is also clear that such organisational structures do not lend themselves well to the process of organisational change, including the implementation of shared services programmes.[65] The very nature of the divisional approach, creating a sense of service ownership, means that it is apparent that shared services will have negative implications for those involved in delivering the service. This creates a strong human barrier to shared services. Though we have described this as a 'human' barrier throughout the report, it is arguably caused in part by the framework within which people are working. It follows therefore that by changing this organisational framework it may be possible to reduce the difficulties associated with human barriers to shared services.

There is now considerable support from academics and the private sector for councils to adopt new, more horizontal and fluid approaches to staff organisation.[66] These help organisational communication and collaboration between service areas, as well as making leadership more visible and decision making channels more accessible. Strategies to implement such organisational change are increasing within local government. We recommend that all councils review their organisational structures to ensure that they are best placed to facilitate change and implement shared services.

Specifically we propose the notion of a movement towards 'pooled management' resources both within and between councils. These would take managers about a certain grade, e.g. Assistant Director and above, and remove the concept of ownership of a specific service from their role. Instead they would be 'pooled', and delegated out to specific services areas as is needed. This could include the specific process of working through a shared services arrangement.

At present a dynamic exists between a council and a service manager whereby the process of sharing a service threatens to be a 'loss' for

**64** CABE *Managing Green Spaces* (2011)

**65** Sir Michael Lyons, *Lyons Inquiry into Local Government* (2007) p. 96

**66** http://www.accenture.com/SiteCollectionDocuments/PDF/Workforcetransformation.pdf
Hal Rainey, *Understanding and Managing Public Organisations* (2009)

the service manager. The service may be shared, management teams rationalised and they no longer have a job at the end of the process. However, if through pooling the management resource it was possible to invert this dynamic we would create a system far more receptive to shared services. If management teams were to operate as a pooled resource, then the process of sharing could not equal a 'loss' of a service as there is no longer a sense of service ownership.

Alternatively, rather than having a permanent pool of managers, when it is decided by the Chief Executive and Leader/Mayor that a service/s should be shared, the management team within the service, who are responsible for assisting with the process of implementation, could be transferred into a pool. This pool would then no longer be attached to a particular team and would no longer have ownership over a service. The managers would therefore feel they have nothing to lose through the process of sharing. Incentives could also be incorporated to further rebalance the dynamic, offering rewards to managers who are able to create the most effective sharing arrangements.

These concepts are at present embryonic in their thinking. We are clear that more work would need to be carried out to make this a viable option in reality. Further work would be beneficial, as such reforms and mechanisms would shift the dynamic and mindset from there being a potential loss of a service to one in which there could be a potential gain of a service, through the successful sharing of it.

Another mechanism for integrating workforce restructuring and shared services would be for senior managers, particularly directors of service, to apply for directorial vacancies in neighbouring authorities and other public sector bodies with a view to leading shared services. There is precedent for this to facilitate the development of shared services; the director of adult social care at Hammersmith and Fulham has been appointed as chief executive of the Central London Community Healthcare Trust.[67]

**67** http://www.rbkc.gov.uk/pdf/tri-borough%20proposals.pdf p.40

# *Conclusion*

**Shared Services have a critical role to play in absorbing some of the budget cuts affecting local authorities. If properly implemented, they can even contribute to the redesign of services, making them more streamlined, efficient, effective and relevant to citizens.**

While some local authorities have made significant progress in implementing innovative and transformational shared services projects, others have been prevented from embarking on such projects because of political, personal, or financial barriers. In some instances, councils have opted for the low-hanging fruit of the back office, without applying the concept in higher spend areas.

The burning platform provided by the new financial settlement has changed the context within which we approach shared services. While shared services are not a 'silver bullet', they are nonetheless an effective and potent weapon in the arsenal of local authorities.

The variety of models, the multitude of potential partners, the wide spectrum and scale of potential projects should enable every local authority to find suitable projects. While the costs associated with shared services projects might have once acted as a deterrent, these are now dwarfed by the costs of inaction.

Back office shared services tend to be relatively straightforward in their design and implementation, but these alone might not be enough to create substantial savings, especially for larger authorities. Front office shared services, on the other hand, can help transform public services, while creating large scale efficiencies.

Some barriers to the implementation of shared services projects do remain. The following recommendations, if adopted, would enable Local Authorities to either overcome these barriers, or to reduce them substantially. By adopting a presumption in favour of sharing, and an innovative and ambitious attitude, local authorities can make shared services a central plank in their efforts to adapt to a new financial era with service quality and provision intact.

## Recommendations

***Councils to adopt a presumption in favour of sharing***

The burden of proof should be on why a service *can't* be shared, rather than why it could. The burning platform provided by the budgetary cuts should put shared services at the forefront of the agenda, and change the nature of the debate around shared services.

***A national platform designed to increase market liquidity and information***

NLGN recommends developing a national platform, possibly in the form of a website, where local authorities and public bodies could both search for prospective partners and enter their details in order to offer services. Authorities could put forward proposals for shared services, list good examples/practice, or advertise shared services centres with capacity to take on new partners or selling services. They could also list the services areas they would be interested in sharing, the IT platforms they use, and the circumstances in which they operate.

This information would be available to other local authorities, who would be in a position to see what the shared services market look like. It would incorporate many of the features of, for instance, 'e-Harmony'[68] within a Shared Services context, helping local authorities find the most suitable partner organisations to share with. Such an instrument would be relatively easy to set-up, and would enable authorities which are not geographically concomitant to share certain services, for virtual shared services to advertise their services, and for prospective authorities to find the right partner.

***More extensive place-based budgeting***

NLGN recommends implementing place-based budgeting in order to facilitate shared services in an area, between different public bodies, local authorities, and private partners. This will become more pressing as Big Society concepts become reality, and the voluntary sector becomes more active in their engagement with local authorities. Important savings can be generated through pan public body shared services, and the implementation of place-based budgeting would incentivise such practices.

**68** An internet dating site that matches potential couples based on an in-depth understanding of their characteristics and requirements

***LEPs***

NLGN recommends ensuring that LEPs are adequately funded and incentivised, so that they can become a cross-sectoral forum facilitating relationships, cooperation and where possible shared services, while ensuring that local specificities and circumstances are adequately taken into account.

***Public Agency GPC***

NLGN recommend that public agencies should be given the same legal freedoms to embark upon shared services as councils have, through wellbeing powers and the GPC. This would further facilitate the implementation of shared services across the public sector.

***Invest-to-save Bonds***

NLGN recommends that councils investigate the potential for invest-to-save bonds to be used for financing the implementation stages of an extensive shared services programme. Building on the concept of a social impact bond, these would be able to yield interest to bond holders through the savings generated by the shared services programme. This would require that the total savings generated through the sharing of services be sufficient to plug holes in the council's finances while also paying a return to the investor.

***Local Authority Boundaries***

NLGN would encourage local authorities to explore deep and long-term integration of services between neighbouring authorities. This is especially relevant for smaller district councils. They should seek out opportunities to develop links with neighbouring public organisations where there is advantage in doing so. While the overall democratic structure would persist, service provision would be merged across existing boundaries, leading to substantial economies of scale, service integration and redesign.

# **Appendix 1** *Calculating the Potential of Back Office Sharing*

**Given that the shared services agenda has traditionally focused on the back office, it is important to calculate how much can be saved via back office sharing alone. We have sought to estimate how much councils would save if they shared all of there back office functions in a maximally extensive and efficient manner in order to delimit the potential of such an approach to sharing.**

In order to estimate the savings potential of back office sharing three questions must be answered:

1. What is the back office and which services and functions together constitute the back office?
2. How much do councils currently spend on these services/functions?
3. What proportion of this expenditure could be eliminated as a result of sharing?

These three challenges in estimating the potential of back office sharing can be approached and answered in a wide variety of ways and on the basis of a variety of data sources. The use of different definitions, data sources and methodologies will of course yield different estimates for the savings potential of back office sharing. Furthermore they will have varying levels of relevance, clarity and reliability. We have attempted to produce a figure that is reliable, relevant to this report and clear to readers of the report.

## What are the options, which have we chosen, and why?

1. **What is the back office and which services and functions together constitute the back office?**

There is no universally accepted and exact definition of what constitutes councils' back offices and exactly where the line is drawn between front and back office services.

We have defined back office as the internal council mechanisms which support the running of the council but that are not directly client facing. The Gershon Review describes the back office as follows:

*"Back office functions in the public sector provide essential support to the delivery of frontline services. Back office functions include for example: finance, human resources, information technology support, procurement services, legal services, facilities management, travel services, marketing and communications;"*[69]

Our definition accepts these services but also includes senior management and policy as these functions are not directly customer facing but support the operations of councils.

This is a fairly broad definition of the back office then but one that we feel fits the concept well. Furthermore, this broadness of definition should mean that we are not underestimating the savings potential of back office sharing alone.

Also for the purposes of shared services, senior management posts seem to fall into a category with services such as HR and ICT in that in many cases it seems that there are few intuitive reasons why these services cannot be shared, in this sense then they both present 'low hanging fruit' for making savings via sharing.

### 2. How much do councils currently spend on these services/functions?

The task of isolating councils' expenditure on the back office functions listed above is not straightforward. This is because councils' budgets are divided by service area e.g. social care services, housing services etc, and spending on back office functions is integrated within and spread across these different service areas.

This means that based for example on budgeted revenue expenditure statistics published annually by CLG, we cannot determine exactly how much each council spends on say ICT, or legal services.

The only available national statistics where it is possible to isolate expenditure on the back office are from the Subjective Analysis Return (SAR). This data is

69 http://www.rcoe.gov.uk/rce/aio/10218

published by CLG as an annex to their Local Authority Revenue Expenditure and Financing Final Outturn data.[70] The SAR takes data contributed by a representative sample of local authorities and scales it up to estimate the national picture. This data includes expenditure on 'management and support services' for each service area which fits well with our definition of the back office, as evidenced by CIPFA's BVACOP guidance on subjective analysis.

Based on SAR 2009/2010, expenditure on these services amounted to 8.9% of total service expenditure across all those service areas directly controlled by councils (so excluding education, police and fire and rescue). We have chosen to exclude these service areas from our analysis as they are not directly controlled by councils and as such should not be seen as a potential area for councils to make savings via service sharing. This we believe is the best and most relevant estimate for proportional back office expenditure. The drawback of the SAR is that it draws from data provided directly by councils, and there are as such potential discrepancies in how councils carry out their data collection. Also the data is based on a representative sample of councils rather than all councils. These issues slightly mitigate the reliability of the data. However this still seems to remain the best estimate, and a fairly good one, of proportional back office expenditure.

The Audit Commission has conducted research on back office efficiency. Their *Back to Front* (2008) report charts the decline in back office expenditure in the post-Gershon review period and shows that in 2007/08 median expenditure on corporate services was in the 0-5% range for Single tier and county councils and in the 20-25% range for district councils. Given that single and top tier councils represent over 90%[71] of total controllable revenue expenditure across local authorities it seems that 8.9% is unlikely to be an underestimation.

**3. What proportion of this expenditure could be eliminated as a result of sharing?**

Again, estimating what percentage of back office expenditure can be eliminated via shared services is not straightforward and will vary greatly

70 http://www.communities.gov.uk/publications/corporate/statistics/revenue200910finaloutturn
71 Based on CLG revenue expenditure budget data for 2010-11 http://www.communities.gov.uk/publications/corporate/statistics/revenuelocaldatabudget1011

between different councils and services. We have reviewed a variety of estimates made in other reports on the subject along with examples of best practice in the private sector.

Estimates for savings potential

- The Cabinet Office estimate that the cost of back office activities across the public sector can be reduced by 20% via shared services.[72]
- A.T. Kearney research found that the average estimated savings from shared services across 25 government organisations from nine different countries was 20%.[73]
- IDeA estimate that savings of up to 30% can be made by restructuring and sharing back office functions.[74]

Examples of best practice in the private sector include:

- Oracle made 30% savings on their Finance and administration spending via shared services.[75]
- PwC note that experience in the private sector has seen savings in the region of 25-40% from corporate services spend as a result of shared service implementation.[76]

Estimates of the potential proportional savings to back office spend via shared services in the public sector are generally in the 20-30% region. While this may be the most realistic range we have taken a 'best-case scenario' figure of 40% based on the top end of private sector best practice noted by PwC in order to avoid understating the savings potential of back office sharing. It is likely however that in many cases such savings will not be possible.

72 http://www.cabinetoffice.gov.uk/sites/default/files/resources/shared-services_0.pdf
73 *Shared Services in Government 2, building a platform for better services at lower cost* http://www.cisco.com/web/DE/pdfs/publicsector/Shared_Services_Building_A_Platform_For_Better_Services_At_Lower_Cost.pdf
74 http://local.gov.uk/lgv2/core/page.do?pageId=848190
75 http://www.oracle.com/global/uk/public-sector/documents/shared_services_brochure_0.pdf
76 http://www.pwc.co.uk/pdf/corporate_shared_services.pdf

## Conclusion

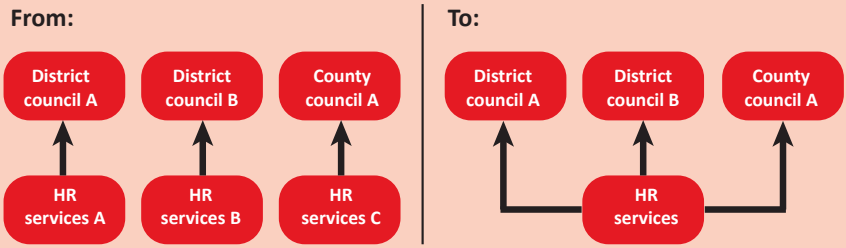
If English councils' implemented shared services across all their back office functions in a maximally efficient manner we estimate that this would only deliver savings of 3.6% to controllable service expenditure, based on assumptions designed to avoid understatement. This is based on making 40% savings to the 8.9% of total controllable service expenditure we estimate councils spend on back office functions.

# Appendix 2 *Traditional shared services models*

## 1. The federal model

The simplest way of sharing services with other authorities is to merge processes or services operated by different local authorities individually into one unit: [77]

**Figure 21**




Rather than each council operating individual HR departments, they may achieve greater efficiencies by merging their separate HR departments into one. This may be achieved either through contracts with each authority or through setting up a new joint venture company which provides the services to the councils.

**Case Study**

***Anglia Revenues Partnership (ARP)***

***Who is involved?***
*Initially Breckland and Forest Heath district councils, East Cambridgeshire joined in 2007*

77 NLGN, *The Politics of Shared Services* (2006)

***What is being shared?***
*Revenues and Benefits*

***What model is being used?***
*ARP is run by an operational board that reports to a joint committee made up of representatives from each of the partnering authorities. Following the success of the scheme, ARP have set up a parallel trading company, ARP Trading, to offer training, consultancy and service delivery to local government and to the private sector, this element of the scheme fits closer with a trading model (see below).*

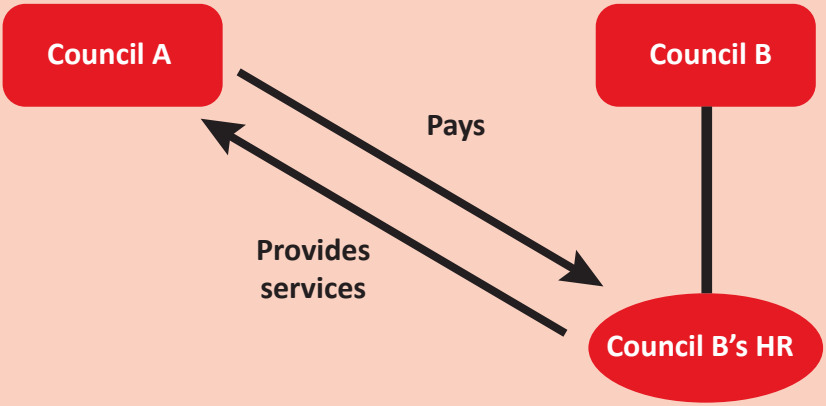
***What are the financial benefits?***
*Achieved savings of £400,000 pa with two partners and £1m pa with three translating to savings of £10 pa per council tax payer*

***Other benefits***
*ARP has won a series of awards for efficiency and quality, has received Beacon status and achieved top quartile performance in all key Best Value indicators.*

## 2. Commissioning

A second model is for one authority to commission services from another:

**Figure** 22



Since the 1970s, local authorities have had the power to trade with other public bodies including councils. This provides a relatively convenient way of sharing services, one local authority can buy services from another. A contract between the authorities should be used to ensure that both authorities have an element of certainty that services are going to be available and bought at a certain price and, in the best-case scenario, that all participating authorities share in any efficiency gains.

Commissioning models are often referred to as mergers in order to avoid giving the impression that the providing authority is superior or exercises more control than commissioning authorities. For instance, a shared services arrangement between Sutton and Merton borough councils resulted in the Sutton Human Resources department providing services to both boroughs with Merton paying for the arrangement. However, the arrangement is described as a 'merger' rather than a commissioning arrangement.[78]

A commissioning model is particularly appropriate where one local authority has significant excess capacity or operates a service with exceptional efficiency.

### 3. Trading

Finally, it is possible for authorities to commercialise shared services by using their power to trade through an arms-length company.[79]

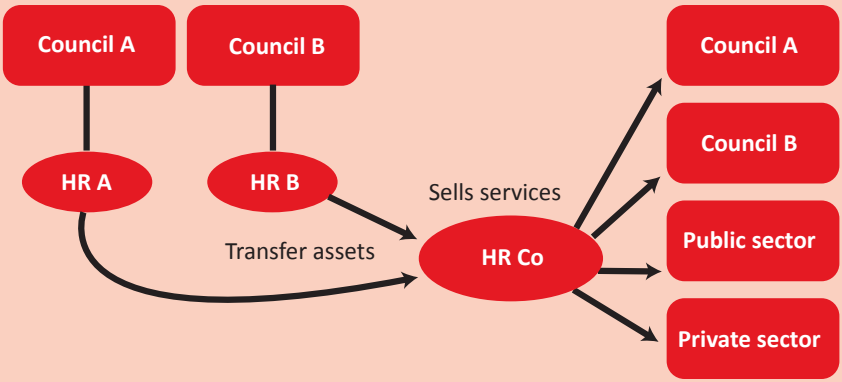
This model uses an arms-length company, founded by one or more local authorities, to provide services. As the company is functionally independent, it may contract with the founding local authorities as well as other parts of the public sector and the private sector, potentially providing the greatest economies of scale of any sharing model. The model also offers flexibility and an easy way to involve private sector partners if private finance or expertise is required. However, the costs and political opposition involved can be

78 Helen Gilbert, *Sutton and Merton councils merge HR teams into shared service*, Personneltoday, 23 September 2009

79 s. 95 Local Government Act 2003 and Local Government (Best Value Authorities) (Power to Trade) (England) Order 2009

significant. Furthermore, there are significant legal and regulatory controls – in particular, local authorities must recover the costs of anything provided to the company, and so are unable to subsidise it, although this is set to change under the Localism Bill.

**Figure 23**




If the jointly owned company only involves public sector bodies, it will be possible for the councils to contract with the company without procurement. This was recently reinforced by the decision of the Supreme Court in the LAML Case relating to local authority insurance mutuals.

EU procurement rules will apply where there is any private sector involvement, forcing local authorities to go through a formal tendering process to select a private partner.[80]

This model is appropriate for ventures with significant risk attached, where the private sector can make a significant contribution by providing expertise or demand and where very significant economies of scale are available.

80 ODPM, *General Power for Local Authorities to Trade in Function Related Activities Through a Company: Guidance on the Power in the Local Government Act 2003* (2004)

# **Appendix 3** *Five questions to ask yourself before Sharing: the why, what, when, who and how of shared services*

**Why *am I looking at shared services?***

At the outset councils must be completely clear what their long-term vision is, and to consider then how shared services could help them achieve it. Councils should consider what their plans for transformation and efficiency over the next 5-10 years are, and whether the concept of sharing services fits within that.

**What *do I want to share?***

Councils should conduct a full assessment of all the services provided they provide. Adopting a presumption in favour of sharing, councils should ask whether a viable business case could be made to share the service in principle. Councils should weigh up the benefits of sharing the service with other options, such as outsourcing, and choose the option that is optimal for that service and the organisation.

**When *do I want to share?***

Councils should look at their long-term forward plan and assess how shared services can fit within this. What are the time-scales for the organisation's transformation agenda? Ask how extensive the sharing will be and how long the arrangements would take to implement.

**Who *do I want to share with?***

Define whether the services to be shared could be shared with other local authorities, other public agencies and whether there has to be a geographic component to the sharing arrangements. Establish the organisations that are in a position to share and initiate discussions about the fit and scope of the sharing.

**How *should I share?***

Taking into account the requirements of the above, consider which models would best suit these. This must be a model that fits the council, potential partners, budgets and the ambitions for the service.

# Appendix 4 *Shared Services Toolkit*

### 1. *Shared Service Project Team*

Set out clear and realistic objectives, backed by a preliminary business plan. Build a project team, who will be in charge of implementing and delivering this project.

### 2. *Conducting commercial due diligence*

Ensure that the project can be fully funded. Seek funding mechanisms if necessary. Plan for overheads and unforeseen costs.

### 3. *Potential partners and suppliers*

Find out who might be interested in sharing services with your organisation. These can be other local authorities, other public sector bodies, and/or private organisations. The amount and type of partners can evolve over time, so ask yourself whether this venture could benefit from additional partners, or private expertise, later on in the project. Ensure that you have wide-spread engagement with all affected partners and stakeholders: Council staff (from officers to Chief Executives), service-users, citizens, partners (public and private). "Buy-in" from all levels of the organisation is key in ensuring a successful Shared Services project.

### 4. *Conducting legal due diligence*

Ensuring that all legal matters relating to property, contracts, powers and consent from all staff concerned

### 5. *Identification of options and choice of structure*

Find the Shared Services Model most appropriate for you local authority, for your potential partners, for your budget, for the current specifications of the service you are sharing, and for the type of services you are interested

in sharing. There must be a clear design covering scope, objectives, the staff levels, structure, training, new processes, and harmonisation of ICT systems.

### 6. *Consideration of the employee issue*

What ramifications will the shared services project have for current and future staff members? Will TUPE apply? The HR Plan must cover the approach to people change, reconciling terms and conditions, and assimilation processes.

### 7. *Development and implementation of the chosen strategy*

Consider creating a set of rules for all the partners involved in the project. Have clarity over who should be responsible for implementation and delivery of the project, including Service Level Agreements. Have clear time-lines and budgets that all partners must adhere to. Create and implement a robust and detailed business plans, agreed upon by all parties involved in the project, and setting-out clearly the benefits anticipated and potential pitfalls. Consideration should also be given to updating the business case as the project evolves, and drawing up contingency plans if significant cost increases take place.

### 8. *Ongoing management and review of the shared services contract*

Ensure that the venture is reviewed after a specified amount of time, following which a rationalisation of the project could take place if necessary.

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