CIPFA The Chartered Institute of Public Finance & Accountancy

sharing the gain

Collaborating for cost-effectiveness

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Foreword

Over the coming years public services will face major challenges in protecting frontline services while also dealing with budget reductions and spending restraint. Among other things this will demand that waste and inefficiency are reduced and resources deployed in areas that matter to people who need our services.

Shared services and collaborative working provide many important opportunities here. By introducing new business structures, improving processes and deploying new technologies and management systems, such approaches have a major role to play in improving cost-effectiveness and service quality.

For these reasons I am very pleased to endorse the *Sharing the gain* report and its online resources. The guidance provides insights and support across the whole lifecycle involved in making sharing and collaboration happen. While not being prescriptive, it offers clear advice on the options available to public bodies and the issues involved in taking them forward. I would therefore encourage you to make maximum use of the ideas set out below and wish you luck in addressing the practical challenges that lie ahead.

Joyce Redfearn
Chief Executive, Wigan Council and chair of the Regional Improvement
and Efficiency Partnerships' Chief Executives' Task Group

Preface

This guidance has been written to help local public service bodies understand and take advantage of collaborative working opportunities. Together with its online appendices, it provides a range of advice and supporting tools intended to help manage the whole lifecycle of developing and running shared public services.

The guidance is the central output from a partnership between the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of District Council Treasurers (SDCT). The project has been supported by the Department of Communities and Local Government (DCLG) through the West Midlands Regional Improvement and Efficiency Partnership (RIEP).

Although this work has had a particular focus on smaller public bodies (especially district councils), it is written for all organisations – including private sector companies – that have an interest in partnership working for the delivery of public services.

There is a strong finance focus across the various project outputs. This not only reflects CIPFA and the SDCT's particular professional interests, but also highlights an area of corporate services that frequently features in discussions on shared services. In looking closely at finance, the project provides a valuable case study of how collaboration can enable small public bodies to aspire to world-class standards in terms of working methods, use of technology, enhancement of professional skills and delivery of excellent services.

Executive Summary

Context for this guidance

Over the coming years public sector bodies will be faced with delivering their services in the context of increasing fiscal tightening. In many cases this will mean real-terms funding reductions. For all organisations, the need to demonstrate value for money will rarely have been greater.

In responding to this challenge, public service leaders and managers will need to consider radical changes to their organisational structures and operating models. One option they will need to explore is whether greater collaboration with other bodies offers a route to reducing costs while maintaining service quality. Of particular interest here will be the potential role of *service sharing*, both for front (customer-facing) and back-office services.

This guidance report has been written to help local public services understand and address these issues. It is the result of a partnership between CIPFA (the Chartered Institute of Pubic Finance and Accountancy) and the Society of District Council Treasurers (the SDCT).

While it has been produced with smaller public bodies in mind, the report should be of interest to all organisations that are keen to explore partnership working as a means of putting their services on a sustainable, long-term footing.

As might be expected, given CIPFA and the SDCT's professional interests, the guidance provides particular insights into issues around finance and accountancy, and how these might be managed in a collaborative environment. For the most part, though, it aims to cover, and be relevant to, the full range of services that organisations might wish to deliver through shared arrangements.

Help provided across the whole collaboration lifecycle

The guidance and its online appendices have been designed to address users' needs across the whole lifecycle of a partnership project or shared service initiative. This includes advice, information and tools to help with:

- Understanding the drivers for change and building a vision for it
- Identifying and removing potential barriers and roadblocks
- Measuring and benchmarking baseline performance
- Understanding and appraising the options for change
- Redesigning processes and organisational responsibilities
- Building the business case for change
- Managing procurement and legal issues
- Putting in place service delivery and management systems
- Managing the process of change – and the risks associated with it
- Handling the people and technology issues

In this sense, outputs from the project are intended to be used in a very hands-on way, helping public bodies to get started, and to see initiatives through implementation and into routine operation. The key audience for outputs include:

- Elected members and senior managers – who will need to sponsor change programmes and drive them forward
- Service managers and staff who may be affected by change – and will need to understand the principles and processes bound up with shared services
- Business analysts – who will be responsible for developing strategies, plans and business cases for service sharing
- Systems analysts – who will be tasked with redesigning processes and organisational structures
- Other specialists, particularly procurement and legal experts, who will need to understand the context and content of shared service initiatives
- Project managers and senior responsible owners – who will oversee and manage change and release funds for it

Why shared services and collaborative working?

Over the coming years the status quo will simply not be an option for many public service bodies dealing with budget cuts and rising customer demands. This does not mean that sharing services will be appropriate in all areas. However, as HM Treasury's 2009 Operational Efficiency Programme (OEP) report reiterated, structures such as shared services will have a key role to play in areas such as finance, HR and IT in bringing down costs while preserving frontline services.

Indeed, future budget settlements are likely to be premised on the assumption that new service delivery structures will be adopted which bring down the cost-base of many public bodies. Put another way, if savings are not found through innovations such as shared services, the organisations involved will need to find major efficiencies by other means or cut services to the public.

Cases examined as part of this project have revealed considerable scope for savings from greater collaboration. These include two district councils that are expected to deliver recurring savings of £1.1m from merging services and management teams across the councils. One two-tier partnership project is anticipating annual savings of over £4m, by bringing together back-office operations into a shared service partnership that will involve the county, three district councils and the fire and rescue service.

It is important to remember, though, that shared services and collaborative working is not simply a route to lower costs. A range of other benefits can accrue where resources are pulled together into a shared service arrangement (SSA). These include:

- Easier recruitment and retention of skilled staff – by creating organisational arrangements that offer new career routes and job opportunities
- Improved investment and innovation opportunities – by pooling investment resource across partners (which might include private sector bodies)
- Having the scale needed to access best-of-breed technologies, business processes and management techniques
- Improvements in service quality – by using the above to transform the way services are delivered
- Providing service users with access to specialist staff and state of the art information systems

Key principles in shared services and collaborative working

The guidance and its online resources reflect a number of key principles in the way collaboration and shared services should be approached. These include the following:

- Service sharing and collaborative working are only part of the improvement mix available to organisations. They will not be the answer to every problem or opportunity. Where they are relevant, they will normally be used in combination with other methods, such as lean and process redesign

- Making shared services happen will demand leadership and drive from those at the top of the organisation. In local authorities this will mean senior executives and elected members
- Partners need to understand where they are – in cost and performance terms – before embarking on change, and benchmark this with peer organisations (especially their potential collaborators). This will provide an early assessment of the scale of opportunity from service sharing and identify fertile avenues to follow
- There is no 'right' option for or pathway into service sharing. Some organisations will choose to collaborate in a range of different partnerships where different services feature in each case. Others will instead decide to work in more broadly based relationships, sharing a wide range of services with just a fixed group of other bodies
- Collaboration models and vehicles will vary from case to case. In some instances this may mean working with organisations from other sectors, including commercial bodies. Legal requirements, among other things, will determine which organisational vehicle is best suited to carry any partnership forward
- In sharing services, the underlying processes will usually need to be simplified and standardised before they are consolidated in a single shared service. In doing this, processes will be redesigned on an 'end-to-end' basis, with 'process owners' taking responsibility across the whole service in question
- Parties to the collaboration (be they departments in the same organisation or different bodies) will need to migrate to a common technology platform (for instance, a finance or HR system), to remove the complexity and inefficiency that multiple systems might cause
- Not every process or service will be open to sharing. Much will depend on the strategic significance of the service in question and the need for it to be tailored to local requirements
- Processes and services that are shared will tend to be either (1) 'transactional' or 'rules-based' – involving standard, repetitive activities (such as processing invoices or accounting journals) that can be grouped together for processing efficiency – or (2) 'competency-based'. In the latter case the work in question is likely to be brought together as part of a centre of expertise, which may allow for a range of specialist skills to be combined as part of a single unit
- As well as redesigning work for transfer to a shared service, the roles and responsibilities in the retained organisation (the council side) will also need to be redesigned, not least to establish an effective client function. This will usually require some element of training to help staff involved perform these roles to best effect
- A shared service should be seen as an opportunity to put a whole service delivery and management framework in place. This will involve attention to Service Level Agreements (SLAs) and the creation of a 'customer service culture', backed up by appropriate training and support, as well as customer feedback systems
- While there is a range of risks and legal issues to be addressed in sharing services, given political will and the willingness to invest resources, these can be dealt with in a managed way. They should not be seen as insurmountable barriers to change

Online appendices that support the main guidance report

A range of supporting documents and practical tools can be downloaded from **www.cipfa.org.uk/sharingthegain**. These appendices to the main guidance provide more detail on the issues discussed in the report and are intended for use locally by councils/partnerships. In many cases, the files in question can be edited and otherwise extended and tailored. They include:

- Detailed analysis of a benchmarking exercise undertaken with 11 district councils as part of the project. This shows their relative performances in finance and related services as both a peer group and against broader organisational benchmarks
- Three financial (spreadsheet) models and an accompanying model business case. These support investment decisions and business case management across the whole shared service lifecycle. While focusing on finance, the four models can be broadened to include other services, and show the consolidated business case for all partners, as well as the financial implications for the shared service itself

- A comprehensive set of best practice process designs for finance and related services. These show the end-to-end ♣ processes involved, including divisions of responsibility when sharing between a shared service and a retained support function. Process maps are also provided in Visio for local use

Acknowledgements

The guidance and its online resources have been produced with the support of the West Midlands Regional Improvement and Efficiency Partnership, using funding provided by the Department of Communities and Local Government.

We are also grateful to all those people who gave up their time to take part in project workshops and surveys, and provided input through interviews and site visits.

We welcome feedback on this document, which can be emailed to Paul Jackson at paul.jackson@cipfa.org.uk

collaborating for cost effectiveness

From the Gershon Efficiency Review through to the 2009 Operational Efficiency Programme Report, collaborative working arrangements such as shared services have been cited as a potential route to cost savings and performance improvement. With a public sector facing severe spending restraint – for several years to come – the need to challenge old assumptions in the way public bodies are organised is essential.

The search for improved cost-effectiveness is particularly demanding for smaller public services. Acting alone such organisations have limited scope for generating savings through the redesign of business processes and service delivery structures. Nor do they have ready access to the skills and technologies that might support other forms of business innovation. If they are to maintain the quality of frontline services, more radical steps will need to be countenanced - among them collaboration and shared services.

Sharing ends and means

If there is commonality across public bodies in the challenges they face, their means of dealing with them may also be shared. The notion of 'sharing' can take many forms.

This report is concerned with collaboration in its broadest sense: working together across organisational boundaries to achieve together what would be more difficult alone. But is also about the idea of 'shared services' in a specific technical sense - where two or more organisations work together to deliver services through new, joint delivery restructures.

As we will see in the sections that follow, there is a range of decisions to be made en route to sharing, including whether to collaborate at all – and if so, with whom. The option about outsourcing rather than sharing will also need to be considered.

Throughout this guidance – and the project of which it is part – we have chosen to refer to *'shared service arrangements'* – or SSAs – to denote situations where activities have been brought together into a joint service. This is intended to be a broader term than, say, a 'shared service organisation' (SSO). SSO, in our view, tends to suggest highly formalised and newly created delivery structures, and does not accommodate the more informal collaboration initiatives which are relatively common in local public services.

Managing the shared services lifecycle

This guidance, together with its online appendices, takes the reader through the whole lifecycle of shared service issues. This starts with understanding the drivers for collaboration, developing a strategy for sharing, appraising options and building the business case for change. This is followed, among other things, by managing the processes of change, dealing with legal and procurement issues, and putting in place new governance and service delivery structures.

The report provides an overview of the key issues that will need to be addressed on the road to shared services. It is also an index to the range of online tools and other forms of advice that accompany each section. For a full list of online appendices, please visit **www.cipfa.org.uk/sharingthegain**. The appendices are also discussed within each section in reference to the issues and problems they address.

The leadership challenge

Although much of the advice and support discussed in this guidance are of a technical nature, this should not disguise the fact that effective collaborative working is first and foremost a *human and political* challenge. It will require people working together in new ways, across previously impermeable boundaries. It will also demand a new culture of co-operation and sense of shared mission.

Creating the conditions for this in local authorities will chiefly be the responsibility of senior officers and elected members. It is they that will have to put the interests of their customers above narrower political concerns and, in so doing, build a commitment among staff to a new way of working. For this reason, those in positions of leadership are strongly advised to read appendix A1.1, *The leadership challenge in collaborative working*.

The case of shared financial services

As mentioned above, while this guidance deals with collaboration generally across services, it takes a particular interest in the *finance function*. In discussions of shared services, finance is seen as being one of the main areas of corporate services that is open to joint provision.

In focusing attention on *financial* shared services the guidance and appendices provide an important case study for how any focal area of collaboration should be addressed: as will become clear, analytical and service-specific knowledge is essential when deciding about implementing collaborative work arrangements.

Finance is also an interesting topic for study given the benchmarking data that exists on shared finance organisations, and which demonstrates a strong link between top performance and shared provision. Such data also shows that shared finance arrangements are highly correlated with efficient transactional processes, delivery of value-added services and access to the latest enabling tools and technologies. Indeed, we draw upon some of this data in discussing the scope for improvement in public services in Section 3.

A summary of the benefits of shared finance are shown in the box below.

Example of benefits in shared finance arrangements

- Lower operating costs
- Improvements in service quality (to finance staff and business users)
- Access to staff with specialist skills
- State of the art financial information systems
- Easier recruitment and retention of skilled/high calibre finance staff
- Improved investment and innovation opportunities
- Adoption of world-class/best practice approaches
- Ongoing performance improvement

identifying the drivers and vision for change

This section sets out the drivers for collaborative working and seeks to establish a vision for how such an arrangement might work in the area of financial services.

1.1 What are the key drivers for collaboration?

A range of factors are forcing councils to think of new approaches to the delivery of both front-line and back-office services. These include external drivers (particularly government policies, grant settlements and customer expectations) as well as internal pressures, such as improving service quality, bringing down costs, attracting skilled staff, and accessing best practice techniques and technologies (see Figure 1.1).

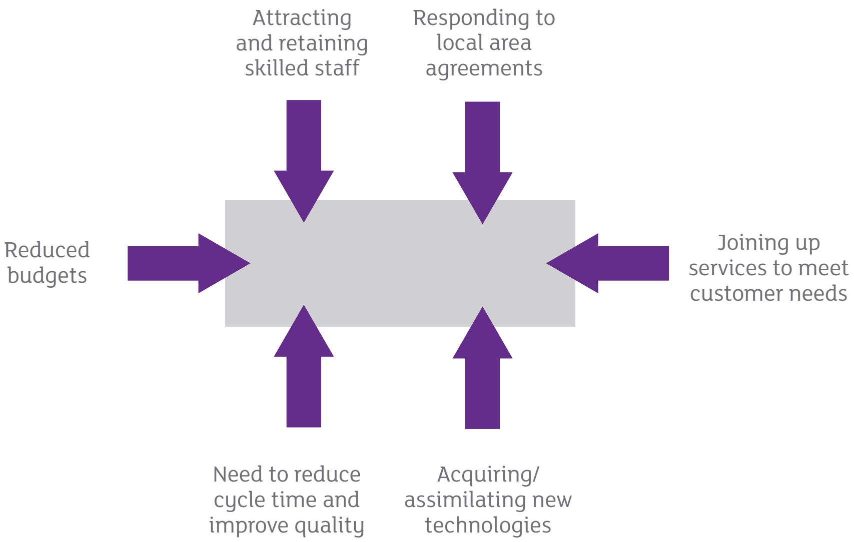


Figure 1.1: The pressures on public service organisations

While these pressures are hardly new, given the deteriorating state of public finances, there is now a heightened need to reduce budgets and do more with less – something that is likely to continue for some time to come. While a crude 'salami slicing' of costs may prove necessary and possible in the short-term, over time reliance on such techniques is likely to have an adverse impact on service quality.

1.2 Service sharing for cost-effectiveness

It is for these reasons that many councils are asking fundamental questions about their models of delivery. This is particularly so in back-office functions, such as Finance, Human Resources (HR) and Information Technology (IT), whose budgets may be less protected than frontline services, and where evidence suggests that significant savings can be made through new structures such as shared service arrangements (SSAs).[1]

This is not a simple argument about economies of scale. While collaboration can produce savings, for example due to higher processing volumes around transactional work, it is the *package* of benefits that service sharing can bring that has led many public service bodies to consider it. These include the ability to:

- Standardise around best-of-breed process
- Access modern systems and technology
- Create new labour structures, expanding the range of specialist skills
- Manage processes in an holistic, end-to-end way
- Reduce management overheads and improve productivity

This said, data collected from 11 district councils as part of the CIPFA-SDCT project highlights the challenges of delivering cost-effective services in small, independent functional areas. As Figure 1.2 shows, even within districts there are clear differences in terms of the cost of finance as a proportion of overall council expenditure. The diagram also shows the scores each authority received from the Audit Commission for its Use of Resources – which provides a useful indicator of the overall performance of the finance function (1 being below minimum requirements, 2 adequate and 3 performing well).

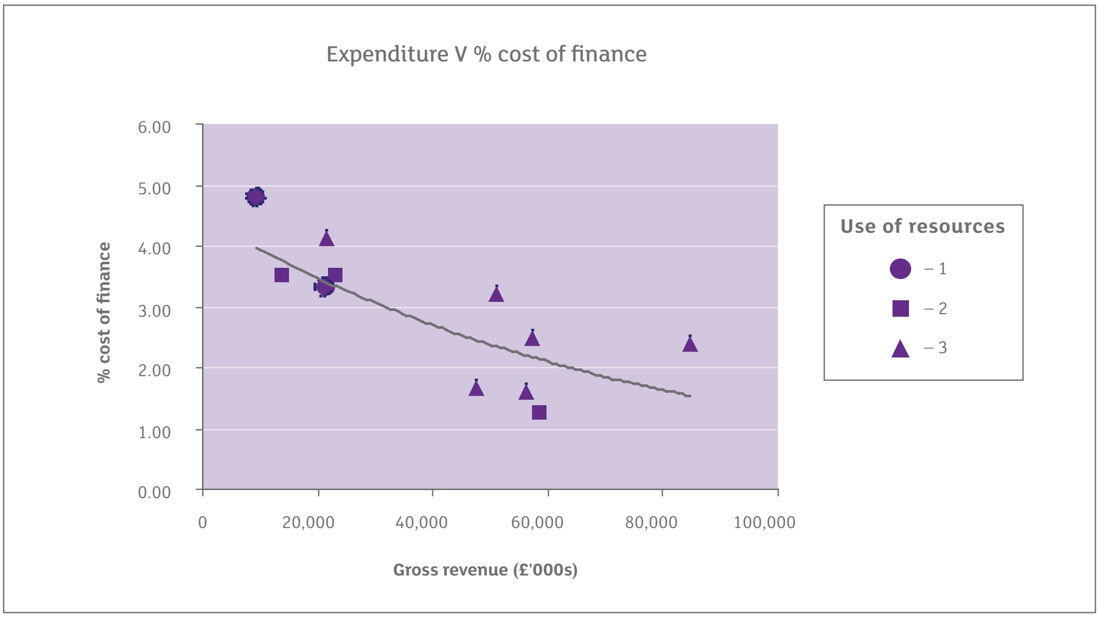


Figure 1.2: Council expenditure against cost of financial services

As we will see below, international benchmarking data suggests that organisations with centralised or shared service organisations for finance and accounting can, on average, reduce costs to around 1.04% of turnover, with top performers even achieving around 0.71%.

As well as calling for efficiency savings through service sharing, government reviews, such as the Operational Efficiency Programme, have also cited the need for better benchmarking of the value for money delivered by public

1 See Bangemann, T., *Shared Services in Finance and Accounting*, Gower, 2005

service bodies. Such exercises are likely to make more transparent the potential shortcomings of some traditional ways of working, such as the replication of complete back-office functions in each local authority, often using inefficient systems and processes.

Service sharing at Staffordshire Moorlands and High Peak Councils

Some councils have looked at sharing a wide range of services in order to save money, sustain service quality and position themselves for the strategic challenges ahead. Staffordshire Moorlands and High Peak Councils, for example, have embarked on a strategic partnership which has examined all council services – front and back-office – to identify candidates for collaborative working.

Starting with a shared chief executive and management team, this has allowed a reduction from 37 to 21 managers, with estimated savings of around £560,000 per annum. Financial savings from service delivery models, once fully implemented, are estimated to realise a further £600,000 of annual savings.

1.3 Improving performance, supporting transformation

In the effort to improve efficiency, shared services are also bound up with efforts to access best business practices. By embarking on collaborative working, councils seeking to emulate top performers are therefore also focused on delivering modern, customer focused services, backed up by the latest technologies and ways of working.

This is particularly important in financial services, which are increasingly seen as essential for driving improvement across the organisation more generally. CIPFA's FM Model[2], for instance, sets out many best practice precepts, including the growing emphasis on finance in supporting corporate performance and enabling transformation. Improved financial information in particular can impact positively on the effective management of services and realise benefits beyond those directly associated with the finance function.

The same could be said for HR and IT functions, which are also key enablers of corporate improvement. Councils and other public bodies cannot therefore choose between reducing costs and improving performance: they must do both!

Shared Services at Oxfordshire County Council

Shared Services was established to enable a greater focus on core activities by strategic and frontline operational areas of Oxfordshire County Council.

The shared services programme was implemented in 2007, consolidating the operational aspects of Financial Services, Finance and Management Accounting and HR into one place. The programme completed in May 2008. Its main objectives were to:

- Achieve savings of £4.5m per annum
- Deliver a consistent, reliable service across all areas the council
- Provide those services to agreed professional and quality standards

The savings target is expected to be achieved by March 2010. In April 2009 a number of additional teams transferred into the shared service, including cleaning, occupational health and staff care services. An extensive performance management system tracks delivery of qualitative aspects of service delivery. A continuous improvement programme is now focusing upon driving standards beyond those specified in the original business case.

2 *Financial Management Model, Statements of Good Practice in Public Financial Management*, CIPFA, 2008

1.4 The example of world-class financial management

To deliver financial and service objectives, a path towards greater efficiency and effectiveness is needed. The ultimate goal is a state of performance excellence, with a direction of travel towards top quartile along both quality and cost dimensions. This is illustrated in Figure 1.3.

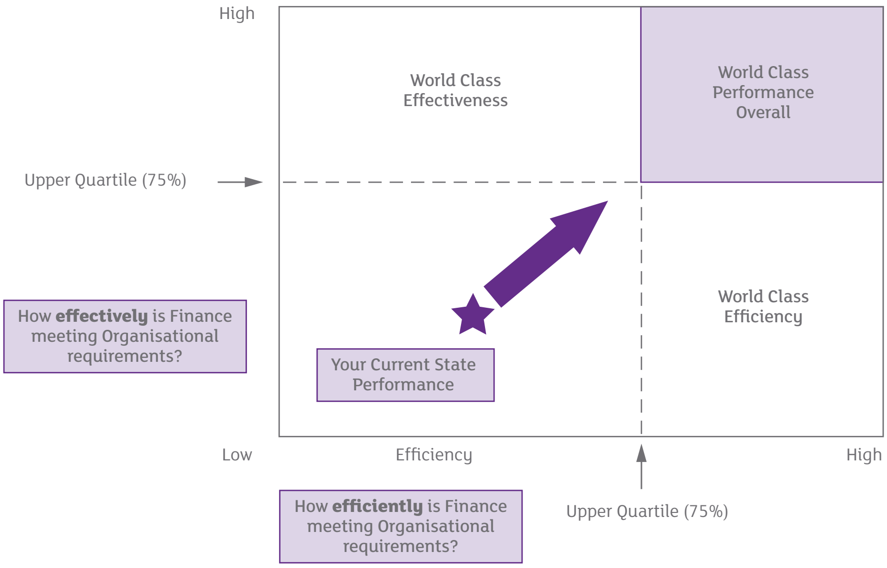


Figure 1.3: Roadmap to world-class performance

The chart suggests that world-class organisations reside within the top 25 percent of achievement in *both* efficiency and effectiveness compared to those in the peer group. Whilst the precise percentage number may be debatable, it is important to identify and quantify the extent of any 'cost and quality gap' and understand practical best practice solutions that could be adopted to improve performance.

Working alone, few councils could afford the investment needed for the sort of technology and changes of processes and ways of working that characterise world-class finance functions. Such developments are more likely where councils are able to pool their resources as part of collaborative improvement efforts, with shared service centres (SSCs) offering additional gains though the ability to generate economies of scale through higher processing volumes.

Smaller councils may also face particular problems in attracting, training and retaining high calibre finance and accounting staff. Shared services, through the creation of centres of excellence, offer a potential remedy here, with new training systems and career ladders, and the opportunity for councils to draw on a larger pool of experience and talent.

Herefordshire Council's work with local health partners

Starting in 2010, Herefordshire Council, NHS Herefordshire and Hereford Hospitals Trust will start sharing key corporate support functions in a move intended to maintain essential services despite budget pressures across all three partners.

Recurring savings of £700,000 are expected for the financial year 2009/10, with an additional £1m due in 2010/11. By the time the programme of service sharing is fully implemented, annual savings of £5.4 million are anticipated.

In-scope services across the partners include IT, finance, procurement, HR, payroll and expenses, communications, internal audit, legal, transport, estates, printing and emergency planning.

Herefordshire's approach, which already includes a shared chief executive between the council and NHS Herefordshire, is increasingly being seen as a model for other local public services. As well as freeing up resources for customer services, money saved is also intended to improve the support available to frontline staff.

1.5 Improving service effectiveness at a time of budget tightening

Internal and external stakeholders are generating new demands on corporate services. New technologies are also opening up innovative ways to process and share information, for example via managed IT services – and even integrated Enterprise Resource Planning (ERP) systems. To respond to these demands and opportunities, organisations need to adapt their services to ensure they meet the needs of internal and external customers.

Using best practice approaches, and by working in a shared environment, evidence in the area of finance and accounting[3] suggests that this can be achieved at an overall lower cost. A vision for how this might work is provided in Figure 1.4. This shows that most of the finance team's effort is currently expended on transactional related activities with little time left for added value, business partnering type work (providing advisory services and enabling corporate transformation).

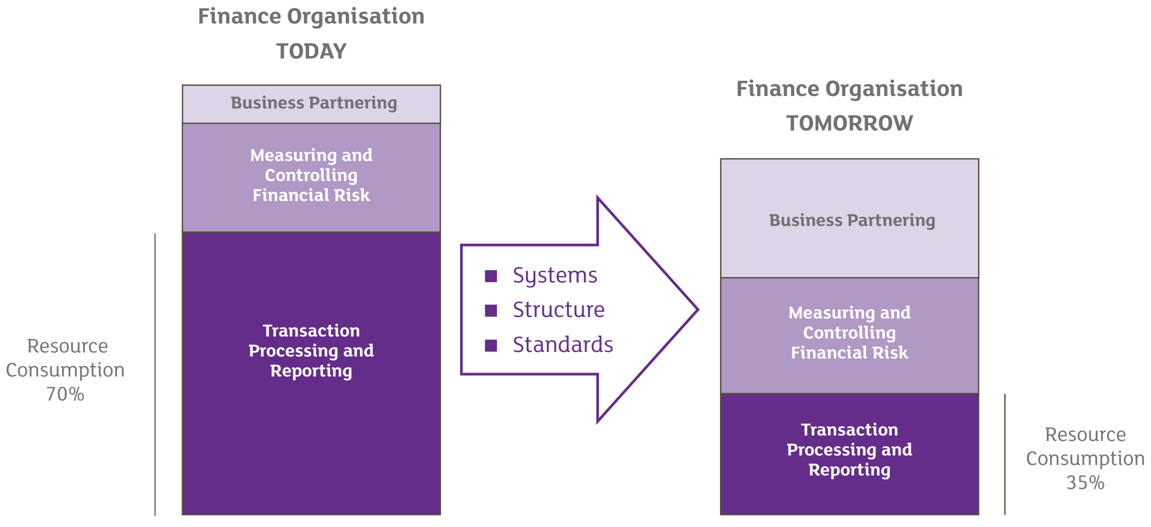


Figure 1.4: The model of the new finance organisation

3 See Bangemann, T., *Shared Services in Finance and Accounting*, Gower, 2005

Figure 1.4 indicates a reduction in the proportion of effort spent on transactional processing can be achieved, in absolute and percentage terms (the % of resource consumption shown above is typical of many case studies). Compliance activities should broadly remain the same and decision support/business partnering activities can be increased by releasing resources from transaction processing to better support the needs of stakeholders on the business side.

1.6 Building a vision for collaboration

In taking any collaboration forward, it is important to understand the key drivers for change and start to build a picture of what services might look like in the future. This will be high-level at first but will include elements such as:

- Where the organisation/services will be in cost/performance terms
- What organisational structures will be used for service delivery
- How services will be redesigned – and what will be done where, and by whom
- What technologies will be used to support the new ways of working

With drivers clarified and a high-level vision starting to form, it will then be possible to identify prospective partners, decide which processes should be within scope and select the vehicles and forms of collaboration that should be used.

assessing change readiness and barriers to progress

In this section we focus on how prepared the organisation is for moving towards shared services. This is achieved by looking at issues of organisational readiness for collaboration and the *barriers* – perceived and real – that will need to be understood and addressed if progress is to be made.

It must be emphasised that, in many cases, there will be good reasons why a shared service solution may not be the best way to address the authority's goals and priorities. This part of the guidance is therefore intended to help in appraising and assessing the feasibility of shared service options and their attractiveness over alternative improvement avenues.

Like all aspects of organisational change, a shared service initiative will have to compete with alternative projects and proposals. Where a strong case can be made, this will need to be built robustly and presented in a compelling way. It will also need to reflect the art of the possible, recognising that political support and resource availability will be key constraints on any progress.

Many of the issues raised below and in the accompanying appendices may also be addressed and managed as *risks*. For this reason, Section 9 of this guidance - which deals with shared service risks - will also be of interest.

2.1 Are you ready for shared services and collaborative working?

There are many potential barriers to shared services that councils will need to overcome. But with careful analysis and preparation – as well as discussion and explanation involving individuals and groups raising objections – blockages can be removed. This will also demand effective leadership and people management skills. However, the size of this challenge will vary from body to body and will be particularly affected by the sort of initiative carried forward, especially the nature of the partnership and the range of in-scope services.

The baseline position of those services will be critical. Where processes are poorly designed, quality assurance is absent and lines of responsibility are unclear, the first steps along the shared service journey may be protracted and arduous (with internal efforts needed within councils to address issues at home).

Figure 2.1 suggests one approach to moving to a shared transactional environment, during which complexity is reduced, standards introduced and work moved to common systems and locations. It is up to each individual organisation to choose how far or quickly they might wish to move along this process maturity pathway, something which is also dependent on the appetite for change.

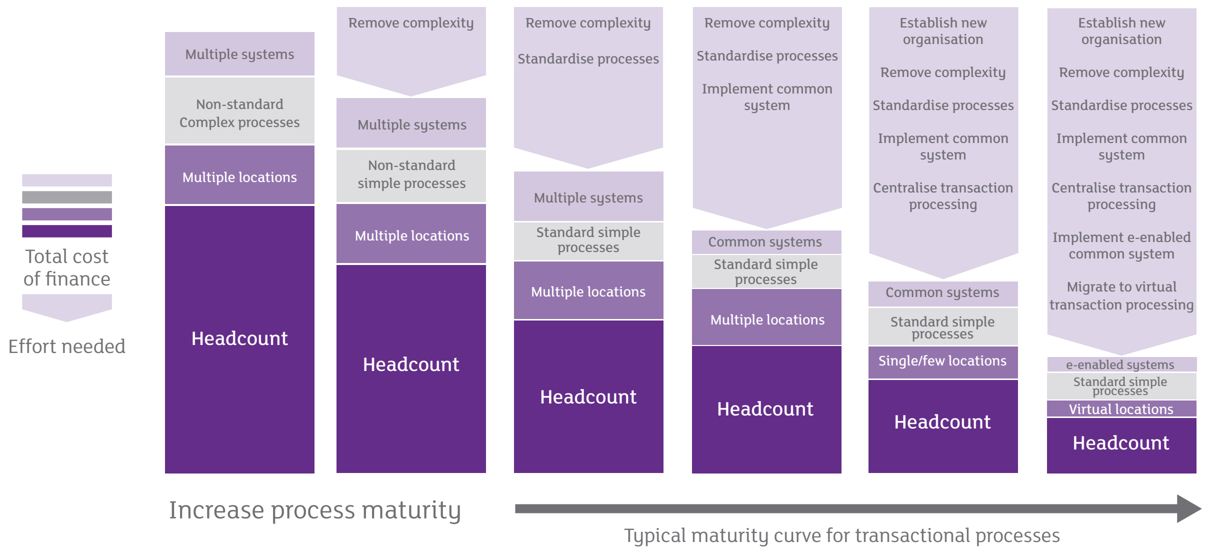


Figure 2.1 Increasing process maturity[1]

In this approach, the sharing gets more mature with each tranche of change. By the end of the third pillar, processes have been standardised and systems are starting to be shared, at which point an SSA effectively exists. If the next step is taken to consolidate activity in one place, staff will be moved and a shared service centre (SSC) created.

2.2 Dimensions of readiness along the shared services lifecycle

As the council and its prospective partners start their journey towards service sharing, one of the first key steps will be to understand where each partner's services are now and where – individually and collectively – they could be if shared service concepts were introduced.

> Section 3 and its appendices provide a range of advice and tools to support the baselining and benchmarking of services.

Work is needed here around six key dimensions:

- The nature of the in-scope **process** in each organisation
- The **delivery systems** that are used
- The **quality assurance** structures in place
- The **governance arrangements** that are used
- The **efficiency mechanisms** that are employed to drive up performance
- The **technology** that supports the work involved

The baseline position of each council along these dimensions will establish the scale of the challenge in moving to a shared environment. However, the effort to increase maturity – and adopt best practice – will not stop once sharing has begun, as there will need to be an ongoing effort to improve process quality, fine tune delivery systems and deliver improvements in cost and performance.

1 *Source: Shared services: where now?,* CIPFA IT Panel, 2008

Figure 2.2 illustrates how maturity might be defined at four different levels along each of these dimensions (from Basic and Standardised, to Stabilised and Optimised). Appendix A2.1 provides further support for assessing service maturity along these dimensions, and highlights the evidence to look for in categorising where each partner's service is.

	1 – BASIC	2 – STANDARDISED	3 – STABILISED	4 – OPTIMISED
Processes	Processes are decentralised and subject to potential non-achievement of service delivery to an acceptable standard	Processes are standardised and centralised but shared service concepts are not yet adopted	Shared service is in place as a concept but processes are still operated 'as-is' (ie not yet redesigned in the SSA) and subject to quality and productivity issues	Shared services have reached a good level of maturity and processes used are attaining best practice performance
Delivery systems	Systems are not common and basic in nature, with little integration	Systems are standardised and centralised but shared service operating concepts are not yet adopted	Shared service is in place as a concept but systems are still operated 'as-is' by the SSA	Shared services have reached a good level of maturity and systems are attaining best practice performance
Quality assurance	Quality checking is unstructured and subject to potential risk of processing failure	Quality assurance is a standardised process and centralised but shared service concepts are not yet adopted	Shared services are in place as a concept but quality assurance is still applied 'as-is' by the SSA	Shared services have reached a good level of maturity and quality assurance is well embedded and achieving best practice results
Governance arrangements	Governance is unstructured, with no clear lines of responsibility and accountability	Governance is standardised within a common, centralised structure but shared service concepts are not yet adopted	Shared services are in place as a concept but Governance is still applied 'as-is' by the SSA	Shared services have reached a good level of maturity and governance is well embedded and achieving best practice results
Efficiency mechanisms	Efficiency mechanisms are decentralised and ad hoc in nature	Efficiency mechanisms are standardised and centralised but shared service concepts are not yet adopted	Shared service is in place as a concept but efficiency mechanisms are still operated 'as-is' by the SSA	Shared services have reached a good level of maturity and efficiency mechanisms are helping to drive best practice performance
Technology support	Access to technology support is limited and unsophisticated	Technology support mechanisms are standardised and centralised but shared service concepts are not yet adopted	Shared services are in place as a concept but technology support mechanisms are still operated 'as-is' by the SSA	Shared services have reached a good level of maturity and technology support mechanisms are helping to drive best practice performance

Figure 2.2 Assessing shared service maturity

2.3 Understanding the barriers to progress (and tackling them effectively)

The following subsection analyses the barriers to shared services in 12 key areas. The importance of the issues involved is explained, followed by a brief discussion of actions the council/partnership can take to address them.

Appendix A2.2 provides a much fuller discussion of these barriers and the sort of objections that people may raise. It is also possible (in appendix A2.3) to download a word version of these tables in a format that allows users to collect data about perceived barriers, to rank them and identify the actions that should be taken to address them.

2.3.1 Stakeholder management issues

For shared services to move ahead – particularly where external partners are involved – some of the biggest barriers will be about uncertainty and fear of change. Elected members and senior executives may have concerns about perceived loss of control. Other stakeholders, especially employees, will also have fears about potential job losses and the diminution of public service ethos where private sector organisations are involved.

Key actions needed to address this include:

- Building a cross-party consensus on partnership working and shared services, identifying areas of common ground and emphasising the contribution sharing can make to strategic and community goals
- Explaining the mechanisms that can be used – in terms of contracts, governance arrangements and service level agreements – that still allow the council to have the influence it needs on the way services are delivered
- Engaging with staff early in the change process to identify shared values and interests and find a way forward that creates benefits for as many groups as possible

2.3.2 The strategic context

The room for manoeuvre in sharing services will depend on a range of contextual factors, both within and beyond the council itself, not least policy positions taken by central government. In taking an initiative forward, managers will need to ensure there is a clear strategic fit with other strategies and plans for change. Actions that are needed will include:

- Clarifying the potential for local government reorganisation or improved two-tier working in the council's area and what the consequences would be for any shared service initiative
- Exploring the change options and whether the risk of the preferred option for change is greater than the risks of not acting
- Examining existing strategic plans and programmes to see how a shared service initiative could support them, as well as identifying how plans and project portfolios might be updated to accommodate a new shared service initiative

2.3.3 Vision and communication

Without a clear, shared vision it will be difficult to make effective progress on the shared services journey. In doing this, effort will need to be placed on communicating the vision to all relevant stakeholders and in dealing with concerns and misconceptions. Key actions will include:

- Ensuring the rationale for change is spelt out in compelling terms – and in a way that shows the contribution of shared services to corporate and service goals
- Providing a broad communications and consultation infrastructure, allowing all relevant stakeholders to be involved in 'fleshing out' the vision
- Explaining to individuals and groups about the benefits they can expect to see once the shared service is up and running

2.3.4 Change management

Like any change, the introduction of a shared service arrangement will demand skills and resources in moving from one way of working to another. Not everyone will see the benefit, raising some relatively generic change management questions that will need to be addressed. Many of the issues identified here will be symptomatic of the prevailing culture and will have to be dealt with at a corporate level. These include:

- Working with key individuals and groups to establish views on current work and service arrangements, to see what benefits change might bring
- Bringing in experienced programme and change managers, or training up existing staff, to ensure that issues are identified and dealt with in a rapid, skilled and structured way
- Putting in place the systems needed to ensure that costs are managed robustly and benefits realised in line with project plans and business cases

2.3.5 Systems and processes

Although shared service changes will usher in new systems and processes – including new procedures and supporting technologies – the baseline arrangements will have an impact on how easily the council can accept change. In many cases ground work will be needed to put the council and its partners into a state where a vision for sharing can be successfully implemented. To achieve this, steps may be needed to:

- Identify and correct shortcomings in current systems and processes as a first step on the journey to sharing them via an SSA
- Introduce new systems and procedures that will ensure continuity of service during and after the migration to the new service environment
- Understand exposure to risks created by the transition to shared services and putting in place policies, procedures and mitigation plans to deal with them

2.3.6 Service culture

Both within the SSA and the retained organisation, there is an assumption that an SSA will bring new attitudes and behaviours around customer service. Depending on where the council is now in this respect, some effort will need to be invested in development and training in order for the vision of a shared environment to be realised. Action here will include:

- Educating staff on the importance of customer service in a shared service environment and working with them to identify necessary behavioural competencies
- Providing training and reward mechanisms to develop and encourage the new attitudes and behaviour, supported by concordats that signal the need for mutual support in the interests of customers
- Putting in place customer feedback systems and encouraging service improvements based on what customers say

2.3.7 Organisational culture

In addition to service culture, there are also broader issues to do with *organisational* culture that shared services will need to address. This particularly concerns issues around performance management, continuous improvement, teamwork and cross-silo working. Steps required here will include:

- Promoting a performance management culture, where staff are clear about what is expected of them, and how this contributes to service goals
- Encouraging innovation and team-working, ensuring that staff that make a particular contribution are recognised and rewarded
- Ensuring effective corporate communications, to help promote joined-up thinking and behaviour

2.3.8 Leadership and staff development approach

The leadership of the council will have a major bearing on the success of any initiative, particularly where major strategic change is concerned. Because of issues around staff engagement, reassignment and development, any attempted change must also ensure effective HR management if it is to succeed. Key actions here will include:

- Identifying the new competencies needed for operating a shared service and maximising the potential contribution that staff can make to these, particularly through organisational development and training
- Articulating a vision of – and commitment to – best practice, making clear to staff the important role they must play in meeting the new goals and standards
- Ensuring that high performance is rewarded and that leaders are visible in supporting and recognising staff achievements

2.3.9 Partnership working

Collaborations involving local public services will require an ability to work effectively with other organisations. This may include partnering with county, unitary or district councils, as well as other public sector bodies and commercial organisations. Actions needed may include:

- Bringing in people, and working with other organisations, that have experience of partnership working and who can anticipate and manage the challenges along the way
- Working with existing partners and suppliers to develop a clear vision and plan for extending collaborations to include shared services
- Ensuring that the goals and values of the partnership are clearly articulated and that the shared service initiative is consistent with them

2.3.10 Procurement and legal issues

Shared service initiatives can be complex, possibly involving the creation of new legal entities as well as the need to manage a protracted procurement process. For a new SSA, all parties will need their respective procurement and legal advice and support. Actions needed may include:

- Understanding areas of weakness from when partnerships and shared service procurements might have been attempted before, and what actions and skills are needed on this occasion
- Bringing in people - external experts if necessary - who have experience of the procurement and legal issues involved, as well as sourcing the guidance already available in the public domain
- Working with councils that have experience of handling relevant legal and procurement issues, setting up new service vehicles and dealing with staff transfers

2.3.11 Funding and access to other resources

In most cases, a shared initiative will demand some form of investment in change, both in terms of cash and in-kind resources. The ability to find a suitable funding and resource model – in collaboration with partners – will be essential in making things happen. Steps needed here may include:

- Ensuring that the business case is robust and can be used as the basis for securing the funds available, whichever route is chosen (both from internal sources or external grant funding)
- Checking whether revenue budgets are sufficient to meet the costs of change and, if not, understanding what capital funding options exist
- Exploring the options around business and partnership models, to see which will best meet the funding constraints and appetite for risk

2.3.12 The business case for change

Shared services, as with other significant changes, should not be attempted unless the business case is strong. Given the dynamics involved, the business case may need to be revisited during the course of any project, so will have to be robust and up to date. It will also need to be vivid and compelling, in order that the range of key decision-makers and other stakeholders will recognise the benefits of change and give it their support. However, the effort involved should be proportionate to the task at hand and not be a reason for undue delay. Actions here will include:

- Understanding the baseline position of in-scope services, how sustainable these are in the longer term (particularly given funding pressures) and the risks associated with the ‘no change’ option
- Ensuring that business case work is properly resourced, with key assumptions held open to challenge, so that the rationale for change will withstand critical examination
- Articulating the business case for shared services in a way that illustrates its support for wider improvement goals and corporate priorities

knowing where you are now and the scale of the opportunity

Before organisations can assess the attractiveness of the options for collaboration it's important to identify the baseline positions of the services that are potentially within scope. This will help the prospective partners to establish their potential for improvement, as well as their relative performance within the partnership.

3.1 Where are you now? Where could you be?

Before detailed planning takes place or project resources are committed, councils need to establish with some degree of rigour how well their services are performing in cost and quality terms. Identifying such a baseline goes hand-in-hand with the next essential step, which is the benchmarking of that data with other organisations (and global best practice) to assess the potential benefits of change.

This is very much a desk-based exercise, drawing on established budgetary and performance information, and making informed judgements about employee numbers, key volume drivers and other costs across different processes and areas of work.

There are two things that councils need to get out of this exercise:

- How the council is performing relative to its prospective partners – and what cost and quality might look like if it could emulate the top performance in this group
- How the council and its partners compare to other organisations, particularly those that have introduced shared services arrangements (SSAs)

This analysis should help each council quantify what the potential savings might be if it were able to bring costs down in line with peer organisations. It will also help to identify the aggregate costs and savings were the partners to move to collaborative working – figures that will also inform the Outline Business Case for sharing (see Section 6 for more details).

> To assist in this process for the area of finance, the project has produced a data capture form (appendix A3.1), in the form of an Excel spreadsheet. This can be downloaded from the website. Similar data would also need to be collected for other service areas. The appendix gives a good illustration of the type of analysis that is needed.
>
> As well as supporting a benchmarking exercise, the spreadsheet links directly into the business case models for shared finance that are discussed in Section 6 of this guidance and which can also be downloaded online.

3.2 Findings from the project's finance benchmarking exercise

As part of the CIPFA-SDCT project, 11 district councils were invited to take part in a finance benchmarking exercise. This was intended to help them understand current levels of performance and the potential for improvement against broader best practice benchmarks. More details of this can be found in the online appendices, in particular the summary report Appendix A3.2.

The following two charts compare district council participants' finance cost as a percentage of Gross Revenue (revenue relating to service expenditure) versus average and upper quartile performance of organisations without and then with shared services. (In both cases, the 11 peer authorities do not yet operate shared services.) To maintain anonymity, codes have been used for the council participants submitting data.

3.2.1 Finance cost as a % of revenue

Overall benchmark performance for the councils is based on the top level metric of finance cost as a % of revenue. This is below average compared with data from other organisations (based on analyses of other cross-sectional benchmarking studies). Figure 3.1 shows that compared to organisations with *decentralised* finance functions, districts council finance cost as a % of total revenue are, in most cases, well above average (comparisons with upper quartile 1.16% and average 1.44%).

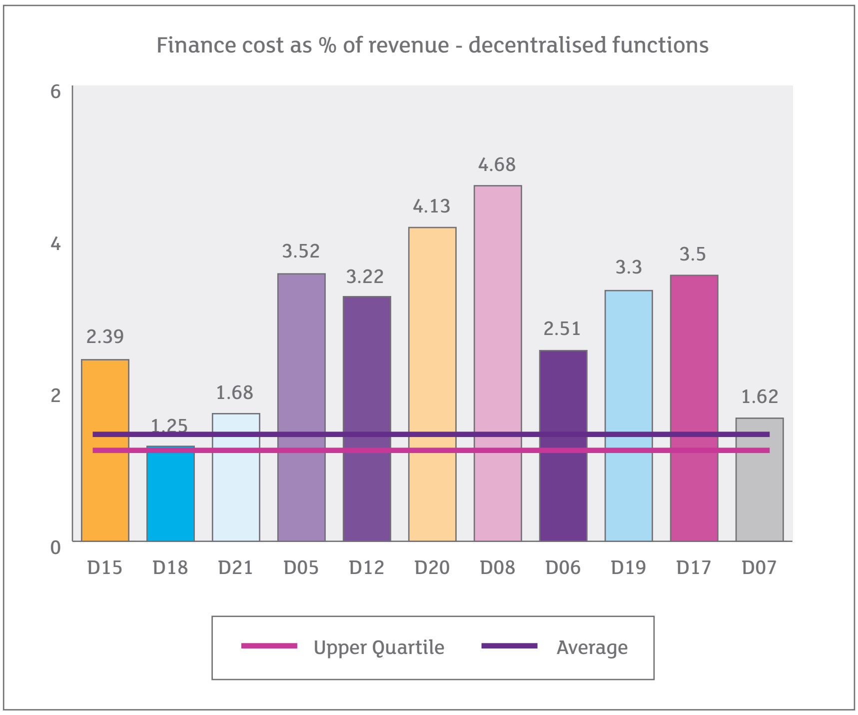


Figure 3.1: Finance cost as % of revenue - decentralised functions

Compared to organisations that operated *centralised* finance functions (which in some cases includes shared services) district council finance costs as % of total revenue are above average across all organisations (which is 1.04% of revenue), and generally significantly above those of upper quartile performance (which is 0.71%).

3.2.2 Transactional services within finance

Drilling down further into finance metrics at sub process level reveals particular areas where costs are higher among district councils, such as in productivity and unit cost per transaction (see Figure 3.3).

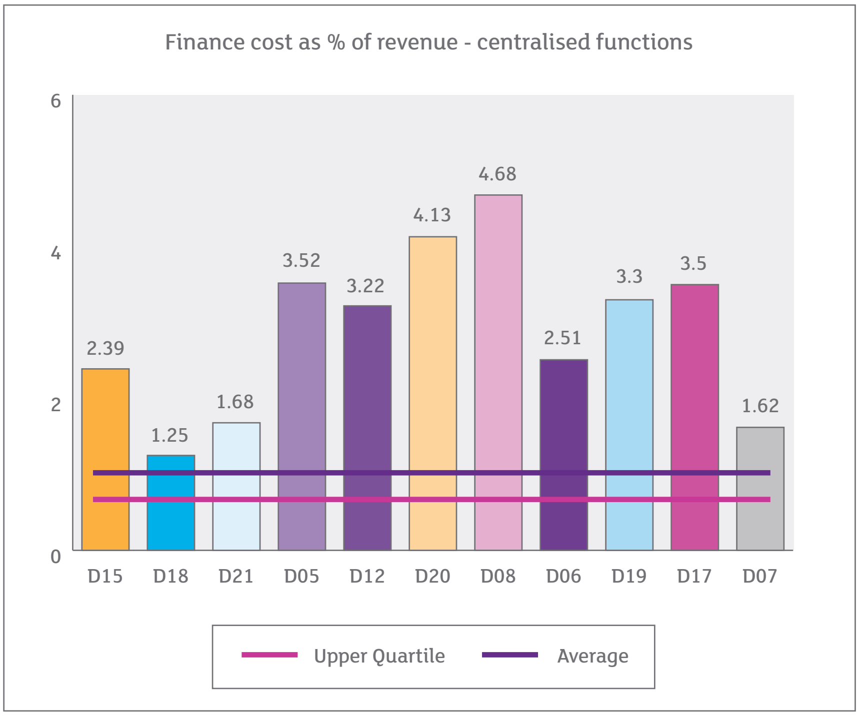


Figure 3.2: Finance as % of revenue for centralised and shared functions

3.3 The scale of the opportunity

These figures reflect the fact that district council finance departments are relatively small and have less scope to invest in the sort of systems, technology and skill mixes that larger finance units have. Working alone, therefore, it is unlikely that an individual council could achieve the sort of world-class levels of performance illustrated above.

An opportunity to close the gap may be possible if a reasonable number of councils (and other bodies) group together to realise the benefits from economies of scale and shared investment. This would allow for the use of new technologies, process designs and people practices, as well as adopting good shared services principles generally. The transformation of the finance function, as discussed in Section 2, is also more likely to occur under such an arrangement.

In terms of *financial savings*, data from the 11 district councils suggested an average spending on finance of £988,000. By achieving the average cost performance described above – where organisations with *centralised* arrangements keep finance costs down to 1.04 % of revenue - this would infer that costs could be brought down to £420,000.

Of course, in smaller districts this scale of saving would be more difficult – if not impossible - to achieve, given the cost of retaining a finance function on the client side relative to turnover. But for larger districts (and other public bodies) as Figure 1.2 in the previous section showed, 1.04% is probably achievable, given the right circumstances.

Significant reductions in cost would be very much a medium to long-term objective, although this could be accelerated by streamlining processes and costs in preparation for entering an SSA. These early savings can help offset the additional costs associated with establishing client side structures and investment in common systems and processes. Each of these aspects is covered in the financial models discussed in Section 6.

As Figure 3.3 shows, transaction processing (eg dealing with invoices) is below average performance compared to *de-centralised* finance functions. The gap is greater when compared with those organisations that have centralised structures (including shared services) – see Figure 3.4.

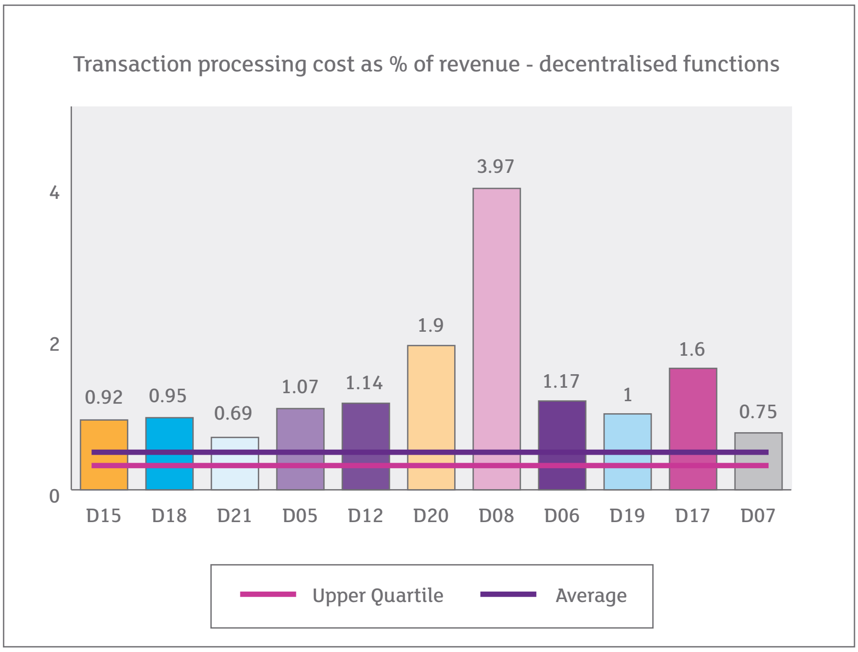


Figure 3.3: Transaction processing costs as % revenue for decentralised functions

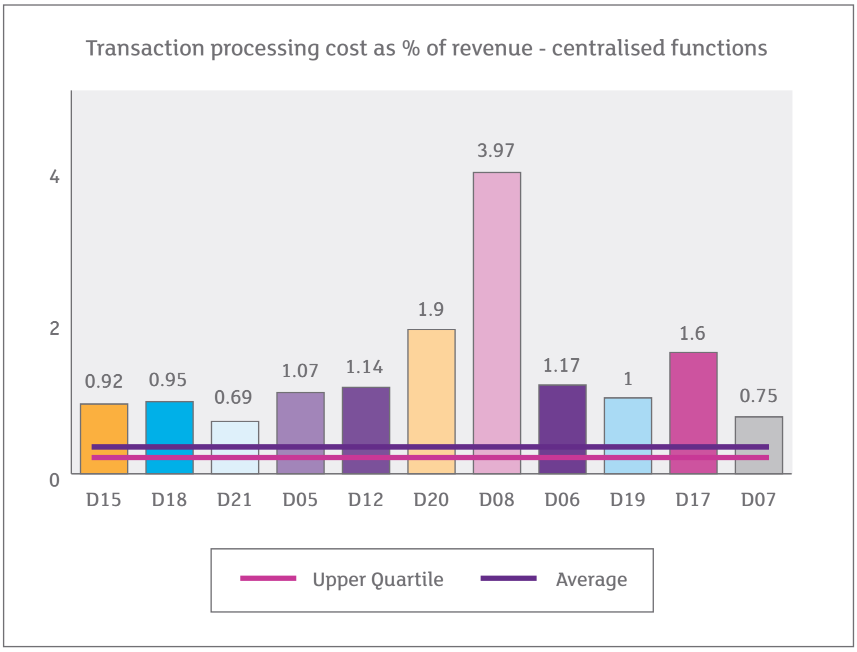


Figure 3.4: Transaction processing costs as % revenue for centralised functions

3.4 The general lesson for councils and others

There is a more general lesson here for councils and other partners looking at shared services. Understanding your performance (in both cost and quality terms) and where you stand in relation to wider performance data, gives you a sense of the likely scale of benefits that might accrue were you to work in partnership with others and adopt best shared practice techniques.

The data gleaned in such an exercise will also provide the baseline figures to populate your business case models. This will therefore support the ongoing effort to establish if there is a strong rationale for collaborative working and to understand what the consequences would be in financial terms.

appraising shared service options

In taking forward a shared service initiative, a number of questions must be answered in terms of what the ‘content’ of any collaboration will be. In doing this, in-scope services will need to be examined within the context of broader business drivers and corporate strategy.

Any initiative will also require considerable political skills, both to establish a dialogue with prospective partners and to judge the cultural feasibility of different ways forward. This is far from a technical exercise, therefore, and one in which senior managers and elected members will have to engage.

4.1 Key questions and issues in service sharing

As we’ll see below, some of the questions posed during the options appraisal process are highly interdependent, and will need to be dealt with alongside each other. Some can only be addressed once initial ones have been answered. For this reason they have been grouped into ‘primary’ and ‘secondary’ questions in the table below. There is likely to be a fair amount of iteration between these as options are whittled down and progress is made (see Figure 4.1).

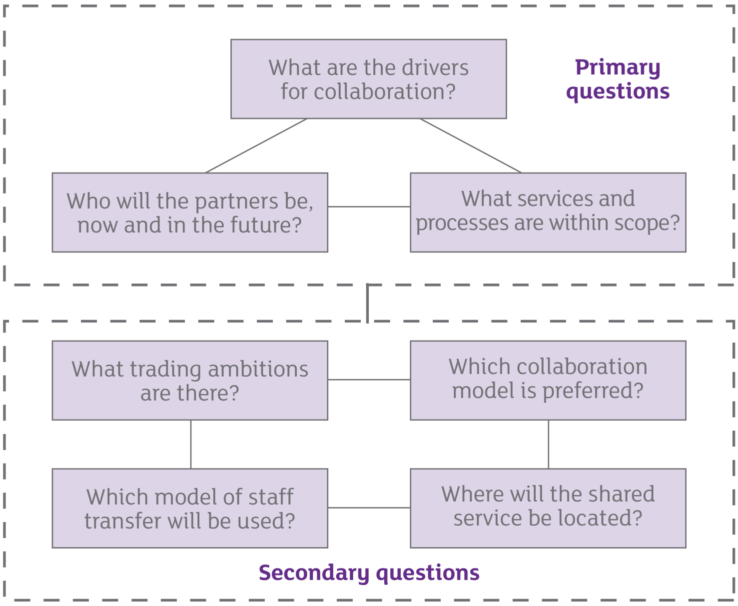


Figure 4.1: Key questions in appraising shared service options

These issues are dealt with in more depth in Appendix A4.1. They reflect the fact that shared service options can be quite wide-ranging and the decision-making process often complex.

There are no right answers to the questions raised here. To make progress much will depend on the leadership within each council, in particular their ability to articulate a compelling rationale for collaboration and a clear vision of what services might look like in a shared environment.

4.2 The ‘broad and shallow’ versus ‘narrow and deep’ decision

It will be difficult to get a shared service arrangement off the ground where the partnership is large and a raft of services is considered to be in scope. In most cases councils will need to decide between taking an approach that is:

- broad and shallow – say, five or more partners but only a handful of services, or
- narrow and deep – say, two to three partners but a large portfolio services

The choice involved here is set out in Figure 4.2 below:

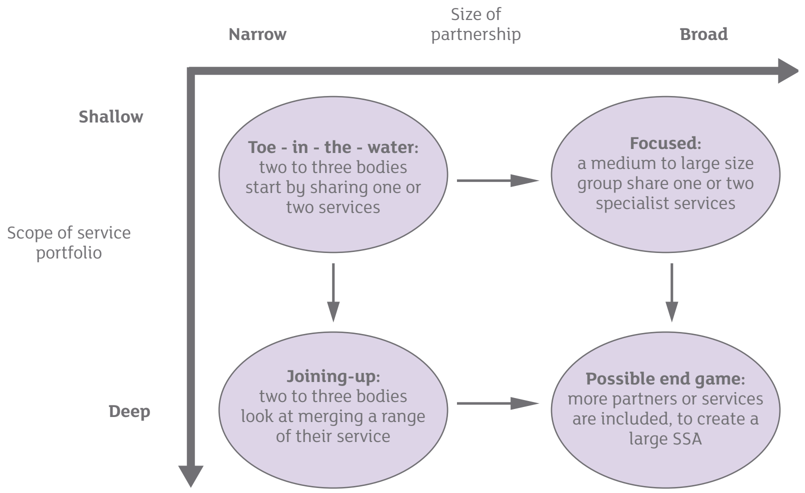


Figure 4.2: Size and scope approaches to sharing services

The complexities, uncertainties and risks will multiply as more services and partners are involved in developing an initiative. For instance, gaining agreement on business priorities and a vision for collaboration will be harder, as will the difficulty of building the business case. For this reason it is recommended that the primary questions mentioned in 4.1 are thought through carefully with the issue of practicality strongly in mind.

4.3 What partnering models are there?

Councils have a number of routes by which they might improve their services using shared services. This might also include outsourcing (or a mix of the two). The chosen approach will depend very much on the challenges faced by each council, its level of ambition, who it wishes to partner with, as well as its access to investment funds and its appetite for risk.

Four main models are described below (see also Figure 4.3):

- The in-sourced SSA
- The public-public SSA
- The public-private SSA
- Outsourcing and pooled procurement

This is followed by a discussion of the different vehicles and arrangements that could be used to support them.

Relationships that councils and suppliers have with SSAs and outsourcing arrangements

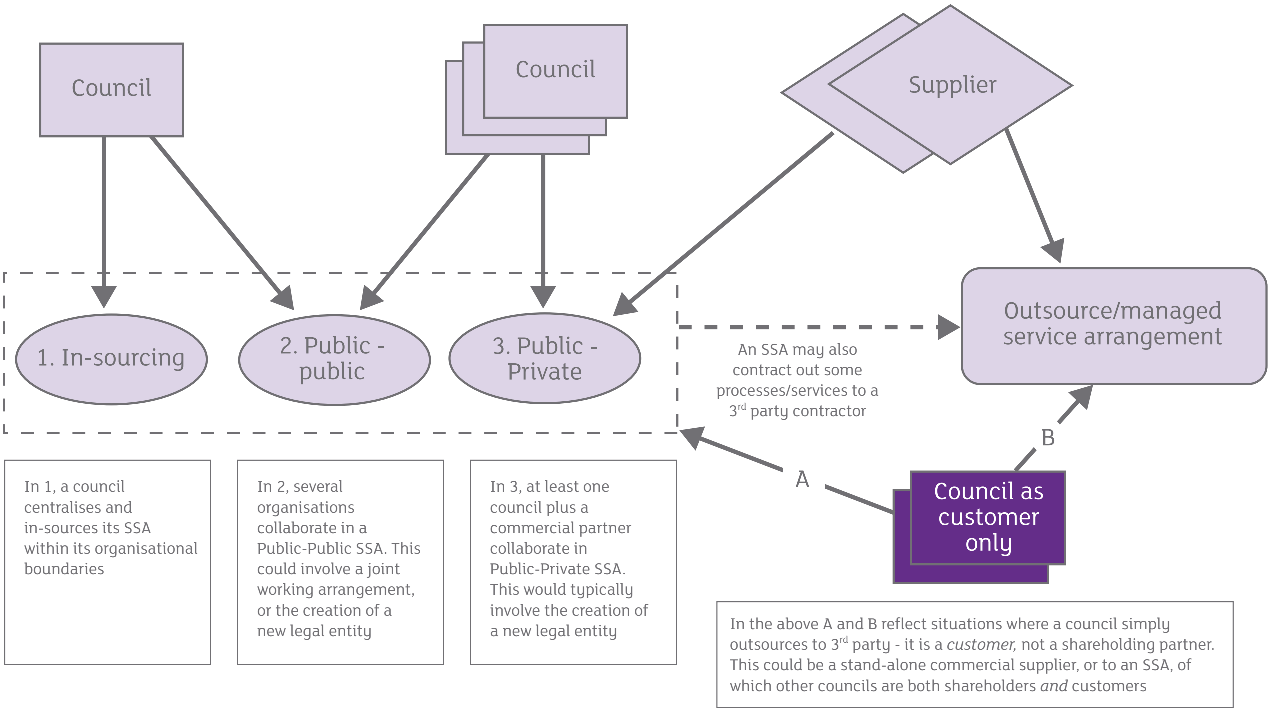


Fig 4.3: Shared service models

4.3.1 The in-sourced SSA (1)

In the most simple instance (1), common services, processes and related infrastructure inside the organisation are pulled together into an in-house operating unit. What differentiates this from run-of-the-mill centralisation is that the unit would be set up as a service organisation, complete with its own management structure, service level agreements (SLAs) and the development of relationship management roles to act as the business interface between the SSA and its internal customers.

This option is more feasible in larger public bodies. Such bodies, for instance, may have mini finance functions embedded within operating divisions or at different sites. This will not be the case, say, for a district council, although for a larger county or unitary council, the scale of operations may lend itself to this form of sharing.

Shared corporate services in HM Prisons

One SSA studied during the project was the HM Prisons shared service, based at Newport. This now undertakes much of the Finance, HR and Procurement work that was previously performed locally by 130 different prisons. Given the scale of operations (the service has to deal with some 600,000 invoices a year), HM Prisons is a big enough service to make an in-sourcing arrangement a feasible option.

Where in-sourcing can be done, it is clearly a reasonably straightforward approach: no external partners need to be brought on board, and the council is able to determine how it wishes its services and processes to be designed without consulting others. On the downside, such arrangements will not benefit from pooling investment capital and other resources with other bodies, and may not have the scale needed to bring about a step change in performance.

4.3.2 The Public-Public SSA (2)

For district councils the most meaningful shared services options begin with the Public-Public model. Here two or more councils (and perhaps other bodies such as fire authorities and Primary Care Trusts (PCTs)) set up their own SSAs. This might be done in a number of ways, depending on the partners involved, the aims of the collaboration and the legal issues involved in working together.

For instance, by using a **Lead Authority Model**, part or all of the service would be supplied by one council to another. A more collaborative approach would be a **Joint Service**, where a formal arrangement is created to which local authority partners delegate responsibilities for running a service.

Both of these approaches avoid the need to set up a separate legal vehicle and are relatively simple to do. However, they preclude the possibility of including non local government partners and restrict the scope for service trading. For these reasons, the partners may instead choose to set up a Joint Venture Company (JVC) in the form of **Company Limited by Guarantee** (where there is no intention of making a profit), or **Company Limited by Shares**. Figure 4.4 below provides more details on each of these vehicles.

> More advice on public-public service delivery models can be found in *Guidance for Collaborative Options Evaluation and appraising of service delivery models,* 2008, produced by the 4Ps and downloadable directly from the Local Partnerships website or via the link in the online appendices.

In both the Lead Authority and Joint Service Models, the services involved (and processes within them) would normally be located at one council site and provided to others. This would be a potential model where only a few local councils are involved (such as within a county boundary) and where there are no immediate plans for expansion or for trading the SSA's services.

In pooling resources between councils, and taking advantage of specialist expertise in each, the SSA would be relatively free from commercial concerns such as generating profits. Emphasis would be placed on bringing costs down and improving the quality of services delivered. Governance arrangements would simply involve the councils themselves, allowing for their needs as *customers* to be the main focus of effort.

Where the partners are seeking a more formal vehicle for collaboration – perhaps because of the numbers involved, or to allow for more management autonomy or opportunities for trading – they are more likely to set up a company limited by guarantee or shares. Such bodies would be able to sell their services to other organisations, some of which may prefer just to be customers instead of also being shareholding partners to the SSA.

Such an SSA may also involve a 'green-field' type organisation, with new infrastructure, processes and ways of working. On the plus side – particularly where it allows more partners to join - this might present more scope for improving the cost and quality of operations, as well as the culture of service delivery. On the other hand, because it is new and untried, it will normally have more attendant risks.

Whichever vehicle is adopted, the absence of a commercial partner to Public-Public SSAs may mean they have less access to investment capital than their Public-Private counterparts, as well as less shared service expertise and experience to draw upon. This may limit its potential for delivering a significant change in the cost and quality of operations in the short-term, unless the councils could afford to access such skills and services through a conventional customer-supplier contract.

4.3.3 The Public-Private SSA (3)

The third form of partnership model is an arrangement that also includes a supplier organisation as a commercial partner, typically via a Company Limited by Shares (after all, a commercial company would be seeking profits). Such a partner would normally come with the experience of setting up shared service ventures, or might be a technology or Managed Services Company. This model might even involve a consortium that has more than one such partner.

A Public-Private SSA might look very much like its Public-Public cousin, but would have some important differences. For a start, it would also be able to tap into the expertise and capital resources of its commercial member(s). This could include, for instance, knowledge around best practice process designs and technology configurations. It might also involve the ability to access other infrastructure owned and run by a commercial partner, perhaps via an outsourcing contract.

Governance arrangements and business priorities would also be different under this option. There would, as a matter of course, be a commercial side to the arrangement, and the need to ensure profitability. That said, as shareholding partners to the venture, the councils would have a large degree of control, although this would depend on the amount of shares held and the way governance arrangements are established. There would also be contractual arrangements and SLAs, which would enable the councils (as customers) to demand a particular level of service.

While this option would probably again be a 'green-field' organisation (new infrastructure, probably at a neutral location), depending on the commercial partner, the risks associated with it would be lower. (A comparison of the attribute of green-field, brown-field and outsourced arrangements is provided in appendix A4.2)

The Buckinghamshire shared back-office Pathfinder project

Five public service partners in Buckinghamshire have been working together to create a shared arrangement for back-office services. Those currently involved are the County council and three District councils, plus the Fire and Rescue service. However, during 2010 a private sector partner is expected to be procured via the Competitive Dialogue procedure, resulting in a public-private joint-venture model.

In-scope services for the SSA will include finance, HR, IT and facilities management, whose baseline costs across the partnership represent approximately £45m of annual spend. By operating a shared service for these areas it is expected that recurring savings of least £4m – around 10% - can be made.

Other Public-Private SSA models

A number of shared service organisations that were studied during stage 1 of the project fit into the Public-Private JVC model. This includes SBS, the shared financial service between the NHS and Steria; Customer Service Direct (CSD), the joint venture between Mid Suffolk District Council, Suffolk Country Council and BT; and South West One, whose partners include IBM, Somerset County, Taunton Dean Borough Council and Avon and Somerset Police.

In most cases, SSAs set up as Public-Private JVCs are also intent on acquiring new customers (some of whom may also become shareholders too). Such growth strategies offer potential future revenue streams, enabling the SSA to maintain investment over time and to establish itself on a sustainable scale. In doing this, the SSA may also act as a delivery body with which other councils may wish to contract on an *outsourced* basis, as we will see below.

4.4 Other service options

As well as sharing activities and processes, councils have other options that need to be considered as part of the decision-making on shared services. Of particular relevance to finance are issues around outsourcing and pooled procurement.

4.4.1 Outsourcing and shared services

In addition to being a partner to an SSA, councils have the choice of outsourcing their services to a third party. The conventional approach here would be to use the services of a specialist commercial supplier, as has often been done, say, in the case of IT outsourcing.

However, there is increasing scope to outsource to an *existing* shared service arrangement. In some cases, new councils may be able to join as both partners *and* customers, while others will simply wish to become *customers* to the service.

Where a council is just a customer, it is therefore outsourcing its services/processes to the SSA. That the arrangement is also a shared service to which other councils are both customers *and* partners (able to influence strategy and operations through their shareholdings and governance structures) may be a source of confidence. In addition to this, the fact that such arrangements have established some track record will make joining the arrangement as an outsourcing customer a much less risky step.

Of course, where councils are not partners/shareholders to the SSA, they will not normally have a major role in the governance of the organisation and thus be less able to influence its direction and priorities. Instead they will have to rely on contractual arrangements and the terms of SLAs. Nor will they benefit directly from new revenue streams or corporate profits (in the case of a Company Limited by Shares).

4.4.2 Pooled procurement of managed services

A further collaborative approach that might be of interest to some councils is the area of *pooled procurement*[1]. For instance, by using their combined purchasing power, a group of councils could secure an attractive deal with a service provider to deliver a shared IT system for finance and accounting. This would be hosted and managed remotely, with data held on the service provider's data servers.

Such a solution would be particularly attractive to councils whose current finance and accounting technology is out-moded and presents risks in terms of continuity management. On the downside, such approaches to sharing may miss opportunities for a more transformative approach to change, involving process redesign and a rethink of service relationships.

1 Pooled Procurement is one area where England's Regional Improvement and Efficiency Partnerships are playing a prominant role in the regions in supporting collaboration

4.5 Summary of shared service vehicles

As discussed above, there are four main vehicles that can be used to support shared service collaborations. These are set out in Figure 4.4 below:

VEHICLE	DESCRIPTION	DETAILS
Lead Authority	■ Services are delivered by a lead authority to one or more other councils under delegated arrangements ■ Involves a formal arrangement and is set up for a defined purpose ■ The services are delivered and managed within the decision-making framework of the lead authority	■ Incurs no additional tax or VAT liability ■ The lead authority would employ its own staff and could have staff on secondment ■ A separate one-to-one agreement would be needed for each authority receiving the service ■ Each authority will need to agree comprehensive details about delegation arrangements, supported by service level agreements
Joint Service	■ A formal arrangement is established for a defined purpose, which delivers services back to its partners or directly to the public ■ Services are provided to partner authorities ■ Policy is likely to be determined by local authority members, probably via a Joint Committee, but possibly through a simultaneous executive meeting ■ The service delivery model is managed by designated officers with delegated authority ■ Joint Service is often the starting point for the development of an SSA, which then matures into a different vehicle, such as a company	■ Avoids the need to set up a separate legal entity ■ Incurs no additional tax or VAT liability ■ Cannot enter into contracts in its own right ■ Does not have the authority to employ its own staff – these would be seconded by the host authorities ■ Does not allow non local authority bodies to join ■ More likely to have its own branding and sense of identity, but still likely to involve 'brownfield' infrastructure, rather than new locations and premises
Company Limited by Guarantee	■ Two or more authorities set up and run a company in compliance with the Companies Acts ■ Other public sector bodies, as well as third and private sector organisations can join too. In the latter case, EC procurement rules may need to be followed ■ The authorities will be the members of the company and a board will be appointed under the terms of the company's constitution ■ Public bodies need authority to set these up and must demonstrate the improvement of economic, social or environmental wellbeing in an area in so doing	■ Typically established for arrangements where there will be no profit distribution ■ The company is a legal entity in its own right and can enter into contracts and employ people ■ Income maybe liable to corporation tax and VAT structures will be changed ■ However, for member authorities, because services are provided by a subsidiary, they do not attract VAT or NNDR

VEHICLE	DESCRIPTION	DETAILS
Company Limited by Shares	■ This arrangement is broadly similar to the above, but is more likely to be used where profit distribution is expected and/or where private sector partners are involved. Again, in latter cases, EC procurement rules may need to be followed ■ As with a Company Limited by Guarantee, it will be set up and run as a company in compliance with the Companies Acts ■ Local authorities will be members of the company, with a board being appointed under the terms of the company's constitution	■ As with the above, this type of company is able to enter into contracts and employ people directly ■ This is likely to be the model preferred by private sector partners as it allows for profits to be made and distributed to members

Figure 4.4: Shared service vehicles

This is not, of course, an exhaustive list of vehicles that partners may choose from. One variant on the above, which is becoming popular for interorganisational arrangements such as legal services, is a **Limited Liability Partnership** (LLP). The LLP Act of 2000 created this new type of entity which limits partners' liabilities for partnership debts. At the same time, the Local Government Act 2000 facilitated LLPs as an option for local authority use. A local example of this vehicle is the Lincolnshire Legal Shared Service.

4.6 Summary of key sharing models

A summary of the sharing models described in this section is shown below in Figure 4.5. As discussed, even within particular options there are further routes to consider and decisions to be made. While 'sharing' is a theme running through all these models, some are more likely than others to result in something that might be referred to as a Shared Service Organisation – complete with its own sense of identity, branding, and with its own management structure and ethos. For example, a Joint Service model has more of the characteristics of an 'organisation' than, say, a Lead Authority Model. But then, a Company Limited by Guarantee or Shares would have a more definite sense of being its own service entity than a Joint Service model.

ARRANGEMENT	ADVANTAGES	DISADVANTAGES
In-sourcing	■ Avoids the problems involved with building external partnerships ■ May minimise disruption associated with redundancy and staff transfer ■ Limits the degree of complexity in terms of organisational, process and technology varieties	■ Limits the ability to share resources and experience with potential peer bodies ■ May not achieve economies of scale ■ Limits the injection of capital and expertise from specialist providers

ARRANGEMENT	ADVANTAGES	DISADVANTAGES
Public-Public	■ Where done on a 'Lead Authority' or 'Joint Service' basis it can minimise legal and procurement costs ■ Allows for resource and expertise pooling ■ Avoids the need to cater for commercial returns (as required by a commercial partner) ■ Can be more rapidly implemented (although a Company Limited by Guarantee will involve legal preliminaries)	■ Limits the injection of capital and expertise from specialist providers ■ May limit innovation and growth opportunities if vision only extends to a few neighbouring public bodies
Public-Private	■ Brings in external expertise and experience – minimising design and implementation risks ■ May provide for the injection of investment capital ■ Likely to produce more rapid results once implemented ■ Opens up new opportunities for innovation and growth	■ Will demand more legal and procurement resources than informal collaboration ■ May incur VAT liabilities in some areas ■ Will need to cater for a commercial partner's requirement for financial returns ■ Time involved in procuring partners and agreeing contracts/governance will defer the delivery of benefits
Outsourcing	■ Simpler and quicker to implement than setting up a new SSA ■ Transfers many risks to the third party outsourcer ■ Provides access to new technologies and processes, as well as specialist expertise ■ Quality and service levels can be clearly set out in contracts and SLAs	■ Limits the benefits of partnering, such as learning from peer bodies ■ If waste and inefficiency is not driven out before transfer, the outsourcer may be the chief beneficiary of any cost savings ■ Influence is limited to contractual arrangements and user groups, rather than being via governance of an SSA ■ While an SSA may reduce costs and secure profits, councils that are just 'outsourcing customers' to such an SSA may see few such benefits themselves
Pooled procurement	■ Simple and easy to implement ■ Minimises staff disruption ■ Minimises costs and risks associated with change	■ Where limited to a managed technology service, may miss the opportunity to redesign processes and delivery structures ■ Limits the opportunity for innovation and the injection of new expertise

The more the collaboration takes the form of a separate SSO, the more likely it also is to involve 'green-field' infrastructure, where new premises and technologies are used, together with a new (devolved) management structure and customer service ethos.

4.7 The task of appraising options

As the above discussions have highlighted, there is no simple answer as to what the options are in a shared service options appraisal. There are multiple dimensions to consider (partnering models, collaboration vehicles), and within these are options within options.

It is therefore a good idea to think in terms of choices around:

1. Partnering models – who are we sharing with?
2. Collaboration vehicles – how will sharing be done? And
3. Service portfolios – what will be shared through these?

By its very nature, this will suggest a number of potential sharing permutations, leading to a long list of options that will need to be whittled down before a short list can be appraised in depth.

Two appendices can be downloaded that provide more information on options appraisal. These are *General guidance for options appraisal* (A4.3) and *Key Questions in appraising shared service options* (A4.4).

redesigning processes and organisational responsibilities

Any form of service sharing will need to be clear about the content and form of the work that is to be shared. At its simplest this is a matter of deciding what work will remain at the council and what will be provided by the SSA – in other words, the 'splits of responsibility'. But it will also require a systematic examination of the processes involved, agreement on standards and policies, and the creation of new roles for managing the interface between the retained council functions and the service provided by the SSA.

Many of the benefits that come from shared services accrue because of related performance improvement methods applied to processes before, during and after the migration to a shared environment. Process analysis techniques (including related methods such as 'lean') are crucial here, in identifying where value-adding activity lies, reducing waste and generally improving the 'flow' of work across the whole business process.

5.1 Key principles in process redesign

The key rationale for any SSA is that services can be better provided through a grouping of councils (and other bodies) than they could by individual provision. However, services should only be transferred to an SSA if this can be demonstrated through the business case.

In order for this to happen, detailed work needs to be undertaken to understand the processes within scope and agree how they will be redesigned – using agreed standards – through a shared model of delivery. This will also be bound up with the baselining of costs and the building of financial models that calculate the costs-benefits of moving to a shared environment.

5.1.1 Understanding processes end-to-end

In order for common services to be accommodated within an SSA there are a number of practical issues that will have to be addressed. To begin, the 'end-to-end' processes that underlie each service and the customer's needs they meet will need to be examined, not least so that partners can agree what the common processes are and which should be in scope for sharing.

Because of the way work is passed between individuals and work groups within a council, there is often no overall view of the whole process, let alone a process map that shows the sequence of tasks undertaken. Process analysis at this stage will help ensure all partners are on the same page as they begin to think about change.

> To support this exercise, the CIPFA-SDCT project has produced a full set of end to end process models for finance and accounting in a district council, which are available for download as Appendix A5.2. The processes can also be viewed and edited in Visio (see Appendix A5.3) for those wishing to work with the maps using a process modelling tool.

5.1.2 Deciding what is 'in' and 'out' of scope

Having identified the end-to-end processes involved, agreement is needed on the processes that will be rolled into the SSA and which will be retained.

In-scope services: Services and processes that will be shared should reflect one or more of the following rationales:

- The standard of service will be higher if shared
- The overall cost of provision will be lower
- A more viable threshold is reached for investment in advanced systems and expertise (for example, having specialist category management skills)
- By grouping similar activities together attention can be focussed on narrower bands of work, allowing for more in-depth experience to be built up around specific service areas

Out-of-scope services: In contrast, there are several reasons why particular services or processes may be retained in-house:

- The services provide strategic direction and guidance to the council, which will vary in each case
- They help retain sufficient corporate capacity and capability to respond to the council's needs without further contract negotiation with the SSA provider
- They involve statutory responsibility (as with the Section 151 officer role). This is not a role that can be delegated and will still need to be performed by senior officer of the council who a qualified accountant.

Where a shared management team exists between organisations, it may be the case that the Section 151 officer is also shared. In this case thought may need to be given to bolstering the role of the Deputy 151 officer in each council.

5.1.3 Simplifying and standardising processes

At the start of any project, processes within the councils may be unduly complex, with significant degrees of 'non-value-adding' activity. Action should therefore be taken to simplify and streamline processes before or during the move to a shared environment. This will ensure benefits are realised early on and the SSA is better placed to optimise ways of working once services are transferred.

As partners clarify and compare how work is currently done, it is likely that differences in approach will become evident. It is important here that agreement on standards is reached, so that activities can be more easily combined across partner councils and the shared service operated in a predictable and productive way.

5.1.4 Identifying corporate client responsibilities

As we'll see when discussing 'managing service delivery' towards the end of the guidance, once an SSA is introduced councils will need to perform a 'corporate client' role, to monitor and engage with the SSA in order to ensure that services are provided as agreed. As well as redesigning processes, therefore, mechanisms will need to be put in place to do this, so that service variances can be highlighted and corrective action undertaken.

5.2 Distinguishing between transactional and specialist services

In broad terms it is possible to distinguish between two types of work that might come within the scope of an SSA: transactional and rules-based services, and non-transactional or specialist services.

5.2.1 Transactional and rules-based services

These types of support are often at the core of SSAs, particularly in areas such as finance and accountancy. They relate in particular to areas where predictable and repetitive work is involved, as in processing invoices, making payments and performing basic accounting tasks.

Much of this type of work can now be automated – providing, of course, there are sufficient funds to invest in the right technology. This would involve use of document scanning and recognition tools, particularly 'automatic invoice capture' software, which allows for electronic matching of payment details. Further productivity gains can also be made using workflow technology, which handles the receipt and handling of work between touch points in the business process.

5.2.2 Specialist services

These services currently have to be bought in by many smaller councils. For instance, in the finance area these include VAT advice and market analysis in support of treasury management. Because of the larger client base, an SSA provider should be able to provide many of these services itself, either directly or on a brokered basis, allowing for centres of expertise to be established. Such work does not involve routine processing (as with transactional services), with performance levels being more dependent on the skills and experience of staff than the technology available to support it.

5.3 Redesigning financial processes for a shared environment

To provide an illustration of what the above might look like in a council SSA, we will now return to the example of finance and accountancy. The process designs and splits of responsibility here will be based on the idea that there is a very significant degree of commonality across councils (and other bodies) in the provision of services. The extent of sharing will vary according to the specific processes involved; but where there is common service content, this will lend itself to being included within the scope of the SSA.

5.3.1 Transactional and specialist services in finance

The factors that determine the type of common service involved will reflect whether 'transaction' or 'specialist skills' (or a mixture of both) characterise the process/service area in question. Examples are shown in Figure 5.1.

FINANCIAL SERVICE ACTIVITY	TRANSACTION BASED ELEMENT	SPECIALIST BASED ELEMENT
Purchase to pay	Processing of invoices	Category of spending management
Sundry debtors	Processing of debtor accounts	Debt recovery
Maintaining the general ledger	Processing of journals	Interpretation of accounting ratios
Financial management	Minimal	Advisory services
Treasury management	Minimal	Daily cash management to the preparation of the treasury management strategy
Internal Audit	None	Regularity to specialist audits

Figure 5.1: Activities involved in financial services

5.3.2 Splits of responsibility in finance

Having understood the nature of the processes involved, decisions will need to be taken on how tasks will be split between the retained council function and the SSA. In the example below we look at the Purchase to Pay process within finance. Other processes and service areas are discussed at length in appendices A5.1 and A5.2.

Figure 5.2 suggests how activities within each sub-process might be split between the retained finance function and the shared finance organisation.

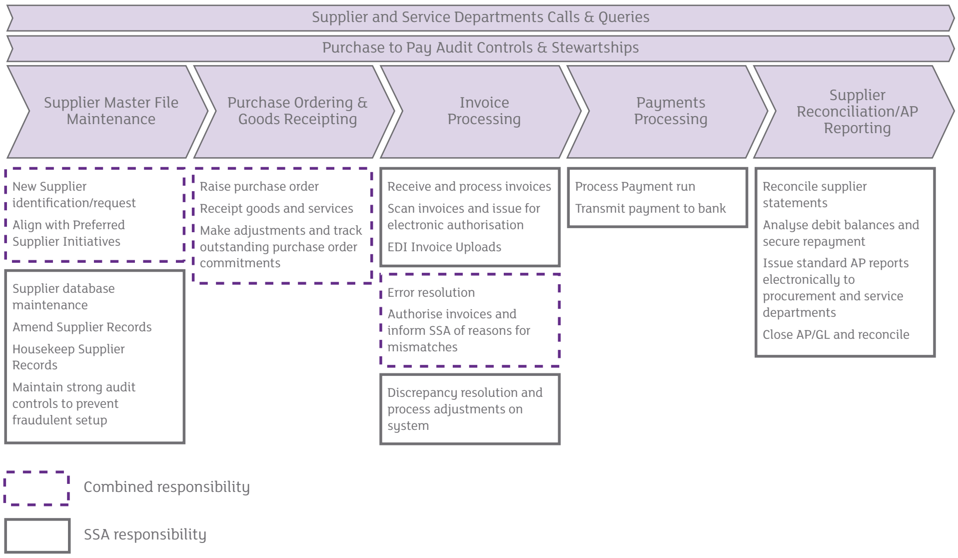
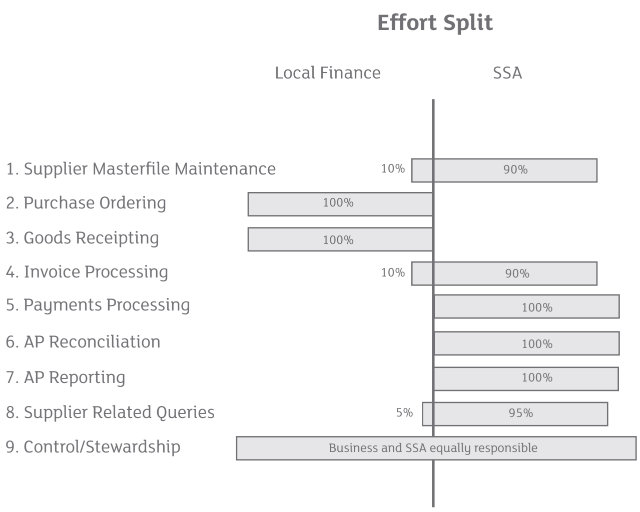


Figure 5.2: The Purchase to Pay process

The split of effort is set out in more detail in Figure 5.3 below, which indicates what this division might look like in % terms.



Respective roles of Local Finance and SSA

- Supplier Masterfile Maintenance - SSA will receive notification from Local Finance for a new supplier to be setup. Amendments to suppliers details received at SSA
- Purchase Ordering - Service Departments / procurement raise purchase orders for all Goods and Services
- Goods Receipting - Service Departments Receipt Purchase orders and deal with variances where possible
- Invoice processing - SSA will receive invoices centrally and scan in for electronic authorisation by Service departments via email. Maximise electronically received invoices and EDI. Discrepancy resolution - jointly resolved with primary onus on purchase orderer to notify when goods receipting (defined in SLAs)
- Payments Processing - automated when PO matches GRN and invoice according to terms and conditions contained in the system. Automated links for transmission to bank for payment by BACS
- AP Reconciliation - Integrated system should ensure integrity. Supplier statement reconciliations performed on exception basis
- AP Reporting - AP reports available online
- Internal/External Supplier Queries - Service departments and suppliers information and queries will be satisfied with secure web online access for up to date status
- Control/Stewardship - SSA will coordinate the external auditing and will provide information when required in coordination with Local Finance.

Figure 5.3: Split of effort in Purchase to Pay

5.4 Other uses of project outputs from this stage

As mentioned, the appendices to this section give more information on Purchase to Pay and the other finance processes. They provide an example of the sort of analysis and redesign work that will need to go on across all in-scope services. Such outputs will also help in:

- Building the business case for change – helping managers and business analysts assess what resources will fall within the SSA, what will be retained and what might be saved (see Section 6 for more details)
- Developing specifications of work, which can inform the development of Service Level Agreements (see Section 8)
- Producing new job specifications and identifying training needs – for both the SSA and the retained organisation (see Section 11 on People issues, for instance)
- Assisting systems designers is producing workflow designs and application interfaces.

building the business case for change

Like any major change, effective management of the business case will be central to a shared service development. Over time, the business case will take on several forms, with increasing level of detail in the analysis provided. In doing so, it will be supported by a range of financial models and other forms of analysis.

6.1 Key concepts and principles in shared service business cases

During early discussions, the business case may be little more than the main rationales for change (e.g. to save money, or to improve service quality). Before long a 'strategic' - or 'outline' - case will need to be set out, aligning shared services with broader plans and goals. As the initiative proceeds, a 'full' case will need to be articulated.

The key points to remember here are that:

- A business case is not a one-off exercise but should be developed and updated iteratively throughout the lifecycle of any initiative, to support the exploration, evaluation and implementation of different options
- The business case work required when looking at feasibility will be high-level and relatively low-cost, compared to the later work that supports major investment decisions and resource commitments

6.1.1 Why do we need a business case?

The business case plays a number of important roles during any change project. It:

- Provides background and context to the shared service proposals
- Articulates the reason for change, to help ensure the support and approval of key decision-makers
- Communicates business needs and options for meeting those needs
- Estimates costs, benefits and related financial metrics of the proposed solution
- Sets out a baseline for project management and future benefits tracking
- Establishes what success will look like and criteria by which it should be measured

The development of the business case is thus a complementary exercise which also supports other activities during the project lifecycle.

6.1.2 Project lifecycle and business case levels

The issues addressed by the business case will remain very similar during the course of the project lifecycle; however, the level of detail will increase with additional work needed in some areas to collect and verify data and project assumptions.

There are typically three levels/types of business case:

- A *Business Rationale* may be put together at the start of partnership discussions to set out the high-level options and drivers for service sharing. At this stage the business case will be no more than a summary statement, to enable those responsible for approving further work to take an informed view on the best way to proceed
- An *Outline* - or strategic - business case will be the first essential document. This should have enough detail to support an informed decision on which options to take forward for further consideration, as well as to help in setting out the project scope. At this point the work will still be very much desk-based in nature. It will also cover mostly business (as opposed to financial) issues, although an initial view of the costs, benefits and risks should also be included - perhaps informed by budgetary and benchmarking data

> See the project's Financial Model A (A6.1), for support in decision-making at this stage and in developing benchmarking data on corporate services. This can be downloaded in Excel.
>
> See also the project's Consolidated Business Case Model (Model D, appendix A6.4) for an illustration of what the business case document might look like (please note that this assumes a focus on finance for the shared service initiative). This can be downloaded in Word and edited for local use.

- A *Full Business Case* will be produced once significant resources have been committed to the project and more detail on costs and potential savings have been calculated. This document will be an updated version of the Outline Business Case (again, see appendix A6.4 here.) The Full Business Case will record the outcomes of the options appraisal, with a detailed financial model to support the preferred option. It will also include a discussion of the project's procurement strategy (where appropriate)
- The Full Business Case is the one that decision-makers will need to sign-off and 'own', as from this point in any project it will become the key reference document for releasing funds and judging the ongoing viability of the proposed change

> See the project's Financial Models B and C (A6.2 and A6.3) for supporting the Full Business Case. These focus on finance related activities and can be downloaded in Excel. A broader model will need to be built to accommodate other services that are within scope.

6.1.3 Consolidated, individual and SSA business cases

In putting together the different business case documents, it is important to remember that costs and benefits will need to be shown for each partner, as well as for any new shared service arrangement. This will ensure that all stakeholders can see that the business case(s) make sense from both the client side - as the councils receiving the new (shared) service – as well as from the service provider side (the SSA, which may be a legal entity in its own right).

> The project's Financial Model C (A6.3), in Excel, provides a means of calculating the financial viability of the SSA itself and the recharges it should provide to clients. Recharge data will be needed in Model B (A6.2), to understand costs and savings over time. Data from Model B will therefore inform the Full Business Case and will also help populate Model D (A6.4).

Each council may still be weighing up alternatives to a sharing arrangement (such as internal reorganisation, process redesign and/or technology upgrade). Decision-makers will need to judge whether the case for the preferred shared service option is one they wish to sign up to. While the Full Consolidated Business Case will be a complementary document to this, some internal report is also likely to be required, which would need to be signed off by senior management and members.

6.2 Business case management during the shared service lifecycle

Work on the business case will support a variety of other activities across the shared services lifecycle (see Figure 6.1). This suggests three main phases, involving the evaluation of shared services drivers and options, the implementation of a preferred option (which could include an outsourced or managed service arrangement) and the evolution of the arrangement over time. The evolution phase could include extending the scope of services and partners, but definitely will include improving quality and cost.

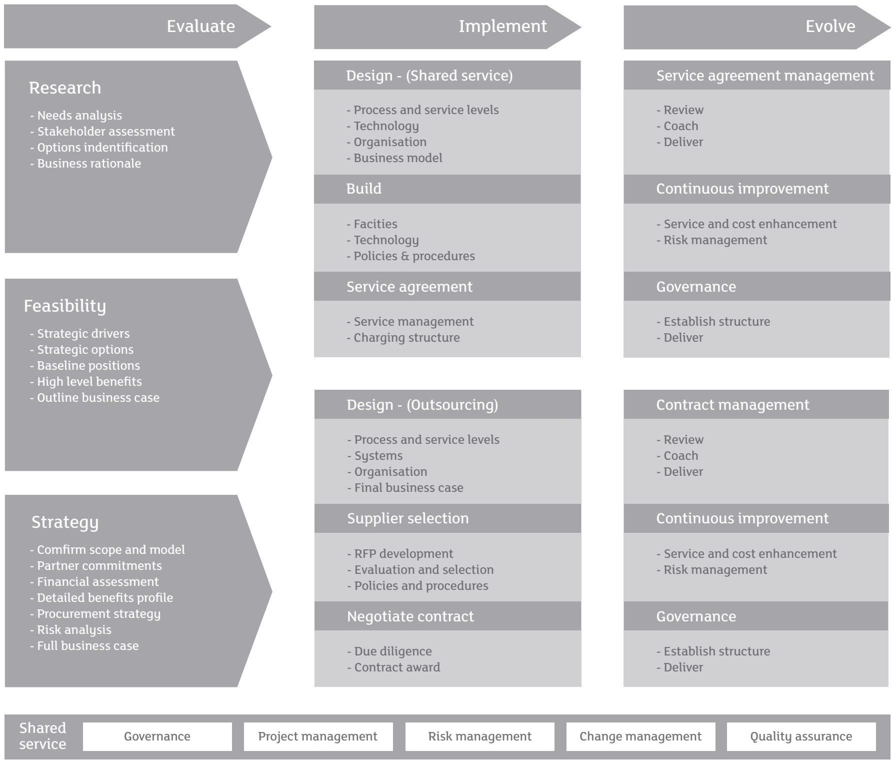


Figure 6.1: Shared service lifecycle

The journey to shared services usually starts with evaluation of options, starting at a high-level, with drill-down into more detail as the opportunity and understanding develops. There are typically three steps: research, feasibility and strategy. It is during this phase that most of the business case work will go on.

6.2.1 The research stage

This is undertaken to understand the potential that shared services have to offer. It starts with an identification of needs that shared services (or perhaps outsourcing) might help to address. Work here would include discussing and analysing other organisations' experiences of similar change (in person or via desk research), and applying that learning to the situation at hand. A benchmarking exercise – supported by a financial model such as Appendix A6.1 – would also be important at this stage. This would result in a potential set of options for change and a business rationale for it.

If the research indicates that shared services may be a valuable avenue to consider, a feasibility study would then be needed. This would evaluate the options available for taking the initiative forward.

6.2.2 The feasibility study stage

This will involve a relatively high-level exercise, which enables the council and its partners to understand the possibilities for sharing (what is both technically and politically feasible) and the likely level of costs and benefits associated with it. (See Section 4 of this guidance for advice on the options and how to appraise them.) Work here will usually focus more on the strategic drivers and options than on the detail of the shared services solution. Assuming that the feasibility study is positive, and the council and its partners want to proceed, the discussion of options will be included in the Consolidated Outline Business Case, which will also identify a 'preferred' option.

At the feasibility study stage a business decision is needed as to whether a viable case for shared services exists, with approval for expenditure on developing a shared services strategy and full business case. Outputs from this will inform the outline business case. Analysis here will still therefore be at a high-level, looking at:

- Business needs and policy drivers
- High-level options assessment
- Likely shape of any operation (its scope and how it will work)
- Potential sourcing options
- Likely risks
- Cultural and political acceptability
- Outline implementation plans and timescales

Key points to bear in mind here are that:

- This stage is about the principles of shared services and strategic fit – not fine detail, such as the exact scope of services and split of responsibilities
- In terms of financial costs and benefits analysis, broad estimates of headcount and costs should be sufficient to support a strategic decision. This should be supported by a baselining and benchmarking exercise, as illustrated by Financial Model A (A6.1).
- Benefits can be estimated by reference to a high-level understanding of process maturity and comparative benchmark indicators
- The decision to proceed or not is likely to be based on a broad understanding of the strategic needs, options, risks and timescales. Very detailed cost analysis would be wasteful at this stage if a no-go decision is taken
- The level of detail needs to fit the requirements of the organisation, and the amount of work is highly dependent on the size and complexity of the partnership and service portfolio under consideration

If the council and its partners are confident that it will move forward into development of a shared services strategy (for example, because of the benchmarking exercise), it may decide to bypass the feasibility study altogether. However, decision-makers will need to be confident that they have explored a broad range of options before they do this so as not to foreclose consideration of alternative routes too early, as well as to identify a preferred option to focus on at the strategy/full business case stage.

Key external and internal considerations at this stage are shown in the box below.

Considerations during the feasibility study stage

EXTERNALLY	INTERNALLY
■ Which organisations do we know have shared services? ■ What form do these take and why did they adopt them? ■ What did they do to create shared services? ■ What benefits have they achieved? ■ Where are they located and why? ■ What are the pros and cons of the various shared services options?	■ How do shared services fit with our strategic aims? ■ What are the key drivers and business imperatives? ■ What needs to change before shared services can succeed? ■ What are the potential solutions? ■ What are the potential risks? ■ What are the likely challenges in managing stakeholders? ■ Can we get the benefits from change in the required timescale?

6.2.3 The strategy stage

This stage takes place once a preferred option has been established and a consolidated Outline Business Case developed. The feasibility study stage is about asking the fundamental question, “Why should we do shared services?” The strategic study stage is about developing a clear strategy for making this happen – in other words, “How should we do it?”

By now the potential partners to the collaboration should be in a position to produce a clear shared services strategy describing the end goal and blueprint for the SSA, including:

- Who the partners will be
- Service and process scope
- Outline design
- Sourcing and financing strategy
- Timeline and forecast of costs and savings

The strategy will thus inform the Full Consolidated Business Case and be supported by financial models for (a) the partnership (what it means for them as ‘customers’) and (b) the SSA itself (what it means to the shared service ‘provider’).

Taken together, this will be used to give a clear sense of direction to the whole initiative and will be a key reference point for all partners (and potential suppliers) to use.

The key points at this stage are that:

- At the end of the stage the council/partnership will have a high-level blueprint of the processes, systems and operating models, plus a business case and an implementation approach
- There should be stakeholder buy-in and approval to proceed. The business decision supported at the end of this work is to either stop, or move forward to commence detailed design and/or (potentially) supplier selection
- The topics covered in the business case will be broadly similar to the ‘outline’ business case, but with a drill down into more detail

- The strategic argument for shared services is unlikely to differ much from the feasibility study stage, but the process, systems and financial analysis will refine the work undertaken in it
- It will provide factual evidence, particularly in relation to the current costs, headcount, and process maturity
- The benefits part of the business case will be assessed based on the detailed understanding of the current position and comparison to benchmarks

6.2.4 Business case work at the implementation stage

Once a Full Business Case and Shared Services Strategy are signed-off, detailed design can commence, covering the future operating environment – processes, technology and people – for both the SSA and the retained function. The business case will need to be updated during this process to reflect the actual (as opposed to anticipated) expenditure and savings.

Once implementation has started, project work usually takes one of two routes: either building and operating the shared service itself, or in some cases outsourcing it.

- In the shared service route, the council/partnership – and possibly its suppliers – needs to design its own processes, build the shared operation, transition and operate the service
- With outsourcing, most of the build and design work is done by the contractor, and the council's main responsibility is to design and operate the retained function, and to ensure successful transition of the services to the new service provider

Whichever route is chosen, the business case will remain a 'live' document throughout and be a key reference point in the planning for and realisation of project benefits

6.3 Financial models and the shared services business case

In managing the business case through the shared services lifecycle a range of financial models will need to be produced. The principal requirements of these are shown below. The detailed structure and content can be constructed by individual councils to reflect their particular needs and circumstances.

6.3.1 Key areas of financial analysis

The financial impact of any proposed SSA needs to be expressed at various stages along the shared services journey. In terms of financial analysis and management, these can be broken down into:

1. Investment analysis – is there a prima facie case for change? These are issues reflected in the Business Rationale and Outline Business Case
2. Assessment of the operational service and financial implications for all partners - as found in the Full Business Case
3. Analysis of the service provider viability - in other words, the model that shows the financial implications for the SSA itself
4. Development of the medium term financial plan – establishing an expectation for future investment and benefits (which each body itself will need, as well as the SSA)
5. Setting the annual budget (again, for each partner body and the SSA itself)

As mentioned, the CIPFA-SDCT project has produced spreadsheet models to support 1-3 here. It has also created (in Word) a model business case document. The relationship between these can be seen in Figure 6.2. All models can be downloaded and have been pre-populated with sample data.

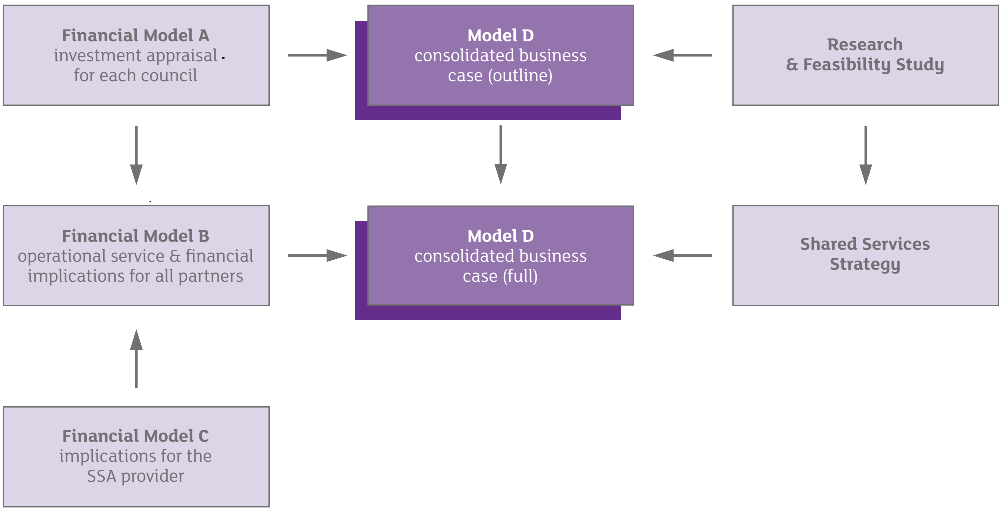


Figure 6.2: The relationship between financial and business case models

6.3.2 Investment appraisal - Model A

Best practice demands that all new investments, whatever combination of capital or revenue, should be subject to a robust investment appraisal process. This is to ensure the optimum use of council resources.

An investment appraisal should evaluate all relevant costs and benefits, both financial and non-financial. As CIPFA guidance states: 'knowledge of costs and cost behaviour is an essential ingredient for effective decisions[1].'

It is important here to understand the inter-twining of the financial and operational implications for any in-scope service. This will probably lead to an investment appraisal of a generally higher standard.

An investment model that highlights the relationship between financial performance and potential savings for corporate services is shown in Financial Model A (A6.1). This model also compares the in-house finance function with upper quartile performance of world-class organisations, in terms of both cost and performance. The model can also be used for other services such as HR and IT.

By assessing the relative performance of in-house provision with broader benchmarks in terms of world-class standards, a performance/cost gap can show the potential for the in-house service to improve.

6.3.3 Operational service and financial implications - Model B

The Full Consolidated Business Case shows the impact of the SSA on several participant councils. This is supported by a consolidated financial model (Financial Model B, A6.2). It is, in part, the summation of the individual costs-benefits of the participating councils but also identifies the added-value gained through the councils coming together to form a larger SSA. The business case considers the financial impact on all the primary financial statements over a medium to longer-term period. This includes capital spending, income generation, projected overall cost savings and additional costs.

1 *A question of cost: how cost behave and how to control them*, CIPFA, 1995

This Full Consolidated Business Case will therefore stipulate the following:

- Definition of both in-scope and out-of-scope services and functions
- The role and size of the client side organisation
- The 'quantum' of resources available for in-scope services
- The preferred employment model, principally whether TUPE or secondment
- Price performance mechanisms that will apply
- Responsibility for investment needed to maintain services
- Responsibility for investment needed to develop services and the basis for funding
- Respective liabilities of client council and provider

6.3.4 Financial Model for the SSA/provider of the shared services – Model C

The finances of the shared services provider (the SSA itself) will need to be understood in their own right. The provider model will in part have a mirror image of the collective SSA participants. There will, however, be differences to take into account such as the organisational and governance structure.

The provider model needs to incorporate all aspects to demonstrate a viable business organisation and as such will feature cash-flow and balance sheet projections. Perhaps in contrast to the participant councils, many set up costs and any investment cost will need to be recovered from future income streams (via charge-backs to the council clients).

The charge-back figures from Model C will also inform Model B. This will give the model (and the councils) the costs – and thus savings - on a year-by-year basis for the services that have been migrated to the SSA. Taken together with other cost and savings data, Model B will then be able to assess the overall cost and savings the SSA will deliver to each council, as well as the partnership as a whole.

6.3.5 Medium term financial plan (MTFP)

For an organisation to manage its financial health effectively, best practice dictates that an annual budget is not sufficient. Such budgets need to be set in the context of a longer-term financial plan. Ideally, this includes a rolling forecast (typically covering three to five years but sometimes up to ten years) that is updated on a cyclical (usually annual) basis.

The MTFP will be informed by the investment appraisal and Full Business Case, in order to recognise their impact on the councils' resources over the medium term. A key connection for the MTFP is to link financial planning needs to the organisation's strategic and corporate plan (this will be the case for each member of the shared service, as well as the SSA itself). Financial plans should reflect the councils' strategic priorities and this will invariably include proposed shared service arrangements.

The figures that feed the MTFP are those that are the best available at the time and can be broad estimates for schemes which will not start for another say three to five years. As schemes become more imminent the requirement for accuracy increases to a point where there is little or no difference between projections in the MTFP and the annual budget.

Annual financial plans, integrating current expenditure plans and investment programmes, with cash-flow and balance sheet projections, should be developed in the context of a longer-term financial strategy, which supports the organisation's strategic plan.

6.3.6 Annual budget

In line with the statutory duty for councils to set a budget for the forward year's expenditure, there needs to be a high-level of confidence in the estimated expenditure and income figures associated with an SSA. As in other areas, the annual budget will be monitored and controlled on a budget heading and line by line analysis.

formulating a procurement strategy

Depending on the shared service model adopted (particularly who the partners are), the costs and complexities of shared service procurement can vary hugely. As public bodies, councils will be bound by a range of legal obligations under the various local government Acts and EC Public Procurement Law. This section is intended to highlight some of the key issues involved. More details can be found in the appendices to this section (and Section 14 on legal issues). As always, specific legal advice should also be taken.

7.1 Purpose and contents of a procurement strategy

7.1.1 Why is a procurement strategy important?

Procurement refers to the process of acquiring good, works and services. It includes the whole process of acquisition from third parties and also from in-house providers. Procurement involves more than just 'buying', but covers the whole lifecycle from identifying needs through to the end of a service contract and disposal of assets. It also covers the appraisal of 'make or buy' decisions and the evaluation of different models by which needs might be satisfied.

For these reasons, the input from procurement experts will be crucial to any shared service initiative. Not only will they be able to provide support and advice on legal and contractual matters, they will also be able to make a major input into business decision-making around collaboration models and the choice of suitable partners.

An effective procurement strategy should help to ensure that the process of procuring shared services (and the partners to them) will:

- Be aligned to the drivers and strategy for change
- Find the optimal means of meeting its requirements
- Maximise value for money
- Be consistent with Financial Rules and Regulations
- Be compliant with public service obligations and legal duties

7.1.2 What should a procurement strategy cover?

Fundamental to shaping a procurement strategy will be identifying precisely what the council and its partners are seeking to achieve by sharing services. As we saw in Section 6, this should be articulated in the rationale for change and in different versions of the Consolidated Business Case. In addressing the procurement implications here, a number of key issues need to be raised:

- **Value for money considerations:** Councils have a statutory duty to deliver best value. This is not simply a financial matter but will take into account a range of other service delivery and quality issues. It will be important to address the overall balance of factors in shaping the procurement strategy and how this is delivered.

- **Legal requirements:** Legal issues to address in the strategy will include whether:
  - The council has power to enter into an arrangement with the bodies under discussion
  - There is the ability to delegate the discharge of a given function to the SSA
  - There are legal requirements as to governance of the shared service
  - It is envisaged that the SSA will provide services in a wider market on a trading basis; in which case the provisions of Section 95 of the Local Government Act 2003, requiring the formation of a company, may be relevant.
- **Policy drivers:** Councils operate in a political environment and are heavily driven by policy considerations. The creation of a shared service will need to take into account the respective policy drivers of the partners and in particular ensure that there is a degree of consistency.
- **Future flexibility:** It is also important to identify, as far as possible, any future changes that may occur in the scope and nature of the services provided and the partners involved. The implications of this will need to be allowed for in the procurement strategy, as otherwise future options to expand the SSA may be limited. It will also be helpful to build into partnership arrangements the flexibility and process to deal with future changes in requirements.
- **SSA procurement needs:** Finally, while the procurement strategy will inevitably focus on the steps needed to bring together the shared services partnership, it will also be necessary to look at the procurement needs/ obligations that the SSA itself will have once it has been put in to place.

7.2 Procurement options

The options open to a council in creating an SSA, and the steps needed to achieve it, will to a large extent depend on the other body (or bodies) with which it is seeking to partner. In particular there will be different considerations depending on whether the selected model proposed is one simply between local authorities or whether it also involves other public services and/or private/voluntary sector bodies. These issues are looked at in turn below and are closely aligned with the shared service options discussed in Section 4.

7.2.1 Can we legally enter in to a shared service arrangement with the body in question and in the form envisaged?

A key determinant will be whether the proposed SSA model involves the delegation of the discharge of a function to another body. This concerns whether the SSA will be taking a decision on behalf of the council or exercising one of its statutory powers or duties. It also involves the matter as to whether what is proposed is merely the provision of service or assistance to help the council discharge its functions itself.

7.2.2 SSAs that do not require separate legal entities

If the proposal is to share services with another local authority without creating a separate legal entity such as a company, then there is a range of powers available which facilitate this. The law, in general, permits:

- A local authority (or its executive) to arrange for another local authority (or its executive) to discharge a function on its behalf (and for that other authority (or its executive) to do it)
- For two or more local authorities (or their executives) jointly to discharge a function
- For one local authority to provide services or make staff available (as opposed to discharge a function) to another local authority
- A combination of the above

7.2.3 SSAs that do require separate legal entities

If the proposal is to set up a separate legal entity to deliver the shared services – such as a joint venture company (JVC) limited by shared or guarantee - this may impose restrictions on the ability of the councils to delegate functions to the JVC. Normally a local authority can only delegate the discharge of a function to:

- Its executive
- A committee or sub-committee (depending on the function)
- A member of its executive
- An officer, or
- To another local authority

Certain functions can be delegated to a JVC under the Deregulation and Contracting Out Act 1994 and orders made thereunder. Of particular relevance for financial services would be:

- The administration of Council Tax, community charge and NNDR
- The investment of sums of money (excluding pension funds)
- Income Related Benefits
- BID Levy billing, collection and enforcement

The Government has power to extend the list of functions, but this cannot be guaranteed. The restriction on delegation would not preclude the delivery of services as a contractor where no delegation was required.

Where a shared services proposal involves a public body that is not a local authority, it will be necessary to establish whether there is specific legislation permitting co-operation in the manner envisaged, including the extent of permissible delegation. Most public bodies will be organisations within the meaning of the Local Authorities (Goods and Services) Act 1970, enabling services to be provided by a local authority where no delegation is required.

7.3 Decision-making structures

If a council-based public-public model is adopted then local decision making structures will apply to the governance of the shared services arrangement:

- Under the Local Government Act 2000 and the Local Government Act 1972, executive decisions may only be taken by the executive, a committee thereof, a member of the executive or an officer. Non-executive decisions can only be taken by the full council, a committee, sub-committee or an officer
- In either case meetings will need to be run under the relevant statutory provision including the appropriate Access to Information provisions. There is therefore little scope for decision-making bodies that include non-councillors
- A company structure, being governed by Company Law rather than Local Government Law, would enable a board or other decision-making body to have any composition that the partners chose. It may also be subject to certain Access to Information provisions in terms of its meetings

7.4 Governance Structures

If the SSA is one solely between local authorities, and no company structure is put in place, then governance arrangements will be relatively straight forward. Decision-making processes will be based on local government structures. They will need to recognise the distinction between executive and non-executive functions, but it will afford the ability to delegate either to a joint committee, sub–committee, individual executive members or officers. Rules about the holding meetings in public and publication of minutes and background documents will also apply. Other issues to consider might include:

- Standing Orders
- Financial Regulations
- Contract Procedure rules
- Overview and Scrutiny Arrangements for constituent authorities
- Complaints Procedures

If a company based structure is used it could be either a Company Limited by Guarantee or Shares.

A Company Limited by Guarantee would not have a share capital but the members would agree ("guarantee") to contribute a notional sum, for example £10, in the event of the company being wound up. This would be the legal limit of liability of the members, as members (as opposed to any liability taken on in some other capacity such as under a contractual financial guarantee) for the debts of the company.

A Share Company would mean that the members (partner bodies) would be shareholders. Each would purchase shares in the company. Members' liability would be limited to the unpaid value of their shareholding. As shareholders, they would be entitled to receive a dividend if the SSA were to make a profit. This would make it more suitable if the company had a commercial basis in the market.

In either case, the SSA's Membership and the composition of its board would not be restricted by Local Government Rules. This means that it could comprise executive and non-executive members, officers, and nominees of other partners, or independent members. The company would be a separate legal entity in its own right and would have legal capacity, among other things, to:

- Employ staff in own right
- Enter contracts in own right
- Own property and assets

7.5 Constitution, governance and set up

The basic constitutional documents of a company will be its Memorandum and Articles of Association. These will need to define the objects and powers of the company and deal with the decision-making processes. In addition it might be prudent to have a Members' Agreement between the members and the company, particularly if councils were not the sole members. This would be designed to cover off any issues that could not be dealt with through the Memorandum and Articles. One issue may be the question of funding and allocation of functions.

A Company potentially has an indefinite life. The members/partners will need to consider whether a timescale may be required, if only an initial time period reviewable from time to time. These are matters which may be included in a Members' Agreement.

Whilst it is possible to set up a standard company very quickly, in this case we would suggest that time will need to be allowed to create bespoke Memorandum and Articles and to draft and negotiate any Members' Agreement that may be needed. Under the Companies Acts, there will also be on-going requirements with regard to a range of matters such as the keeping of accounts, audit and the filing of annual returns at Companies House.

In a ‘winding up’ situation, the liability associated with a company may be minimal; however, there are ongoing implications of accounting for a shareholding. The rules for deciding whether the shareholding represents an associate company are changing due to the adoption of IFRS – from ‘significant influence’ to ‘power to influence’. This is likely to bring a proportionate share of profit and loss onto the council balance sheet.

There would also be a need to consider the impact of Part V of the Local Government and Housing Act 1989. This legislation imposes various requirements on companies that are under the control or influence of the council and are not arms-length companies. The test is largely focused on votes at general meetings or board meetings and may be triggered by a threshold of 20%. If the company is regulated under the Act, it will be required:

- To mention on all business letters, notices and other documents of the company the fact that it is a company controlled, or, influenced, by the council
- Not to pay to a regulated director remuneration in excess of the maximum amount
- Not to pay to a regulated director an allowance, or reimburse expenses, in excess of the maximum amount
- Not to publish any material that the relevant authority would be prohibited from publishing by Section 2 of the Local Government Act 1986
- To remove any director who becomes disqualified for membership of a local authority otherwise than by being employed by a local authority or a controlled company
- To provide, and authorise or instruct its auditors, to provide information to the council’s auditors
- To provide to the council information about the affairs of the company as that authority may require for accounting purposes
- To obtain the Audit Commission’s consent to the appointment of its auditors
- To make available for inspection by any member of the public a copy of the minutes of any General Meeting of the company

If the company is regulated, it may be treated as part of the council for purposes of Prudential Borrowing and other accountancy treatment

Section 12 sets out how governance roles and structures might work in general terms, whichever collaboration model and legal vehicle is adopted. This also shows the relationship between customer groups, the governance board and the SSA management team, and how these are interlinked to ensure effective decision-making and performance management.

7.6 Contract form, content and terms and conditions

The form of contract involved in setting up the SSA – as well as the associated terms and conditions and service level agreements – will depend on the precise arrangement in question, including the services within scope and the partners to the arrangements.

Section 8 looks at the issues of service levels in some depth. More details on the items that might be covered in a contract are set out in Section 14 on Legal issues.

7.7 Impact of EC Public Procurement rules on selection of partners

A local authority or other public body must comply with the requirements of the Public Contracts Regulations 2006 (the 'Regulations') before entering into a written contract for the acquisition of services (or Supplies or Works). However, the application of this principle to shared services models is complex. This area of the law is still developing and a number of important cases from both the European Court of Justice and UK Courts have been decided in recent years. Legal advice should be taken at an early stage to help shape the particular proposal.

The Regulations do not apply when a council delivers services in–house. Care needs to be taken, though, when services are delivered on a shared (partnership) basis, to ensure that the arrangement is not structured in such a way as to require procurement under the Regulations. Clearly this would make most SSAs impossible to set up, as the council would only be able to contract with the body, whether public or private, which submitted the 'lowest priced' or 'most economically advantageous' tender.

The European Court of Justice has recently ruled that co-operation between public bodies may not require competitive tendering where:

- There is no private sector involvement
- The co-operation is to ensure a public task is carried out that all have to perform
- No financial transaction other than reimbursement of expenditure is incurred on their behalf
- The partners are not trying to circumvent EC procurement rules

However, this would tend to suggest that contracts for services between public bodies may need procurement if the arrangement is:

- Contractual rather than a shared service and/or
- Essentially done on a commercial basis rather than mere reimbursement of shared expenditure

If a separate legal entity such as a company is formed to deliver the shared services, the contract between the company and each council is prima facie one to which the Regulations apply and therefore would need to have been preceded by a procurement exercise. However, the European Court of Justice has ruled that in certain circumstances, it would treat such a company as being equivalent to an in-house department and that no procurement would be required. The so-called 'Teckal' test is relevant where the company is:

- Wholly owned by the shared services partners
- Subject to same level of control as a internal department
- Performs its main business for the partner authorities
- There is no private sector involvement

Whilst this ruling can apply to SSAs owned by more than one council, care needs to be taken to ensure that it can be demonstrated that the control test can still be met. This was particularly highlighted by the Court of Appeal in the LAML case (see also Section 14).

> UK and EC Public Procurement rules provide a range of routes by which services (and partners) might be procured. The 4Ps' Guidance *Corporate and transactional services procurement pack*, 2007 provides more information on the different ways council can deal with procurement .

7.8 Impact of Procurement Law on the needs of shared service partnerships

If shared services are provided by a public body, it will need to abide by EC Procurement Law in procuring Supplies, Services and Works. Clearly the local government-based models, such as Joint Service Delivery or Lead Authority, will fall within this. However, a company structure may also do so. Whilst a company would not normally be required to comply with the Public Contracts Regulations (2006) in procuring Supplies, Services and Works, it may, depending on its constitution and funding, fall within the definition of a Contracting Authority within those under Regulation 3 (1) (w):

The Public Contracts Regulations 2006 - 3 (1)

Contracting Authorities:

w) a corporation established, or a group of individuals appointed to act together, for the specific purpose of meeting needs in the general interest, not having an industrial or commercial character, and -

(i) financed wholly or mainly by another contracting authority;

(ii) subject to management supervision by another contracting authority; or

(iii) more than half of the board of directors or members of which, or, in the case of a group of individuals, more than half of those individuals, are appointed by another contracting authority;

An issue to address in any procurement undertaken by the partnership would be future scope. If it is envisaged that there may be future partners then procurements which may affect them need to be scoped fully at the outset to ensure that they are covered. This could be done by the partnership contracting as a Central Purchasing Body for the benefit of potential future partners.

Whichever approach is adopted it is important to ensure that the cost and complexity is appropriate to the task at hand. A typical shared services initiative could well require £100,000 to £200,000 of cost in terms of:

- Legal advice
- Support for negotiations
- Development of contractual documentation
- Advice on specification
- Financial appraisal

Where large deals are being sorted involving a mix of public bodies plus commercial partners, it is not uncommon for procurement and legal costs to exceed this figure several-fold.

Complex procurements – such as the Competitive Dialogue procedure under EC procurement law – will also take time. The box below provides an illustration of a potential time line, starting in January 2010.

POSSIBLE TIMELINE FOR PROCUREMENT UNDER COMPETITIVE DIALOGUE	
Issue of OJEU notice:	1 January 2010
Evaluation of suppliers:	15 February 2010
Invitation to take part in Competitive Dialogue:	15 March 2010
Successive Dialogue Phase:	6 - 9 months
Close of Dialogue and Final Tenders:	15 November 2010

As this shows, it could potentially take up to 12 months before the design and implementation phase of the shared services lifecycle could begin. Clearly, the benefits of change would not start to come on stream until some time after that. However, this does depend on the complexity of the project and the robustness of the business case that is driving the procurement.

Appendix A7.1 provides more support for shared services procurement, including a checklist for shared services procurement risks.

developing service level agreements

This section provides a practical guide to the preparation and use of Service Level Agreements (SLAs) in the context of shared services. It will be of interest to those on either the client or provider side who wish to use SLAs as a mechanism (contractual or otherwise) to manage services. Key issues covered in this section include:

- Understanding the status of an SLA and what it is designed to cover
- Drafting a Memorandum of Agreement and Conditions of Agreement
- Clarifying how to specify work, service levels and pricing schedules
- Defining quality and performance standards
- Considering ways of measuring and reporting performance

For related information in this guidance, see:

- Section 14, Managing Legal Issues, for more about contracts and legal issues around SLAs
- Section 15, Managing Service Delivery, which also discusses the use of SLAs as part of the general service management framework

8.1 What is a Service Level Agreement (SLA)?

An SLA is a document that defines the relationship between two parties: the service provider and the customer. It is an important tool within the overall 'Service Delivery and Management Framework' (see also Section 15), and should be deployed where services are provided from one party to another. To do this, the SLA should:

- Identify the services to be delivered, including clear descriptions of the boundaries of the service (and its associated tasks and processes)
- Provide a framework of common understanding and set out the communication channels between the parties
- Help reduce complexity and ambiguity, and eliminate unrealistic expectations on either side
- Reduce areas of conflict and encourage dialogue in the event of disputes

Put simply, an SLA is an agreement between two or more parties for the provision of services at an agreed level of quantity and quality within a specified time frame at a particular price in accordance with defined terms and conditions.

8.2 Why use SLAs?

SLAs can be a powerful tool for articulating and facilitating the service that is expected of a new shared service. They can help:

- Define and agree a common purpose and set of objectives
- Specify the service requirements in precise terms
- Drive towards meeting (or exceeding) customer expectations
- Ensure roles, accountabilities and responsibilities are clear within the new retained organisation and the SSA
- Understand scope and boundaries for delivery of the service
- Focus staff on the content and standards of work
- Deliver best value through continuous improvement

The typical contents of an SLA are shown in box below:

Contents of an SLA:

- Services to be delivered
- Key Performance Indicators (KPIs)
- Tracking and reporting mechanisms
- Problem/issues and disputes management
- A communications framework
- Service governance arrangements
- Customer responsibilities
- Charging/pricing and change control mechanisms
- Security, data protection and warranties
- Disaster recovery mechanisms
- Intellectual Property Rights (IPR) and confidentiality protocols
- Termination arrangements

8.3 Types of SLA and their legal status

The status of an SLA will vary depending on whether it has been produced for internal purposes or represents an agreement between two separate organisations. There are also issues to consider when part of the service covered by an SLA is subcontracted to a third party.

Internal SLA: An SLA may exist as an agreement between two or more units in the same organisation. In this case:

- The SLA will have no legal status
- It will be derived wholly from the organisation itself
- It may or may not be reflected in the organisation's Standing Orders and Financial Regulations
- Redress for disputes will be to the chief executive or board, in the last resort

External SLA: External SLAs, by contrast, represent an agreement between two separate legal persons. Although they are usually simpler than a legal contract, redress for contractual disputes will ultimately be to the courts.

8.4 Framework of typical SLAs

The form and content of an SLA will need to be decided by each SSA and its customers and with cognisance of how legal issues are addressed (see Section 14). There is no standard framework for a how a SLA should be drawn up and operated (even within finance and accounting). However, the following elements would normally be in place:

1. **Memorandum of Agreement -** a formal record that an agreement exists
2. **Conditions of Agreement -** which covers all matters relating to the management of the agreement
3. **Specification of Work -** a detailed description of all the services covered, and how these will be performed
4. **Price schedule -** which contains all quantitative data relating to price and cost

8.4.1 Memorandum of Agreement (MoA)

This provides a formal record that an agreement exists and describes the services that will be covered by the agreement. A typical MoA will include the following elements:

- Document administration (eg details of electronic location, revision history, approvals and distribution details)
- Purpose of the SLA for the service
- Parties to the agreement
- Scope of the agreement (ie a summary of services to be included)
- Aims and objectives (what the SLA should achieve – eg helping the client become a leading council, or meeting corporate and service targets)

8.4.2 Conditions of Agreement (CoA)

This covers all matters relating to the management of the agreement. It provides a means of distinguishing between matters relating *to the agreement,* and those that concern *the management of the service itself.*

A COA will typically address issues such as:

- Length of the agreement
- Method of payment
- How variations will be dealt with (including reviewing and updating the SLA)
- Confidentiality measures
- Indemnity and insurance
- Arbitration and dispute resolution (including the escalation process)
- Communications and relationships
- Monitoring and liaison (including information sharing)
- Notice and termination

8.4.3 Specification of Work

This addresses all substantive matters concerning the work that is to be performed, how it will be done and the service levels required. It will address such issue as:

- **The context of the work -** where it fits in to broader client (council) services and processes
- **Services to be provided -** specifying which processes and sub-processes are delivered by the SSA and which retained by the council
- **Performance measures to be used -** as well as targets against measures
- **Method to be used -** exactly how work should be performed, using what information and tools and producing what outputs

Once costs are known, decisions about price can be understood. Judgements need to be made here in line with the overall vision and purpose of the shared service initiative (for example, whether it is to charge a market rate to some or all of its customers). As with many other decisions, this will also be influenced by the legal vehicle chosen, and the relationship that exists between the provider (the SSA) and the customer (the council).

8.4.4 Price schedule

The price schedule contains all data relating to price and cost of the service. A choice will need to be made as to how the service is costed, recognising the need to factor in direct and indirect costs, as well as the matter of whether the 'total' or 'marginal' cost should be used.

More information on the contents of SLAs, including the process to be followed in constructing one, can be found in appendix A8.1.

managing shared service risks

Effective risk management is increasingly recognised as a key part of the successful delivery of projects and services. Shared services are no different – indeed, the added complexity and uncertainty created by partnership working makes risk management all the more important.

In this section we look at the essential components of shared service risk management, highlighting some of the major risks presented by collaborative service provision and what can be done to mitigate them. A discussion of '50 shared service risks – and what to do about them' can be found in Appendix A9.1

9.1 Why is risk management important to shared services?

To answer this question, it's worth defining some basic risk terminology. A shared service risk can be thought of as:

Any future event that may unfavourably impact on the successful delivery of a shared services project, or on the service itself once operational

Any organisational change that is a departure from established ways of doing things will bring with it attendant risks, not least because of the uncertainties bound up with unfamiliar working arrangements. Added to this are the additional complexities created by working in partnership. By its very nature, collaborative working involves reaching agreements and accommodations without having full control over events.

Even where work is outsourced to a third party, not all risks can be transferred. And while contracts and SLAs can provide important levers and means of redress, there will still need to be ongoing attention to business hazards and monitoring of contracts and services to spot early warnings of potential problems.

The effective application of best risk management practice should help deliver the following benefits for shared service initiatives:

- Delivery of project benefits, as set out in the business case
- Lower operational costs and enhanced quality
- Reduced cycle time and improved productivity
- Reduced errors and rework
- Increased customer satisfaction
- Higher employee morale
- Greater stakeholder buy-in

9.2 The risk management plan

The approach to risk management needs to be agreed at the start, with polices, plans and risk management processes put in place. This will include a risk register – which will need to be regularly reviewed and updated – and assignment of risk responsibilities to those best placed to handle them. The register will be overseen by the project board (during change) and by whatever governance structure is put in place once the SSA is operational. If possible, risk management should be part of the organisation's normal review of projects and services.

The risk management plan for a shared service initiative will need to be a 'living document', conceived at the start of the project and maintained throughout the lifecycle (see also Figure 9.1).

9.2.1 Risk management across the shared service lifecycle

During the shared service lifecycle each aspect of change should have a corresponding risk management process. This will involve:

- **Identifying risks -** the potential barriers to shared service success
- **Assessing their impact -** what the consequences might be if these occurred, how likely this is and at what point it may happen
- **Planning strategies to mitigate risks -** both to reduce the probability of them happening, and to lessen their severity if they do occur
- **Agreeing risk tolerances -** the point at which risk mitigation will be actioned
- **Implementing** any steps and procedures that put risk mitigation into action

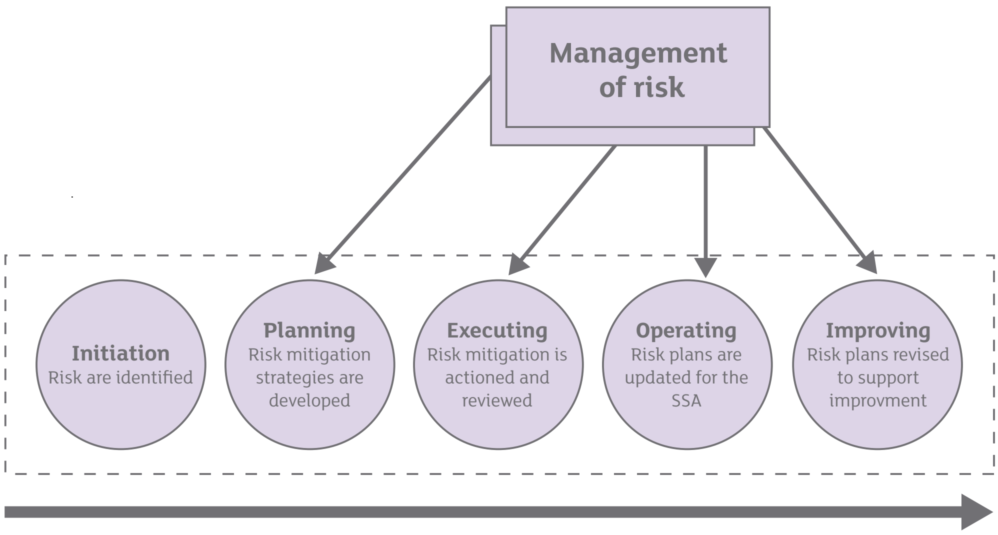


Figure 9.1: Risk management across the shared service lifecycle

- During project *initiation* there needs to be an examination of the risks that may frustrate opportunities being realised during SSA evaluation, implementation and operation/evolution
- During project *planning* risks are defined and mitigation strategies are developed together with contingency plans to minimise impact
- Whilst the implementation plan is being *executed*, the risk management plan is reviewed by the project board to ensure risk management practices are being followed
- When the SSA is *operational* and the project implementation team has handed over to the operational management, the risk management process will continue in order to deal with normal business risks
- Risk management plans will then need to be revised and applied as *improvement* projects take place within the SSA

9.2.2 Areas of risk

The risk management plan, in identifying risks during the shared services lifecycle, will need to address all the elements that can become barriers to success during and after change. These include:

- **Change management -** the leadership and project management actions and resources intended to make change happen in line with goals and plans
- **Customers and users of the service -** whose needs must to be met and acceptance gained
- **Organisational structures -** the roles and responsibilities that allow the SSA and council to work together, and the SSA to be held accountable to agreed standards
- **People and culture -** the human side of change, without which the new service cannot operate and benefits will not be realised
- **Process and procedures -** activities and tasks, which need to be structured in an efficient and reliable way so as to deliver an improved service
- **Systems and technology -** the supporting infrastructure that allows the SSA to function and the benefits of change to be delivered
- **Environmental factors -** developments beyond the organisation/partnership that impact on the attractiveness and viability of the SSA
- **Regulations and legal requirements -** the 'givens' that partners must work within to ensure they are on the right side of the law in doing what they do

9.3 Key shared service risks and mitigation steps

As previously mentioned, there is a range of shared service risks that need to be understood and managed, and which are discussed in detail in appendix A9.1. The ten major areas of risk are highlighted below:

	RISK	MITIGATION
Failing to gain support from the top	Support from elected members and/or senior management is weak, making it difficult win commitment to the vision for change, or to gain access to the resources needed to make change happen	Before committing significant resources, ensure that the vision and business case for change are compelling. Invest time in understanding the concerns of those at the top, providing evidence and explanations that solidify their support
Lack of experience of partnership working	There is little cross-organisational/inter-departmental collaboration, with (local) interests remaining entrenched and with no commitment to work in partnership. Elected members are also reluctant to move ahead because of concerns about perceived loss of control or the political fall-out if collaborations fail	Invest in effective communications and team-building, creating a shared vision of the future and explaining the short-comings of continuing with the status quo. Create staff incentives – and, if necessary, sanctions – that encourage the new forms of behaviour that are needed. Ensure that elected members across councils have plenty of opportunities to meet and explore common ground, with attention focused on the mutual interests of their citizens. Explain the governance structures and service management mechanisms that can be used to enable each set of councillors to have control over the partnership's operations
Staff turnover increases in critical areas	Staff turnover increases because of uncertainty about the future. Loss of staff in areas impacted by change means a shortage of knowledge and experience for handling the transition to the new arrangement	Ensure all staff – especially those in the focal areas – are kept informed about change, have a clear sense of what the change is about and why it's happening, and have an opportunity to influence its direction. Be clear about the way staff transfers will be handled and – where necessary – create incentives for staff to see the change process through if job losses are involved (eg enhanced redundancy terms)

	RISK	MITIGATION
Failure to address the 'retained' organisation	The 'retained' organisation is poorly prepared for the new way of working, leading to a drop in service and lower than expected benefits from the new SSA	Make sure that the new roles and responsibilities on the client side are properly designed and understood, and that suitable staff are put in place. Ensure that adequate training is provided to help staff cope with the new roles and responsibilities and that they are fully informed about the way the service will work and who they will be interfacing with on the provider side
Knowledge transfer is poor or incomplete	Knowledge transfer to the SSA is done poorly or incompletely leading to errors in delivery; time is then spent to recover the situation and repair damaged customer relations	Ensure business and systems analysis is properly funded, with staff engaged throughout. Seek to draw out and document tacit knowledge acquired in operating the 'as is' service and ensure this is properly reflected in the way the new service operates and is supported
Negative reporting damages confidence	Negative media reporting leads to loss of customer and stakeholder confidence. The need to satisfy unhappy stakeholders limits future strategic options for change	Ensure that media and stakeholder relations are professionally managed, supported by an effective communications plan. Invest time and energy with sceptical groups to explain the benefits of change and the measures put in place to make sure it is being well-handled
Time and energy are diverted into repairing labour relations	Senior management time and energy has to be spent repairing damaged labour and community relations, rather than focusing constructively on future plans for improvement	Leading from the top, work with HR professionals, as well as staff representatives and unions, to understand staff concerns in advance of change and explain – where possible – the benefits that they will gain from it. Ensure that staff are a key part of the stakeholder and communications plans
Processes and technology	Processes and technology requirements are poorly understood, requiring extra time and expense to create satisfactory service designs and delivery systems	Invest in professional business and systems analysis, ensuring that staff and users are fully involved, with suppliers and subcontractors being fully briefed on needs and quality criteria
The scope of change is too narrow or too broad	The project's scope is wrong – services covered are either too narrow to deliver a gain worth the investment of resources, or so wide as to make change too complex and cumbersome	Start by understanding all the drivers and opportunities for change, but break these down into a portfolio of projects that can be approached in a modular way, maximising potential project synergies. Start implementation with projects that are well understood, where the complexities are reasonably low and benefits near-term
The benefits of change are over-estimated or not realised	Benefits have been over-estimated prior to change, or not realised during change, making the business case invalid	Ensure that the business case is built on robust measurements of baseline costs and performance, and that the costs of change and expected returns are robustly calculated and held open to challenge. Bring experienced project and change managers on board, with a strong focus on active benefits realisation

Figure 9.2: Shared Service risks and mitigation

managing change

As with other areas of major change, shared services and collaborative working teaches us that successful change starts and ends with people. People who cannot see a positive way forward, or who are unable to shape the nature of change are unlikely to adopt the new working practices and forms of behaviour needed. This is why effective change management is a crucial component of any shared services initiative.

10.1 What is change management in shared services?

Change management here is the sum total of those activities that enable people to adapt to the roles and behaviour required in a shared service environment. Staff on both the client (council) and provider (SSA) sides will be affected. They will need to help design and embrace new processes, technologies, systems and structures, but also new values and attitudes. This is far from a 'technical' exercise, therefore, but one that involves winning the hearts and minds of all those affected.

People react to change in different ways, depending on:

- Their understanding of what the change involves
- Their ability to cope with and adapt to the change
- How they will benefit from the change
- What they will lose as a result of the change

Effective change management will anticipate and tackle those factors (mostly people and organisational) that could create a barrier to the new ways of working. The ultimate goal is to ensure that all those affected by change are adequately prepared for their new roles and responsibilities, are clear what success looks like and are motivated to act in a supportive way.

It must also be remembered that change management cannot compensate for a poor business case or project implementation plan: all elements need to work well in tandem if change is to deliver business value and the stakeholders involved brought on board.

10.2 The strategic nature of shared service change

A shared services change programme involves moving work from an existing arrangement – where (typically) organisational roles and responsibilities are held in-house, using conventional functional structures – to a shared environment in which the SSA acts more like a specialist business unit than a conventional support service.

As part of the change, the retained organisation will need to adapt to its new responsibilities on the client side of shared service operations, as well as focusing more on value-added and decision support related activity. This is particularly the case in finance, where transactional and rules-based tasks are transferred to the SSA, leaving retained staff to concentrate on supporting strategic analysis and decision-making.

As mentioned in early sections, this reflects a strategic shift in operations, leading to cost reduction and value creation opportunities for the long-term. It has major implications for the way change is managed, requiring attention to cultural issues as well as job skills. Effective communications, training and team-building will be critical to this. Moreover, the transitioning of this work will also need to ensure there is no serious loss of service quality or adverse impact on productivity before the new operations are up and running.

10.3 What actually changes with the introduction of shared services?

What changes are involved will vary depending on the particular services and processes within scope. In corporate services such as finance, the focus will often be on the transaction processing and rules-based activities that are currently undertaken within service departments. Prior to change these will tend to have a variable customer service culture, and possibly a low benchmark performance and sub-optimal process designs.

In moving to an SSA, these activities will be transferred to a specialist organisation, using new processes, systems and job roles, and ideally delivering services within a service management culture backed up by service level agreements (SLAs) and charging mechanisms. This may take place in a new location, where the new systems and processes are operated, supported by new technology and other infrastructure.

Changes experienced by **operational staff** *during* this transition will include:

- Uncertainty caused by redeployment or termination of jobs
- Need to maintain service during change process
- Upheaval while the project team analyses processes and work-shadows roles

Post transition, the retained staff will need to deal with:

- New roles and responsibilities as part of the client side structure (especially contract management)
- New skills to learn and apply in providing more strategic support
- Need to adjust the nature of roles in relation to service managers

For staff in the new **SSA**, changes will involve:

- Project pressures, as work is migrated from current (council) organisations
- New culture, technologies, systems and ways of working
- Raised expectations from customers, as they adjust to new service delivery structures
- Pressure to continuously improve processes and performance levels

Finally, staff in **service departments** (managers and employees) will have:

- New processes and systems to get used to (especially self-service facilities)
- A new shared services provider to interact with, often at another location
- A new role to relate to in the retained function, typically with more focus on value-added activities

10.4 Challenges for successful change management

The complexity of a shared services implementation gives rise to a range of change management challenges. Addressing these requires action along the following lines:

- **Visible sponsorship from the top:** Commitment to change needs to be evident from the top of the organisation, both from the elected member and officer side. This needs to continue throughout the initiative, until such time as the new shared service is seen as business as usual
- **Securing ownership and buy-in from staff:** However good the new technologies and management systems are, unless staff feel part of the process of change, and accept the vision and rationales behind it, success will be put in jeopardy. Attention to these 'softer' aspects needs to be prioritised throughout the project lifecycle and should receive the resources and management time it deserves
- **Designing change around customer needs:** The success of any change will ultimately be judged by those who are using the new service, be they internal or external customers. Understanding customer needs in the round will be critical as processes and job roles are redesigned and supporting systems and technologies put in place
- **Measuring performance baselines and ongoing progress:** Before change commences (indeed, as part of the initial investment analysis) it is essential to gain a clear understanding of baseline costs and service levels. These will give an indication of the benefits collaborative working can bring, but also provide a mark against which targets can be set and improvement measured
- **Having the right people involved:** Change needs to be something that engages 'with' people, rather than something that happens 'to' them. Staff and managers that are involved with the 'as is' services and processes will need to contribute to the process mapping and redesign exercise. Managers from the services to be migrated may also take a leadership role as part of the project, perhaps as part of the governance of it. In addition to this, it will also make sense to appoint the head of the SSA as early as possible in the process: not least, this person will have a major interest in ensuring the right people are brought on board and that systems are set up correctly
- **Creating a sense of urgency:** Partnership projects are more prone than most to get bogged down in analysis and discussion. If change is going to deliver benefits, and instil confidence in stakeholders, progress needs to be seen to be made. A level of urgency therefore needs to be created that allows for momentum to be built up and energy put behind the initiative
- **Managing the people issues:** Reluctance of staff to engage in change processes, together with the loss of key people, can be major threats to any initiative. Early engagement with staff, supported by an effective communications plan, is therefore critical. As well as support from the top, this should also include the early involvement of HR professionals. Key issues to address here will be how staff transfer issues will be handled, and how any redundancies will be managed. To avoid the loss of key staff too early in the transition process, enhanced redundancy terms may need to be agreed
- **Ensuring skills for the new and changed jobs:** Staff on both the council and SSA sides will require new technical and behavioural skills as part of the shared operating environment. This will need to be based on an audit of existing skills, an assessment of the skills and resource levels needed in the new environment and a training plan to ensure the people recruited and transferred are of the right calibre and skill levels once the SSA goes live
- **Communicating with all relevant stakeholders:** A wide range of stakeholders will be affected by plans for service sharing, from elected members and union officials to customers and existing suppliers. Because of the protracted nature of change (two to three years may not be unreasonable in some cases), uncertainty may exist for some time. During this period it will be important to keep key stakeholder groups involved, setting out the vision and rationale for change and the progress being made to realise it
- **Identifying and managing risks and barriers:** As discussed in other sections, there is a range of risks that must be anticipated and mitigated as part of shared service change. A thorough risk analysis exercise should be undertaken at the start of change and repeated throughout. This will also involve attention to the early warnings, so that potential problems can be spotted and dealt with before they become major obstacles to progress

- **Minimising the impact on the service departments:** Although major change may be going on in the organisation, services will still need to be delivered and service staff need to get on with their own jobs. Enabling continuity of service will therefore be critical. This might include resource plans to backfill the jobs of frontline staff brought into project activity. More generally, plans will need to be put in place to ensure service levels are maintained and disruption is minimised
- **Embedding cultural change and new ways of working:** The shift to shared service operations is also bound up with a move to a more customer-focused environment. This, of course, will have technical elements, such as collecting and dealing with customer feedback. But it will also require new ways of thinking about services (such as end-to-end process ownership) and new attitudes and behaviours towards customers (anticipating and meeting their needs). For many people, this will be a new way of working, involving a shift in values, behaviours and the way workplace relationships are managed

See also Section 11 on 'Managing people issues', for more details on how the human side of shared service change can be handled, including the development of new job roles and employee specifications.

managing people issues

As Section 10 noted, shared service projects have implications for a range of people issues. These include:

- Creation of new job roles, and redefinition of existing responsibilities
- Need to adopt new working practices and use new technologies, systems and processes
- Increased emphasis on team-working, particularly as part of 'process teams' or centres of expertise
- A move to a more customer-focused environment, involving a different set of values, attitudes and behaviours than may have been present in a traditional support function
- Effective organisation development and change management to ensure that workforce planning issues are dealt with systematically

Addressing these areas requires attention to job specifications, organisational structures, and recruitment and training processes. It is to these that we now turn.

11.1 New roles in the SSA and retained organisation

To make maximum use out of shared service change – particularly where processes have been redesigned on an end-to-end basis – it is important to take a fresh look at the roles and responsibilities required on both the provider (SSA) and customer (council) sides.

11.1.1 SSA roles and reporting lines

Life inside the SSA will often be very different to working in a conventional support service, particularly where processes have hitherto been split across different functional silos. The key job roles involved in the SSA will be as follows:

- **Shared service leader/director:** This person will have overall responsibility for managing the shared service and ensuring it delivers against its contractual and service level agreements. He/she will also have the main leadership role in establishing a customer service and performance improvement culture. Where the SSA has plans for commercial expansion, the job will also include responsibility for ensuring a commercial climate is established and ambitions exercised to grow market share
- **Process leaders:** Where transactional and rules-based activities are concerned, the move to a shared service environment will provide the opportunity to focus on the end-to-end process that underpins the services involved. Individual managers will then assume responsibility for the entire process (eg Procure to Pay), including managing the team that supports the process. Because such processes/services will be set up in a customer-facing way (underpinned by service level agreements), process leaders will also have key customer related responsibilities. Indeed, in smaller SSAs, they may also perform the role of 'key account manager' (see below)

- **Centre of expertise leader:** For non-transactional services, the work involved will be less focused on processes and more on specific areas of expertise. In the finance area, this could include work related to audit or treasury management, for example. The leader's job will be to manage the team, ensuring it has the balance of skills necessary to respond to clients' needs. Indeed, one of the benefits of a shared arrangement here will be the different specialist skills that can be brought into a team (for instance, computer audit). As with Process Leaders, in a smaller SSA the centre's leader may also act as key account manager when liaising with customers on service level issues
- **Key account manager (KAM):** This role will be the main human interface between the SSA and the customer in dealing with performance and quality issues; operational members of the team in question will deal with the day-to-day business issues. The KAM will be the focal point in terms of understanding clients' needs, reporting against targets and performance indicators and dealing with general issues and problems
- **Team member:** Each team member will deal with the operational side of the service within their area of responsibility. In smaller SSAs, there may be just one team per process or competency centre. For larger arrangements, teams may be broken down into specialist areas – for instance dealing with sub-processes or specific areas of expertise. Larger SSAs may also group team members by client, so there is a dedicated team focused on, say, an individual council's needs

An illustration of these roles in a finance context, showing how they relate to one another within the SSA as a whole, is shown in Figure 11.1.

Figure 11.1: SSA roles in finance

11.1.2 Retained roles and client-side duties

Where a service has been moved to an SSA, there will, of course, be retained responsibilities that were not deemed open to sharing (see Section 5 and related appendices for an example in the finance context). Rather than business as usual, however, the overall vision for change will normally reflect a change of focus within the retained functions. In finance, for instance, the emphasis may be on spending more time on value-added activities, such as financial analysis and in performing business partnering roles – working with service managers to provide more advice and decision support.

In addition to these (redefined) roles, the retained function will also need to create 'client-side' arrangements, particularly to interface with account managers on the SSA side, to monitor performance against contract and SLAs. More generally, the council will need to ensure representation in SSA user-group meetings and governance bodies.

Staff in service departments that are users of the SSA's service will also have to adjust their ways of working, in terms of who they liaise with and how they access the services in question. For example, service users may need to make more use of self-service arrangements, where reports and information are made available directly via new IT systems.

For many users, contact points for queries and support may also shift to the SSA, requiring a phone call to a service team or help desk, instead of a 'walk down the corridor' to a familiar face in the support department. Such changes will take some getting used to for many staff, and will not always be welcomed. As with everything else, the rationale behind the changes, and how the new ways of working should be carried out, will need appropriate communications and training.

11.2 Changes in management and job structures

Where processes have been simplified, and work brought together as part of a bigger shared operation, it is also possible to make a number of changes to the way people are managed and how jobs are designed.

11.2.1 Increasing the span of control and reducing layers

SSAs normally allow for a broader span of control, as there will be more people in operational teams. This should reduce the overall cost of management and supervision. It will also usually be supported by more modern systems of performance management, linked to broader SLAs in most cases.

As well as reducing the numbers of managers/supervisors per member of staff, a well organised SSA should be able to reduce the layers in the management hierarchy. The aim here will be to create a 'flat' organisation (as opposed to downwardly focused), based around process and expertise areas, which is focused outwards towards customers.

11.2.2 Creating new job specialisms and career routes

Linked again to the increase in scale will be the opportunity to create new areas of speciality and generate greater 'functional' flexibility in the way services are provided. With increased volumes it will be possible, for instance, to group together tasks that do not require the attention of highly-paid, professional staff. This might be the case with the more routine aspects of work, or where a skilled individual, such as an accounting technician, could be employed to perform rules-based duties.

This balancing of work between job grades also allows for highly-skilled staff to be better employed. A fully trained accountant, for instance, would be able to spend most or all of his/her time on complex, added-value type activities. More job specialisms would also be possible, particularly in centres of expertise. This would provide greater flexibility for the SSA (and client), allowing for staff with particular competencies and experience to be deployed on a wider range of tasks where necessary.

Organising work in this way provides new career routes for those joining the SSA. Not only would there be different types of openings, but – given the increase in scale – there should also be fewer blockages for those able and willing to make progress in their careers. Of course, to support this sort of arrangement, there will need to be appropriate HR arrangements in place, including training and mentoring programmes.

11.3 Key skills and cultural requirements of an SSA

As well as sorting out the structural and management features of the SSA, attention will need to be paid to recruiting the right people, and inducting, training and leading them in an appropriate way.

11.3.1 Finding the right people

To take advantage of shared services change, roles, structures, processes and operating systems are all likely to change. The key to using these effectively will involve putting suitable people in post and ensuring they have the skills and outlook needed to perform the roles question.

Job descriptions and employee specifications will be quite different here to the equivalent positions in erstwhile client operations. Nor is this simply a matter of dealing with 'technical' abilities. The skills and mind set needed to work in a customer-focused environment will also be critical, as will the ability to work well in a team.

Appendix A11.1 provides a detailed accounts of the key jobs in a finance SSA (relating to the SSA leader and the key process leaders).

Where the new work environment contrasts markedly with established ways of thinking and acting, some organisations may choose to set up a 'green-field' SSA, in which most people are recruited directly to the shared service (rather than transferred from traditional council departments).

11.3.2 Building the right skills and culture

Even with the right people in post, the potential for high performance will only be realised once all staff have been fully equipped with the skills they need to do their jobs well. This should start with a proper induction programme – which in the case of staff transferring will help them 'unlearn' some current methods as well as acquiring new ones.

A well organised induction training programme helps staff to understand the structure of the SSA, and how it differs from conventional delivery operations. It will also explain the range of job roles and responsibilities and how the SSA interfaces with its customers. Finally, it will help to set expectations as to the values and behaviour that is expected of SSA staff, particularly in terms of the way they deal with their customers and in the approach to performance management and improvement.

Training in job-related skills will be critical: a fully-qualified accountant, for instance, will still need to understand the systems and technologies that they will be expected to work with, and the processes and controls they will have to operate.

The development of team-working and customer service skills must also not be overlooked here. Even people with a track record of excellent service will still need to understand the customer service systems that are to be operated (including operating service level agreements and managing customer feedback systems).

To pull all of this together will require effective leadership on the part of the SSA managers and supervisors. Where the values of high performance and customer leadership are articulated and embodied from the top, the actions of those below are more likely to fall into line.

managing governance issues

Shared service collaborations will be more successful and provide greater confidence to public sector partners where there is a strong governance structure in place. Responsibilities and accountabilities need to be well defined so that each party (including potential commercial partners) understands its role at all stages in the shared services lifecycle.

Clear governance arrangements should help build trust and understanding between the parties and allow for effective ways of working to be agreed. This will include setting resource requirements and key performance indicators (KPIs), and monitoring the delivery of services in line with service level agreements (SLAs).

Governance is particularly important at the time when services are being transferred to the SSA: customers (in most cases, the partner councils) will want the assurance that the right mechanisms are in place to ensure all operations run as smoothly as possible. A robust and well-defined governance model will be important here in guarding against the pitfalls associated with change. This also needs to work as part of the general service delivery and management framework and under the umbrella of the overall SLA (see Section 15 for more details on this).

12.1 How good governance operates

The approach to governance should provide the mechanisms that enable the SSA, its customers and other stakeholders to work together effectively. This will reflect the scope of services provided by the SSA, as well as its customer base, and will be the means by which the shared service strategy is developed and operations overseen.

From a strategic perspective, governance ensures that the direction of the SSA is aligned with the overall vision of its partners. From an operational perspective, the governance function sets expectations, monitors service performance and works to drive improvement.

A governance structure should be developed from the start of any shared service initiative and updated through the project lifecycle. This will set out who should be on the governance board and other bodies, the extent of their powers, and who will be responsible for what. The nature of the board will reflect the collaboration model and legal vehicle used, as well as procurement and legal obligations on the part of member councils (see Sections 7 and 14 for more details).

Figure 12.1 provides an example of how an SSA, once operational, might be governed. This also illustrates the way governance bodies might link into the SSA's customers and partners (through a customer and service forum), and the frequency with which the different parts of the governance structure are likely to meet.

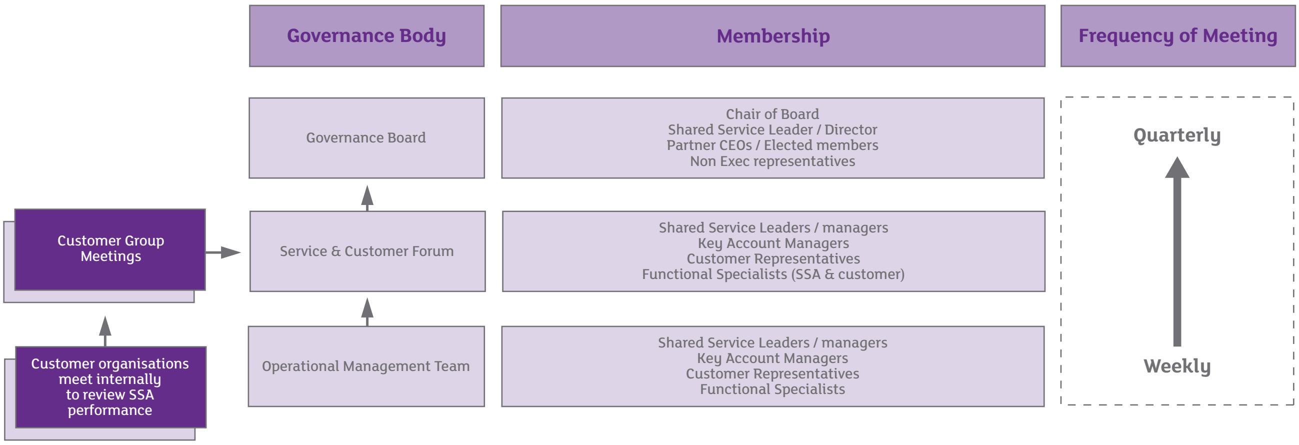


Figure 12.1: Example governance structure

12.2 Membership of the SSA board and other bodies

12.2.1 Governance board members

To exercise its duties effectively, the members of the board - as a group - should be able to demonstrate the following characteristics:

- Experience of working for the partner organisations
- Experience as customers of the services provided by SSA
- Knowledge of the services and functions provided by SSA
- A clear vision about the shared services model
- Good communication skills and channels (internally and externally)
- Be well respected and credible
- Have strong leadership skills
- Be able to take tough decisions when dealing with difficult issues
- Be able to influence change and gain cooperation across a range of functions

To do this, members of the board should include: senior partner representatives (at both CEO and cabinet member level), the leader/director of the SSA (together with senior colleagues), representatives from commercial partners and (potentially) representatives from other stakeholder groups.

12.2.2 Service and customer forum members

This body will be the main means of liaison between managers responsible for customer-facing services in the SSA and representatives on the client-side. Customer representatives will include both service users and client-side personnel responsible for managing the contracts and service levels with the SSA. The forum will provide feedback on service performance, discuss plans for change and improvement, and raise issues for discussion at board level.

12.2.3 Management team members

The SSA management team will include the SSA leader/director, the process and centres of expertise leaders, key account managers and certain other senior managers. The team may meet on a weekly or monthly basis, to review operations and performance, and to monitor progress against plans and targets agreed with the service and customer forum and the board.

It can take time to build the right team when creating a shared service. Typically the SSA leader/director will be appointed first. He/she, together with the board's support, will appoint the management team required for SSA operations. This can take varying lengths to time depending whether existing or new staff are recruited to the team. The shared services implementation team should work in tandem with the operational team to ensure a smooth transition in readiness for go-live.

12.2.4 Scrutiny committees

In addition to bodies set up for the purpose of governing the SSA, council scrutiny committees will also have a role to play in ensuring that services are being performed effectively and in accordance with regulations, and that customers' needs are being met.

In some instances this may involve SSA management team members being invited to individual councils' committee meetings. In many cases, though, joint scrutiny meetings may be held. Members of such committees will need to be kept abreast of developments involving the SSA and receive management reports in an appropriate and timely manner.

12.3 Attributes of good governance

Whichever arrangement is chosen, the effective governance of a shared service should reflect most or all of the 12 attributes below. The mechanisms put in place and people appointed need to be measured against these to check that the SSA is being put on the right footing:

1. **Shared commitment and integrity:** All parties recognise and act in accordance with their shared interest in the success and reputation of the SSA
2. **Effective and transparent decision-making:** Governance bodies are able to act decisively, with clear decision-making processes, and outcomes being properly documented and communicated
3. **Clear lines of accountability:** It is clear where accountabilities lie and where the reporting lines are for approvals and decisions
4. **Balance of public and commercial interests:** Even where commercial partners are part of the venture, the public service interest remain uppermost, which will be reflected in the Memorandum of Association and in the way the SSA takes key business decisions
5. **Representation for smaller bodies:** In instances where small bodies are in partnership with much bigger ones (such as a county council in collaboration with a district council), the smaller organisations still have a strong voice and can exercise effective influence
6. **Legal compliance:** Structures and processes will be compliant with requirements under the Local Government Acts, Companies Acts and other areas of business and public sector law
7. **Secure data sharing:** Appropriate protocols and security arrangements are put in place to protect privacy and safeguard the integrity of data, and to ensure that use and sharing of data complies with the Data Protection Act
8. **Clear and consistent leadership:** Different parts of the governance structure provide a clear and consistent vision of business efficiency and effectiveness, and espouse a shared set of values and principles
9. **Clear direction setting and prioritisation:** There is a consistency to plans and strategies, which give the SSA and its customers a clear sense of its direction of travel and what its key business priorities are

10. **Focus on customer outcomes:** The SSA is clearly focused on understanding and meeting the needs of its customers in the round whilst respecting the differences between the different types of organisations involved
11. **Effective communication:** Governance structures and processes ensure effective two-way communication with all stakeholder groups, with the timely dissemination of information to allow individuals and groups to review service plans and performance data
12. **Strong external links:** Through the people and organisations represented on the various governing bodies, there are sufficient links into key stakeholder groups. These also allow for effective horizon scanning, in terms of customer needs, legal and policy compliance and developments in market structures

12.4 Governance board duties

The Board has overall responsibility for, and oversight of, the SSA. It should receive inputs from the service and customer forum and SSA management team to help with this. The duties required of the board are set out in Figure 12.2.

Set strategic direction	■ Set and communicate the vision, strategic direction and policy for the SSA ■ Review and decide on new services and processes that could be transferred to the SSA ■ Oversee risk management policies and plans, monitor risk exposure and approve risk mitigation actions
Provide leadership and liaison	■ Provide input on selection of shared service leaders and key new hires ■ Give feedback on their performance to SSA leaders ■ Provide the main liaison point between SSA management and shared service customers on business strategy and service performance ■ Perform ambassadorial duties in liaising with other external stakeholders
Oversee resources and progress against plans	■ Confirm and manage scope and budget for the SSA ■ Adjudicate in decisions for implementing improvements, to optimise the balance between service levels and cost ■ Oversee progress towards key project milestones and key go-live dates ■ Review and approve business cases and the target operating model
Approve policies and legal agreements	■ Agree TUPE transfers and staff secondment ■ Agree location of SSAs ■ Approve contractual agreements
Agree the performance management and improvement framework	■ Approve plans, agree priorities and monitor progress against targets ■ Determine the performance management process to be applied, including the pricing/recharging formulae and mechanisms to be used ■ Approve SLAs and KPIs and track performance against them ■ Assess and approve continuous improvement plans and investment
Assist in trouble-shooting and issue resolution	■ Address and resolve issues that threaten achievement of business objectives ■ Tackle and resolve barriers to change ■ Serve as a point of escalation for decision-making and operational issues

Figure 12.2: Governance board duties

12.5 Areas of governance for the SSA management team

The management team will be directed by the board, and will also respond to developments in the service and customer forum. They will be responsible for overseeing operational systems that determine the way resources and performance are managed. The five key areas involved in this are shown in Figure 12.3

Change control **(Managing additional scope)**	■ Managing and approving additional scope for the SSA in a controlled manner ■ Setting timeframes and agreeing impacts on service recharges ■ Agreeing additional resources and transition plans
Performance management	■ Deciding what should be measured to analyse and report on performance ■ Agreeing the extent and scope of measurement across the SSA and retained organisation ■ Setting the frequency of reporting ■ Monitoring and driving actions on key performance variances
Management of changes in demand **(volume increases/ decrease)**	■ Approving resource adjustments for changes in volumes ■ Setting ranges for triggering additional charges ■ Agreeing competing customer priorities and timelines
Continuous improvement	■ Identifying the mechanism for generating and collecting ideas for improvement ■ Selecting ideas for implementation based on robust business cases ■ Determining how the continuous improvement process integrates with service delivery ■ Agreeing who will implement improvements ■ Monitoring and assessing success of change
Issues management	■ Deciding types of issues to escalate ■ Deciding when to escalate issues and through which mechanism ■ Agreeing who escalates issues of various types ■ Agreeing who will be responsible for resolving types of issues

Figure 12.3: Management team duties

managing technology issues

Given previous sections, it should now be evident that shared services are far from just 'technology projects'. While service sharing would be almost unthinkable without developments in Information Technology (IT), such projects are also part of profound strategic and cultural change. And because they may also be bound up with partnership working, there will also be negotiations as to which technologies are employed, where these are housed and who takes the lead in managing them.

13.1 Why is IT important to shared services?

IT is an important area to manage in shared service change, both as an enabler (actually making collaborative working arrangements feasible) but also as a potential barrier to progress – something that needs to be addressed if other parts of the shared service jigsaw are to fall into place.

13.1.1 IT as an enabler of shared services

Today's IT is very much the key enabler for many business processes and organisational structures. By allowing people in different departments and organisations to access and work with the same data, it provides an unparalleled range of options as to how work can be organised, who can work with whom, and how services can best be delivered. Quite simply, IT makes shared service arrangements possible and offers choice as to how this might be done.

In the context of business transformation – where organisational roles and processes are redesigned and new working methods introduced – new technologies are part of the tapestry of change. Where this is managed sensitively – with attention to users' training and support needs – the sought-after benefits of lower operating costs, improved business efficiency and better provision of services can all be achieved. However there are many choices to be made on the way, with a range of challenges to overcome.

13.1.2 Technology as a barrier to progress

While technology is certainly an enabler of change it may also be viewed as a potential barrier (see also Section 2). As earlier sections have mentioned, the benefits of shared services will only come once systems and processes have been simplified and rationalised, and progress is made towards standardisation.

IT is a key component of these changes. Where several organisations are involved in a shared service project it is likely that a range of different IT systems will currently be employed, using products provided by different suppliers. Even where there are common systems these may well be configured differently, often with different technology 'add ons' (such as reporting and analytical tools).

Dealing with this complexity and moving to a harmonised technology platform will be complicated further by the contractual obligations the partners are committed to. For example, those councils with several years still to run on contracts (such as for their finance systems) may face significant costs in early termination. The lead times involved in procuring new technologies will also need to be understood and factored in.

There are no simple answers to these issues. Much will depend on where the respective partners are now and the benefits that shared services will bring. The best way forward will depend on:

- Understanding the drivers for change and the benefits sought
- Identifying the technology requirements for meeting the 'business blueprint' for change (supporting new processes and service delivery structures)
- Understanding the IT systems currently in use and how these are configured
- Identifying what changes are technically and politically acceptable – and in what timeframe
- Understanding the benefits that will be brought depending on which technical solution is adopted

13.2 The IT infrastructure for collaboration and shared services

The infrastructure needed to support the vision of change will depend very much on the services involved, as well as the supporting business processes and structures. The technical requirements for the 'narrow and deep' approach to collaboration (sharing many services across a strategic partnership between two to three councils) will be different to a 'broad and shallow' approach (where very specific services are shared across a wider range of organisations).

13.2.1 Supporting strategic partnerships

Where two to three councils are focused on a strategic partnering arrangements – joining up a host of front and back-office services – IT may itself be one of the services within scope. It might also be seen as the one that provides the foundation for collaboration more generally. For these reasons, IT could well become one of the first areas to be subject to change, with IT staff pulled together into common project and support teams, and shared IT standards and policies adopted across partners.

13.2.2 The IT architecture for a new SSA

Where a new SSA is being created – perhaps on a green-field basis, as part of the creation of a new collaboration vehicle – the IT needed will stretch beyond the immediate line-of-business systems (such as those for supporting finance and accountancy). In this case an entire architecture will need to be designed that not only supports the core business processes but also allows the organisation to interact with its customers and suppliers, as well as running the various internal support functions. This will therefore include:

- CRM and helpdesk systems – to allow customers to have easy contact with the SSA, in line with the vision of a customer-facing organisation
- Integrated 'functional' systems (see discussion of ERP below) – covering the core systems within scope, and allowing for the end-to-end management of processes
- Analytical and self-service tools – that allow users to access data directly themselves, receive automated reports and update records
- Workflow, imaging and document management systems – enabling work to be carried out seamlessly across processes and between the SSA and its customers
- Automation tools - such as automatic invoice capture and recognition systems, which allow for manual intervention to be reduced and productivity increased
- Email systems – to allow for email contact within the SSA and between the SSA and its customers and suppliers
- Database management systems – to allow for data to be held securely within the SSA and shared across business processes
- Security and anti-virus systems – to ensure data is held in a controlled and secure way and safeguarded against loss and hacking

13.2.3 Supporting business transformation

The technology employed will need to be designed to enable the new ways of working envisaged in the strategy for change. As discussed in earlier sections, this will typically reflect a transformation of the functions in question, dealing with end-to-end process, and supporting them with new tools for automation, data analysis and employee self-service.

Because of the attention to end-to-end processes, discussions of IT in the context of shared services often focus on 'enterprise' solutions. The vision here is of business applications that are highly integrated and draw upon a single database. To maximise efficiency across processes, emphasis is also placed on using workflow systems as part of this, which enable work to be automatically routed to the next part of the business process. It is for these reasons that Enterprise Resource Planning (ERP) systems often feature in discussions of shared services.

> More information on data protection issues can be found in Section 12 on Governance and 14 on legal issues.

13.3 Enterprise and best-of-breed systems

ERP systems have their origins in manufacturing and were created to enable the integration of data and processes across the different business functions, such as finance, HR and supply chain management. Over the years such systems have evolved to cover more types of organisations (including public sector bodies).

13.3.1 What are ERP systems?

The defining features of an ERP system are that it:

- Covers the whole enterprise, from the start to end of business processes
- Involves the functional integration of software applications for areas such as:
  - Finance
  - Procurement
  - HR
  - Payroll
  - Asset management
  - Customer relationship management
- Operates a single database, which is accessed at different points in the business process, by different people, using the various functionality provided by the software

Such systems avoid the problems of having multiple records and databases (typically in different corporate silos), each of which is updated in isolation. This occurs, for example, where the HR system is not linked to the payroll system meaning that details about the same employee may differ and have to be manually updated more than once.

A single, ERP system therefore has a number of attractions:

- It provides a single view of processes and underlying data, drawing data from a single database that stretches across the whole enterprise
- More powerful analytical facilities may be available, which exploit the integration of processes and data
- As an integrated package such systems are easier to implement – interfaces do not need to be created between line-of-business systems and the different databases that feed them
- Such systems are easier to support – there is less technical complexity, with fewer interface and interoperability issues to be managed

Although expensive to buy, total cost of ownership can often be lower because there are fewer systems to be implemented, integrated, supported and changed.

13.3.2 ERP systems versus 'best-of-breed' solutions

There are clear benefits of having an ERP solution, but these must be weighed up against the advantages of the alternative approach. Instead of ERP, many organisations may choose to use a range of best-of-breed solutions, which separately support finance, payroll and other services. These are then integrated and configured to meet the organisation's needs.

For bodies such as small local authorities, best-of-breed approaches will be attractive for the following reasons:

- Unlike ERP systems – which typically have their origins in very large, industrial setting – many of the best-of-breed systems have been developed specifically for smaller organisations in sectors such as local government
- Because functionality has been designed from the bottom up there is less likelihood of paying for features that the organisation is unlikely to use
- Such systems tend to be easier to customise than larger ERP systems, meaning they can be tailored better to a specific organisation's needs

It must also be remembered that the differences between ERP and best-of-breed approaches is more a matter of degree than anything absolute. In reality, ERP systems will also need to be integrated with other specialised tools (such as those used for reporting and business intelligence).

It is also the case today that software is increasingly produced on a modular basis, using open standards (such as web services and XML) that mean systems and data are easier to integrate than they once used to be.

The business case for which technology path is followed will therefore depend on:

- The size of the organisation/partnership
- The sector they are in
- The systems they currently use
- Their technology requirements in support of business needs

An illustration of how best-of-breed or ERP systems might work in an SSA environment is shown in Figure 13.1. An employee portal or other interface provides the means by which employees interact with the systems and data. This might be used by staff at the SSA or at the council itself. For these systems, the data is drawn from a single database. Each council, or departments within the council, may have their own line-of-business systems, with which the SSA applications and data also interoperates. In these cases, data from other (local) databases will also be drawn upon.

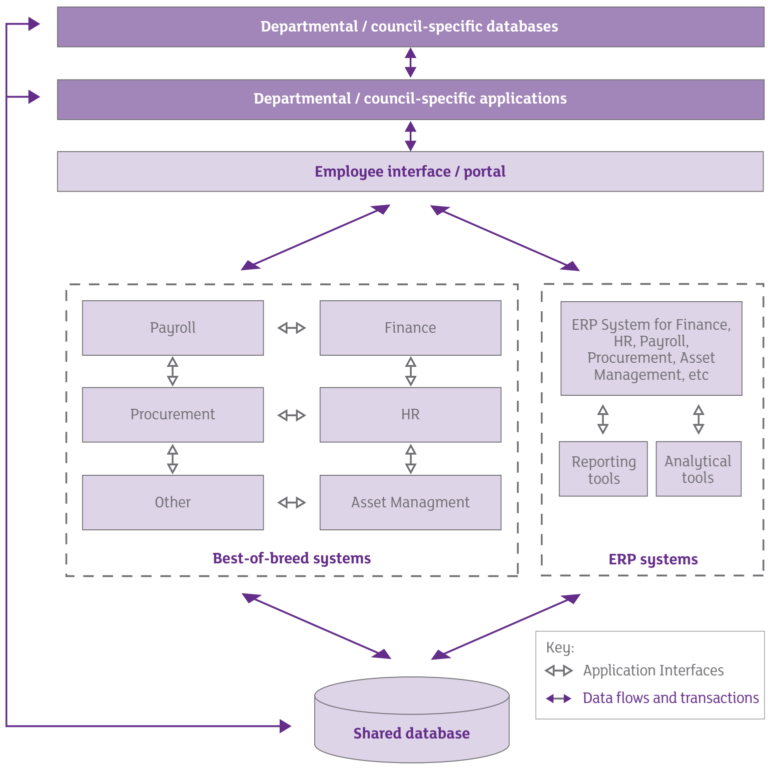


Figure 13.1: A model of SSA and council systems

13.4 Pooled IT procurement and managed services

When it comes to accessing shared services there are two further options that organisations might consider in dealing with their IT needs. These are not strictly shared services in the way we have discussed them so far, but maybe of interest in some cases.

13.4.1 Collaborating over IT procurement

In order to bring down the costs of buying, implementing and supporting new IT systems (such as those for finance, procurement and payroll), several organisations could potentially work together on a joint procurement. Costs across the whole cycle would be pooled as part of this, bringing down the expense involved, and potentially getting access to technologies that would not be possible individually.

In this instance, each council would not necessarily start with the intention of sharing people and services – although this could of course be attempted in due course. Instead, each has its own separate system, and runs its own processes with its own staff. This would be a relatively simple approach and avoid the risks, complexities and time associated with more mature forms of sharing. It would still require some adherence to standards, to allow for common systems to be procured.

13.4.2 Managed IT services

Another approach would be to buy these technologies on a managed service basis. This might operate in two ways:

1. The systems (say finance and payroll) are hosted off-site by a supplier, who manages them on behalf of the council. The council still operates the business process – inputting data and managing day-to-day operations – but it is the supplier that deals with the hardware and software issues, and keeps the system up and running

2. The systems are maintained on-site (at the council), but the supplier provides the technical support there. The first of these options will be cheaper, but typically will be more 'vanilla' and hence not tailored as tightly to the organisation's needs. It might also be less flexible than the second option, where IT staff are more likely to be in attendance. Either option would be attractive, though, for those organisations that do not have their own people who can manage the technical aspects of the systems in question.

Both of these options could be done via pooled procurement. However, a more attractive option might be to create a shared IT team that can support the systems in question without having to use the support services of the supplier. This may well be cheaper and also bring additional business flexibility.

13.5 Implementing IT for shared services

The IT aspects of change will need to be closely aligned with other elements of the shared services lifecycle and reflect the drivers and principles of the broader strategy and business case. Of particular importance here will be the need to support plans as to how in-scope processes will be simplified, harmonised and consolidated. The following elements will be crucial here:

- **Leadership from the top:** Just like other parts of shared services change, leaders at the top of the organisation will have a key role in winning support and managing the political and cultural barriers to progress. This will involve articulating a vision for change that sets out what roles new technologies will play and why they are important
- **Make sure change is business-led:** IT requirements should be specified in line with the business drivers and process designs (including new roles and responsibilities) that are set out in business cases, business blueprints and shared service strategies. Although some compromises may need to be made to make best use of systems, emphasis should be placed on customising the technology to meet business needs, not the other way around
- **Work with users across the full cycle:** Engagement with users will be vital in capturing knowledge of current processes and services (which only users will have), so it can be transferred to the SSA or new roles in the retained function. Users will also need to be involved in specifying and testing the new system, to ensure the functionality is correct and that processes can operate properly
- **Make sure training and support are in place:** Before going live, users will need to receive hands-on training, as well as education on where the technology fits in with the broader change project and vision for transformation. This should apply across the whole organisation, involving service users and those in retained functions, as well as SSA staff. Appropriate support should also be in place, recognising that a live environment will throw up questions and challenges that the testing and training setting might not have anticipated
- **Roll out core functionality first:** Rather than a 'big bang' approach, it's better to start with the modules that provide the core functionality (such as key financial processes and payroll). Once these are fully tested – and users trained – the early benefits of change will come on stream, which can be built on with the release of further modules
- **Keep communicating:** Make sure all relevant stakeholders understand what is happening – and why. Help them to see where technology roll-outs fit into the broader vision of change, what they can expect to see, when and what difference it will make to them

See Appendix A13.1 for a checklist of actions in managing shared service technology.

managing legal issues

As we've already seen in the sections on shared service options and procurement, partnership working can come with a range of difficult and complex issues, many to do with matters of law. While there is no substitute for good legal advice, this section seeks to highlight the key issues that will need to be addressed.

14.1 What are the key legal issues for local authorities?

While many of the issues organisations have to grapple with are common across parts of the public sector (and indeed between public and private sectors), it is important to recognise the differences that come with being a local authority.

14.1.1 Understanding legal powers and duties

Local authorities, like other public bodies, are creatures of the law. This means that:

- A council can only do what the law gives it powers to do
- There are things which the law requires it to do (and precludes it from doing)
- If the law prescribes a way in which something must be done, the council must carry it out in that way

This applies as much to corporate services, such as finance, as it does to any other function. It also applies to proposed initiatives on shared services. Early engagement with the council's legal advisers will always be wise and strongly recommended, to ensure that proposals are constructed in a way that minimises legal difficulty.

It should also be noted that the powers needed to share services are continually being tested – and, where necessary, strengthened. This was the case, for instance, with the Local Democracy, Economic Development and Construction Act (2009), which has confirmed the powers for a local authority to participate in a mutual insurance company.

In this instance, the new provisions responded to the case of London Authorities' Mutual Limited (LAML). Following a legal challenge this was found to have acted in breach of public procurement regulations and to have exceeded existing local authority powers.

14.1.2 Public Procurement Law

Public Procurement Law may need to be taken into account in setting up an SSA. This was dealt with in detail in Section 7, 'Formulating a Procurement Strategy'. The partnership involved will need to ensure that its arrangements for acquiring Supplies, Services and, if applicable Works, are compliant with the EC public procurement regime.

14.1.3 Organisational arrangements

As with any formal collaboration, the relationship between the partners needs to be documented. Whilst an arrangement between two local authorities may not need to be as precisely drafted as a purely commercial partnership – as disputes are not likely to end up in court - they still need to be recorded at a level that ensures there is true meeting of minds. The legal vehicle to be adopted will shape what the relationship between partners looks like, as well as the form and content of legal documentation. Again this is looked at in more detail in Section 7.

The documentation of the constitutional arrangements for the SSA will depend on the delivery model chosen. A Joint Service model will be governed by agreement between the parties whereas a company based structure will need a Memorandum and Articles of Association, possibly with a Members/Shareholders Agreement. It will be necessary within that framework to address a range of constitutional issues, covering:

- Delegation of duties
- Frequency of meetings
- Voting arrangements
- Whether there are matters which need consent of all partners
- Whether a partner can require something to happen
- Administrative arrangements

It will also be important to have a procedure for resolving any disputes that may arise.

14.1.4 Governance arrangements

Local authorities, as public bodies, have well-established governance structures. It will be important to ensure that the arrangements for shared services fit in with those arrangements. Items to consider include:

- Relationship with Section 151 officers of each authority
- Relationship with external auditors of each authority
- Financial procedure rules
- Contract procedure rules
- Relationship with overview and scrutiny functions
- Complaints and ombudsman issues

14.1.5 TAX implications of service sharing

Tax is one of the more complicated areas of law in shared services, as tax liabilities will be contingent to the model, partners and legal vehicles involved, and vary depending on whether trading is undertaken.

Depending on the SSA structure, there may be VAT implications which will need to be taken into account – although setting up a Joint Service or arrangements under the Local Government (Goods and Services) Act are unlikely to impose additional taxation liability and changes to existing VAT structures. However, if a company structure is used, income may be liable to corporation tax and VAT structures will also be changed. Case-specific advice should therefore be sought.

14.2 Business transfer issues

The partners to a shared service (for example, a financial one) will typically have existing (in-house) arrangements in place for the delivery of the services in question. The creation of the partnership will potentially involve transferring assets, liabilities, staff and other matters relating to these to the SSA.

14.2.1 Transferring assets and contracts

Where assets are transferred will depend, of course, on the collaboration vehicle that is adopted. A company, as a separate legal entity, can own property and enter into contracts in its own right. However, a shared services model which does not create a new entity will require arrangements as to which member council will hold property and enter into contracts on behalf of the SSA. In addition to staffing issues, which are looked at separately below, key issues to examine will include the transferability of:

- Property – and whether any consents are required, and on what terms will the partnership occupy it. A further issue will be whether existing contracts or leases can be novated to the new holding council
- Assets, such as IT systems or vehicles – which may be held on leases that will require consent or novation
- Software licences and other Intellectual Property Rights – which will need to be examined to ensure that they can be used by the partnership

Contracts – either for the provision of services to one of the partners, such as IT maintenance, or for delivery of services to a third party, such as payroll services to a voluntary organisation partners will need to undertake due diligence on such issues to ensure there are no impediments to the transfers involved. Resolving the above issues can be time-consuming, especially where long-term leases, deeds or contracts are involved. There should also be consideration of the impact on other services (eg IT and HR), to address interdependency issues and avoid sub-optimal decisions at a corporate level.

14.2.2 Transferring staff

Again, this will depend on the precise collaboration model adopted. If a new legal entity is created, then it would have the capacity to employ staff in its own right. Otherwise agreement needs to be reached between the partners as to which organisation will remain or become the employer for individual staff and what mode of staff transfer will be used (see below on secondment, TUPE and pensions issues). In either case, it is important that full consultation is undertaken with all relevant stakeholders.

14.3 Regulatory issues

Councils have to comply with a number of regulatory matters in delivering normal day-to-day services and functions. It will be necessary for the partners to address how these will be covered as part of the SSA. These include:

- **Data protection:** Many of the services in scope for sharing may hold and process large amounts of personal data. Councils will need to be certain that their Data Protection Notification reflects the new arrangements and also make sure that the SSA will deal with data to their satisfaction as a data controller. A Data Sharing Agreement may also need to be put in place
- **Freedom of Information (FOI) Act:** Arrangements will need to be in place to deal with relevant FOI requests made to individual partners (for example, which party will respond to the request, or who will hold relevant information)
- **Regulation of Investigatory Powers Act:** Depending on the services to be provided under the model, it may be necessary to look at the requirements to authorise covert investigations
- **Health and safety:** The partner councils will all have health and safety procedures. The bringing together of staff from different local authorities may require a consistent approach to be adopted
- **Procurement Law:** The SSA will need to comply with UK and EC Public Procurement Law, which will need to be supported by shared financial regulations (which may differ to those in member councils)

14.4 Operational issues

SSA operations will also involve a range of non-Regulatory matters:

- **Services provided:** Documentation will be needed that specifies the services to be provided on a shared basis. There may also be a need to set relevant service levels and performance indicators (see also Section 8 on Service Level Agreements)
- **Financial arrangements:** The financial arrangements between the partners and the SSA will also need to be agreed and documented. This may also deal with issues around 'gain share' – for example, how cost savings might be divided up between partners. This might be needed where partners agree to differential charge-backs from the SSA because of the different contributions made to the partnership by each member, including their baseline cost and performance levels
- **Trading:** If the SSA is set up to trade its services to third parties income/deficit sharing arrangements between partners will also need to be addressed
- **Relationship with retained services:** The relationships with services retained by the individual councils that impact on or support the SSA will need to be considered. For example if court action to recover a debt is required, which council will issue legal proceedings? Some of the issues here will also be addressed in documents on SSA service level agreements, which set out the mutual obligations of client and provider
- **Insurance:** Partners should also consider insurance arrangements and responsibility for any liabilities incurred by the SSA
- **Publicity and branding:** Provision may also need to be made as to how to deal with publicity and press inquiries (who will speak on behalf of the SSA, for example). Partners will also need to agree how the service is to be branded, particularly where it is dealing directly with the public
- **Strategic risk management:** The undertaking of a risk assessment may identify strategic risk management issues which need to be dealt with in the documentation
- **Business continuity:** Partners should also consider whether provision should be made to deal with any key business continuity issues. It may also be relevant to consider in some cases whether provision should be made to deal with changes required to meet obligations under the Civil Contingencies Act

14.5 Exit arrangements

Partners will need to consider the mechanism for terminating the arrangement and also the consequences of the partnership coming to an end. Options for the duration of the SSA include:

- A fixed period of time at the end of which it will come to an end, or
- A rolling arrangement, which will continue until one or more partners seek to bring it to an end

In the latter case, partners will need to agree what would be a reasonable lead-in time, to enable them to re-establish their own in-house service or to enter into a different partnership. This would thus indicate what the Notice periods should be in terminating the arrangements.

Just as the setting up of the SSA will require a business transfer arrangement, so will its termination. Provision may therefore need to be made for such matters as:

- Vesting of property and assets
- Intellectual Property Rights and software licences
- Responsibility for liabilities and on-going contracts
- Transfer of staff and pension issues
- Transfer of data and records

To facilitate transfer at termination, thought needs to be given to ensuring that any leases, contracts or other matters to be entered into by or on behalf of the partnership are documented on the basis that consent would not be needed for the transfer to a partner authority on dissolution of the SSA.

14.6 Allowing for change

Councils should consider whether any provision needs to be made to deal with changes that may be necessary or desirable. In the main these could be negotiated, agreed and documented as and when the need arises. There is no statutory process prescribed. Under local government based models any change is likely to require to be approved by the individual councils.

14.6.1 Building in flexibility

There may be cases where a change has to be made, for example if there is a change in the law which affects the services, such as a major change to the benefits regime or Council Tax. In these cases the SSA will have no choice but to respond to the change. There would still, however, be merit in having adopted a dispute resolution procedure in advance, to help in deciding how this should be done.

If a company structure has been adopted, then changes could be made in accordance with its constitutional documents. The constitutional documents could therefore make appropriate provision to require a unanimous vote for key changes, or some other means that are deemed appropriate.

14.6.2 Dealing with local government reorganisation

If as a consequence of further reorganisation of local government a partner council is abolished or changes its status, this will affect the partnership. The way in which that is dealt with would ultimately depend on the legislation used to bring about the change. On the basis of previous restructurings, it is likely that the issue would be dealt with as part of the restructuring process and an appropriate provision included in the Order establishing the change.

Provision could be made in the documentation to seek to cover this eventuality. However it is not certain that this would be binding on successor authorities. The only certain provision that could be made therefore is that the partnership/SSA ceased to exist in that eventuality.

14.6.3 Allowing for the exit and entry of individual partners

As well exit arrangements for parties when the whole SSA is dissolved, consideration needs to be given up front to when an individual organisation wishes to leave. This will have legal implications, but may also affect the sustainability of the SSA in financial terms.

Likewise, arrangements need to be in place to deal with admittance of new partners. The fact that non-founding members will not have been involved in the initial SSA investment and risk-taking may be reflected in the charges and benefits they receive.

In dealing with both scenarios, a framework should be established in advance that provides an agreed basis on which exit and entry issues should be handled.

14.7 Employment Law and employment models

The creation of an SSA will inevitably affect staff. This will be a major factor to deal with in deciding on the collaboration model and legal vehicle, and in managing the process of change. There is a range of potential employment models available, depending on which approach is chosen. Arguably, employment issues may in fact be a factor in settling the structure for the SSA. Specialist HR and Employment Law advice should therefore be taken at an early stage in considering options.

14.7.1 The status quo

Under some models staff may simply remain with their current employer. Joint service delivery under a local government model does not involve the creation of a new legal entity and therefore it is quite possible for the staff to remain employed by their original employing council.

This would mean that they retained their existing terms and conditions of contract and pension rights. A decision would need to be taken as to which council would employ new staff and on what conditions of contract etc. Where it is envisaged that the shared service workforce will be closely integrated – and in particular co-located – this approach can lead to various management and equal pay issues, where staff are on different terms and conditions.

14.7.2 TUPE (Transfer of Undertakings – Protection of Employment)

TUPE provides statutory protection to an employee when the undertaking in which he/she works transfers to another organisation. That could be the case in a shared services scenario where either a new entity is created, such as a company, or a single authority takes the lead role in discharging the relevant functions on behalf of the others. If TUPE applies, there is a statutory process of consultation with staff and unions to be undertaken, which will need to be built in to the timetable.

For the staff it means that they automatically transfer to the new undertaking on their existing terms and conditions of employment. However, certain matters such as entitlement to participate in the Local Government Pension Scheme (LGPS) do not automatically transfer.

In the case of a transfer to another council that is academic, as they would be entitled to participate in the LGPS through their employment with the transferee authority. This is more of an issue if the transfer is to a company. It is, however, possible – and indeed usual – to require the company to seek admitted body status under the LGPS and to require it to maintain the membership of transferring staff.

The bringing together of staff under a single employer, to do the same work but on different terms and conditions (including pay scales) raises some potential equal pay issues. However, because it is a separate legal entity to the council partners it may prevent these issues arising with the remainder of the council workforce, providing steps are taken to bring all shared service staff onto a uniform employment base.

14.7.3 Secondment

Under a secondment model an employing council makes a member of its staff available to another council or entity whilst retaining them in its employment. There is no transfer, but in effect management transfers. This would mean that the individual member of staff will retain their existing employment and pension rights. Depending on the circumstances, this could again create issues for the management of the SSA, as well as raise potential equal pay issues.

14.7.4 Handling pensions issues

Pension rights can become an issue under a company model. A company is not automatically part of the LGPS. It can, however, have the ability to be a part of the relevant scheme and for its staff to therefore also be members. Discussions should therefore be held with the relevant Pensions Authority to establish the basis of such membership and in particular whether there might be any impact on the rate of employer's contribution required.

The Cabinet Office Statement of Practice on Staff Transfers in the Public Sector (the Cabinet Office Statement of Practice) provides that employees who transfer from the public sector to the private sector (for example as a result of outsourcing contracts) must be offered pension benefits in respect of future service which are broadly comparable with the benefits provided by the relevant public sector pension scheme of which they are members or entitled to be members (in this case, the LGPS) unless exceptional circumstances apply.

The principles of the Cabinet Office Statement of Practice were given greater emphasis in the ODPM (as it then was) circular of March 2003 (the Code of Practice on Workforce Matters in Local Authority Service Contracts) which also introduced the requirement to offer new employees a certain level of pension provision to prevent a two tier workforce emerging (see further below). Provisions for transferring employees were given legislative force by sections 101 and 102 of the Local Government Act 2003.

Furthermore, as from 1 October 2007, The Best Value Authorities Staff Transfers (Pensions) Direction 2007 has now made mandatory the protection of pension provisions for TUPE Transferees from a local authority. While this will provide reassurance for staff involved, the liabilities this will incur will need to be factored into the business case and financial risk assessment for the SSA.

It is reasonable to assume that staff transfers to a company will be fully funded. The cost of any 'crystallised deficit' on the LGPS will need to be accommodated by the councils involved and it will be up to each individual council as to how they take this into account in the business case. They will also need to consider a potential secondary affect – particularly for smaller councils, and where large numbers are transferring – where, post-transfer, the remainder of staff belonging to the LGPS will have fewer colleagues to share the future burden of deficits, which might disproportionately increase future council contributions.

14.8 Developing a legal framework

Section 7 on procurement discussed the need to identify an appropriate contract form, content and terms and conditions in setting up an SSA. This will cover the full range of issues involved in creating, governing, operating, changing and dissolving the arrangement in question. A suggested framework to cover these is shown below.

Governance

- Membership/Powers
  - Representation
  - Unanimous/special majority voting
  - Power to require
- Audit
- Best value/CPA
- Complaints

Finance

- Revenue costs
- Capital
- Deductions
- Compensation on termination
- Financial procedure rules
- Profit share

Transfer of assets

- Property, offices etc
- IT systems
  - Software licences
  - Leases
- Intellectual Property Rights
- Vehicles
- Contracts
  - Supply by the authorities
  - Supply to the authorities

Transfer of staff

- TUPE or secondment
- Equal pay
- Pensions

Regulatory issues

- Data Protection
- Regulation of Investigatory Powers Act
- Freedom of Information Act
- Publicity and confidentiality
- Health and safety
- Compliance with procurement rules

Liability

- Joint and several
- Insurance
- Indemnities

Termination issues

- Who decides
- Assets
- Staff

developing the service delivery and management framework

A service delivery and management framework is necessary to ensure that the shared service operations deliver to customer needs as defined in the Service Level Agreement. At customer forum level, service management involves meeting regularly with customers to review past performance, discuss and monitor improvements and agree targets for future time periods. Service management objectives should always aim to align the services provided by the SSA with the objectives and service requirements of customers. These will be articulated initially in the business case for collaborative working but will change over time as the needs of customer organisations evolve.

15.1 Key activities in a service delivery and management framework

The service delivery and management framework usually comprises the following key activities:

- **Contract management** – to ensure that contractual terms are being met, and action taken and charges invoked where not
- **Quality control** – to monitor processes and service outputs on a day-to-day basis
- **Performance measurement** – to track transaction volumes, unit costs and adherence to key performance indicators (KPIs) and SLAs
- **Process improvement activities** – to facilitate change and to correct service non compliance (errors and defects) in a timely manner
- **Service Level Agreement (SLA) management** – to set up suitable SLAs which define the responsibilities between service provider and customer (see also Section 8 on setting up and managing SLAs)
- **Performance reporting of KPIs and balanced scorecards** – to be carried out on a regular (normally monthly) basis, to communicate between the SSA and the customer
- **Customer satisfaction surveys** – to measure levels of customer satisfaction with services provided on a regular basis, using a periodic sample across customer segments
- **Governance boards** – that meet on a quarterly or half-yearly basis to review overall performance and prioritise new services for roll-out, improvements to be scheduled or investments to be made (see also Section 13 on Governance)

Figure 15.1 shows the various interactions, activities and tools that typically underpin a service delivery and management framework.

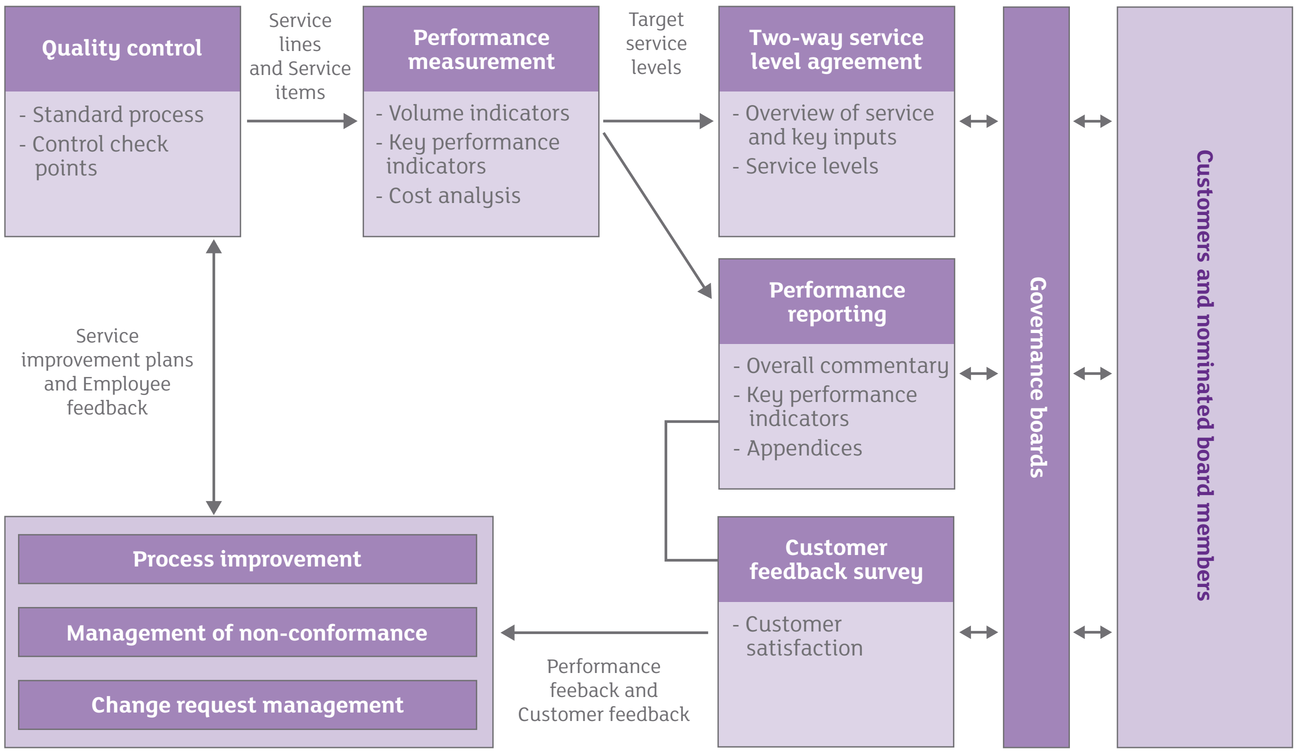


Figure 15.1: Service management interactions, activities and tools[1]

15.2 The benefits of effective service management

If service management is deployed effectively it will help provide:

- Mechanisms through which performance against agreed service levels can be managed and non-performance issues escalated
- A focus on high service performance levels and a continuous improvement mindset
- Regular data and analysis, to ensure that the governance and scrutiny of the SSA is conducted in an informed, evidence-based manner

Key principles that underlie this include:

- Having a full appreciation of customers' needs – and how these change over time
- Being customer-centric in outlook and design – ensuring services and processes are organised around customer needs
- Developing a customer service culture, backed up by appropriate management and reward systems
- Providing easy customer access to services and people, using helpdesks, email and customer-self-service
- Personalising services where necessary, with key customers managed through dedicated account managers
- Capturing, reviewing and acting upon customer feedback at regular intervals

1 Source: Shared services: where now? CIPFA IT Panel, 2008

15.3 Aligning people and culture to service design

The increased clarity around service content and standards that SLAs bring heightens the needs for SSA teams to have the skills, knowledge and outlook to deliver high levels of service performance. As mentioned in Section 11 on People issues, change in attitude and behaviours may therefore be required by some staff moving from traditional council functions into a shared service environment.

In shaping and developing the culture, the shared service leaders need to take account of the following:

- Being clear about the values of the SSA and how these link to expected behaviours – making sure the way people are managed, developed and rewarded is clearly driven by these values
- When hiring and promoting staff, focusing on the need for behaviours and attitudes to be in line with SSA values, as well as on technical skills for the job at hand
- Implementing a performance appraisal system, where customer service behaviours are set out in clear, actionable terms, and performance is judged – and rewarded – against these, as well as other areas
- Having training and development plans that are clearly linked to the overall vision of customer service

15.4 Performance management

People and process performance are often not measured in a formal way prior to the implementation of an SSA. One reason for this is that internal back-office departments are often viewed purely as service functions – there to support the rest of the organisation, not as customer-facing business units in their own right. Metrics for customer satisfaction, productivity, error rates, timeliness of processing, unit cost per transaction and so on are rarely available. As such services are provided from a number of disparate locations, it can also be hard to capture the necessary data prior to their consolidation in an SSA.

15.4.1 Creating performance measures

The shift of emphasis to – and desire for – metrics occurs when an SSA is set up and people and processes become more centralised. This creates a more suitable environment for performance measurement to work and is easier to implement. The two most significant changes involved in this are:

- Greater customer orientation
- The need to demonstrate better value for money – in other words, that the change to an SSA and plans for improving it are delivering on plans and business cases

The service relationship involved here is formalised through SLAs, which provide the main lever by which customer councils specify and manage the services they require. This shift in operating climate necessitates a comprehensive set of metrics to satisfy both internal and external reporting needs.

15.4.2 External reporting mechanisms

Some of the key measurement mechanisms that need to be put in place for external reporting are as follows:

- **Baselining the positions of headcount, cost and performance** (as well as expected benefits), to prove to customers that progress is being made according to plan
- **SLA measures and service performance reports,** including timeliness, error rates and the quality and accuracy of work against agreed targets. This should highlight areas of under-performance and whether action is required to address the situation (such as dealing with a processing backlog)
- **Customer satisfaction surveys**, to track movements in overall satisfaction and pick up comments on individual performance issues

15.4.3 Internal reporting mechanisms

Some of the key measurement mechanisms that need to be put in place for internal reporting include:

- **Activity based measurement** – tracking times and volumes of transactions/cases processed by activity versus target or benchmark. These measures will help establish productivity levels. They can be further analysed in terms of whether the activity is being performed right first time or whether rework is involved (and how much this is costing). If data is also captured and reported by a customer, it can help to influence behavioural change through price-driver mechanisms, as it will highlight the actual cost of providing services to each customer
- **Employee satisfaction surveys** – which provide an indication of the impact of pay levels and working conditions on staff morale, and can provide an insight into the reasons for either good or poor performance revealed by other metrics
- **Actual operational costs versus budget** – traditional cost centre accounting, which needs to be aligned to the way the SSA operates
- **Balance scorecard performance dashboard reporting** – to provide traffic light indicators for overall performance management. By integrating all the internal and external measures, it is possible – at a glance – to gauge overall performance and prioritise actions for operational change

When performance measurement systems are implemented effectively in an SSA, the results can be made available to all those working in or connected to it, from leadership to team member levels. This might be encapsulated in balanced scorecard performance dashboards and results presented in a high impact visual report, to help everyone understand overall operational performance and what they can do to improve it. Figure 15.2 shows the dashboard and defects/errors performance reporting in shared services that are generated within an overall service delivery and management framework linked to SLAs and customer feedback mechanisms.

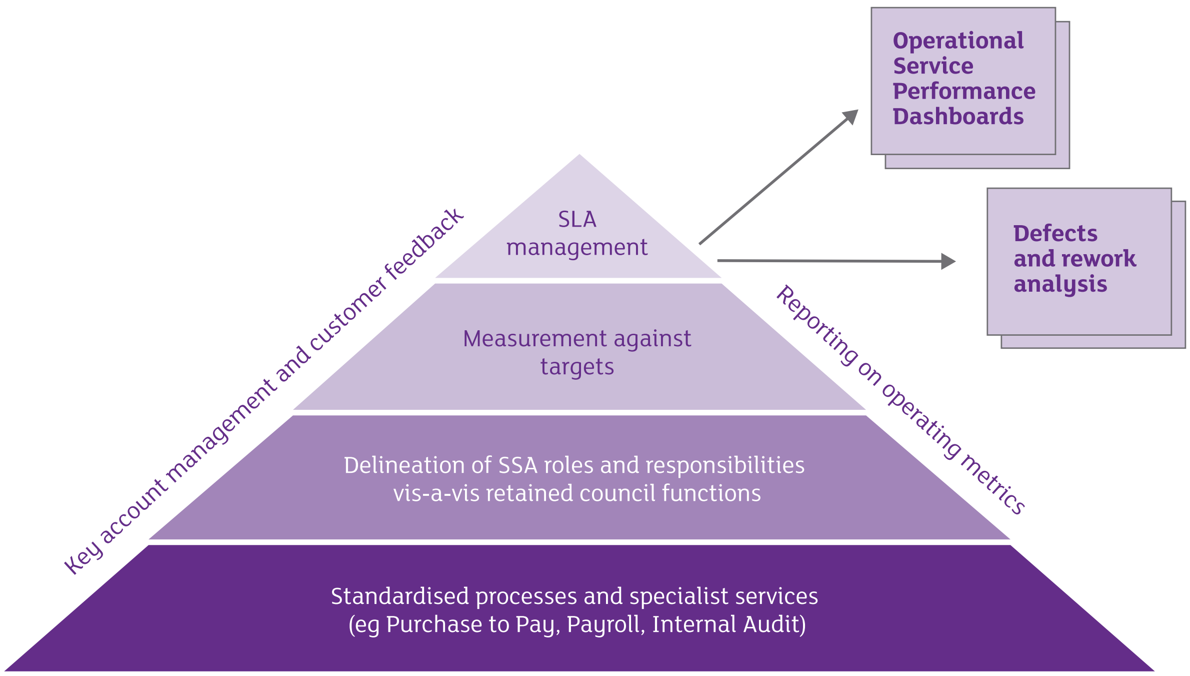


Figure 15.2: Overview of service delivery management reporting

Figure 15.3 shows an example of the dashboard and defects/errors performance reporting in an SSA. This would be generated within an overall service delivery and management framework, linked to communications and reporting processes both for internal operations and customers. The information generated here can be used for improvement programmes to drive out errors and defects.

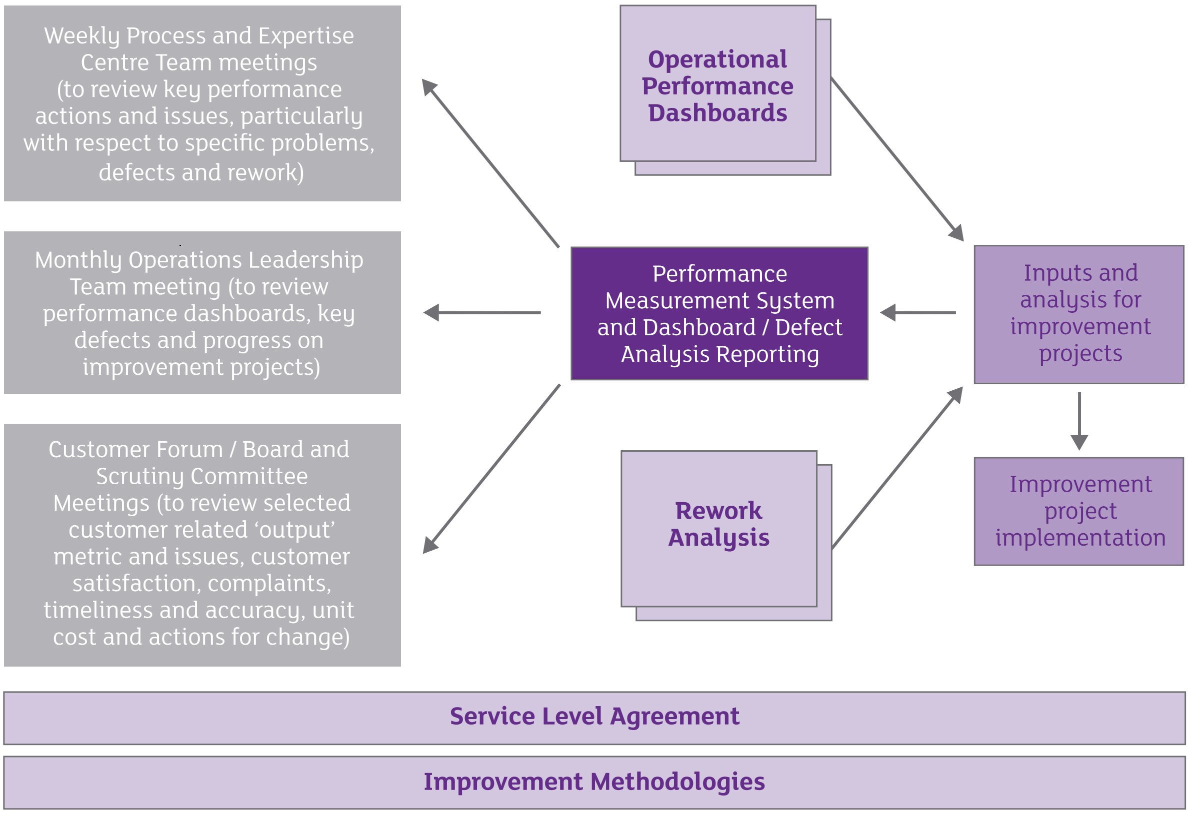


Figure 15.3: Performance dashboard in the context of service management reporting

15.5 Continuous improvement

Performance metrics generated from the mechanisms discussed above are a good starting point to highlight the priority areas for making improvements. For example, the metrics can help reveal:

- High amounts of time being spent on an activity
- High levels of errors or rework
- Low productivity
- High unit cost
- Duplication of effort
- Processing backlogs causing bottlenecks elsewhere

Once an area has been selected for examination, there is a need to understand more about the issues highlighted. This will involve looking at the possible root causes or sources of any problems. This may be resolved using a structured methodology like Six Sigma or TQM, or in simple cases by just applying common sense towards finding a solution.

A continuous improvement mentality should be embedded at all levels within the SSA. Ideally all team members should be involved in some aspect of continuous improvement; it should not just be the responsibility of a few internal improvement specialists. Team members at 'the coal face' can often make a significant contribution, as they know their processes at a detailed level and can often contribute ideas for improvement. The right environment is required to encourage people to contribute their ideas freely and ensure they feel engaged in the process.

A key enabler in this process is to share team-based performance results with them. By making such data available, each team member can make the connection between the results of the team and their own individual contribution to performance.

appendices and other resources

Online appendices

For a full list of online appendices that accompany this report, please visit **www.cipfa.org.uk/sharingthegain/appendices**

Useful online resources

A range of other online resources can be downloaded from government websites:

The *Business Improvement package* provides a range of resource to support local public services in improving and transforming services:
www.bip.rcoe.gov.uk/rce/core/page.do?pageId=1

Included in the package is the *Service Transformation through Partnership* Toolkit:
www.bip.rcoe.gov.uk/rce/core/page.do?pageId=40363

Also available is *Rethinking Service Delivery Volume Three: Shared Service and Public/Public Partnerships:*
www.communities.gov.uk/publications/localgovernment/rethinkingservicedelivery3

and *Structures for Collaboration and Shared Services:*
www.communities.gov.uk/publications/localgovernment/structurescollaboration

The Cabinet Office's *Shared Services Toolkit* can be found at:
http://www.cabinetoffice.gov.uk/cio/shared_services/toolkit.aspx

Advice on procurement and commissioning issues can be found from the Local Partnerships website (including various outputs from the 4Ps):
http://www.localpartnerships.org.uk/

Improvement and Efficiency West Midlands provides a range of tools on partnerships and process improvement. These can be found at:
http://www.wmcoe.gov.uk/

Improvement and the Development Agency (IDeA) advice on shared services and collaboration is available at:
http://www.idea.gov.uk/idk/core/page.do?pageId=6210975

The Scottish Government also provides useful online material on shared services. This is available at:
http://www.scotland.gov.uk/Topics/Government/PublicServiceReform/efficientgovernment/SharedServices

Other reports consulted for this report

Reports not cited in the main report include:

- *The CJC Guide to Service Sharing and Economies of Scale,* CIPFA, 2007
- *Local Authority Financial Administration Services: emerging trends the context of shared services,* CIPFA, 2007
- *Modern Public Services: shared services,* Socitm Insight, 2006

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