Clyde Valley Partnership Support Services Workstream

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Outline Business Case for Shared Support Services

Management Summary

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Partners

Local authorities who have contributed to the workstream.

1. Introduction

The Scottish Public sector is facing a period of prolonged budgetary constraint, with total Scottish Government spending falling by 11.6% in real terms between 2010/11 and 2014/15. In response to this unprecedented financial environment, councils are having to re-think the way in which services are delivered to drive down costs while continuing to meet the priority needs of their local communities.

While each Clyde Valley council has embarked on forward thinking internal change programmes, they have recognised that in many areas they can achieve a greater level of benefits by working together.

The Clyde Valley councils have demonstrated significant leadership and commitment to their local communities by embarking on a collaborative process to radically re-think service delivery across a number of different workstreams.

This document outlines the result of this bold and innovative thinking in the area of council support services. It highlights how the creation of a shared service could enable the eight Clyde Valley councils to collectively save up to £79.5m over the next 5 years, with an anticipated annual recurring saving of £37.8m thereafter.

The aim of this workstream has been to create a shared service arrangement that will deliver benefits beyond what can be achieved internally and continue to do so in the long tem. Importantly, the proposals are designed to recognise and support the ongoing service transformation programmes that are vital components of each council's local strategic plans.

The document also highlights that change of this nature is difficult and that the participating councils will be required to make significant compromises and adopt new, standard ways of working across services.

This will be challenging but councils recognise that their own internal change programmes are not without risk or need for compromise. A shared service programme would provide pooled access to significant expertise and change resources that would help mitigate some of these risks and challenges.

We believe that the options described in this document represent the scale of ambition that will be necessary to maintain effective public services and demonstrate to communities that public organisations are striving to make each public pound go further.

It also provides an opportunity for the Clyde Valley to take a lead within Scotland in creating the new and efficient models of service delivery that the financial environment demands.

2. Scope

Functional scope and participation

The scope of the shared support services workstream covered five main functional areas:-

- Finance
- HR and Payroll
- ICT
- Revenues and Benefits
- Customer Access

Table 1 overleaf provides an overview of the:

i. Description of each functional areas;

ii. Current operating models that exist within clyde valley councils; and

iii. Direction of travel in relation to change within these areas.

Table 1 – High level description of functions within scope

HR & Payroll	Finance	ICT	Revenues & Benefits	Customer Access
Function description				
Council Human Resources and Payroll services.	Council financial accounting and related financial processes and advisory and support services.	Council ICT services covering infrastructure, applications and development/project services.	Council revenues collection (Council Tax, NDR, Rents and Sundry Income) and Benefits payments (Housing and Council Tax).	Council centralised customer contact operations involving three main customer access channels - telephone contact centres, "one stop shop" face to face and web based self service.
Current council operating models				
Vary by council in relation to the extent of integration between Payroll and HR and centralisation v decentralisation of HR services.	Some variation in operating models in relation to the extent of decentralisation of finance activity.	Some variation in operating models in relation to the extent of decentralisation and the use of managed service contracts for some or all aspects of services.	Some variation in operating models in relation to the extent of area based teams for Council Tax/Benefits and the extent of integration with corporate customer management operations.	Vary in relation to the extent of corporate ownership across telephone, face to face and web contact, the degree of integration between these areas and the range of services covered and the depth to which they can deal with contacts before passing to departmental services.
Direction of travel for service development				
Towards integration and centralisation and the adoption of a business partner model, to realise efficiency savings	Towards increased centralisation to realise efficiency savings	Towards increased centralisation and use of external managed services to realise efficiency savings.	Towards increased centralisation and integration with corporate customer management operations	Towards increased integration and corporate control of access channels, the redesign of delivery processes to transfer more activity from departments into the customer management operation and, to make it easier for customers to use online self service arrangements, all in order to realise efficiency savings.

Table 2 – Breakdown of staff and cost across functional areas

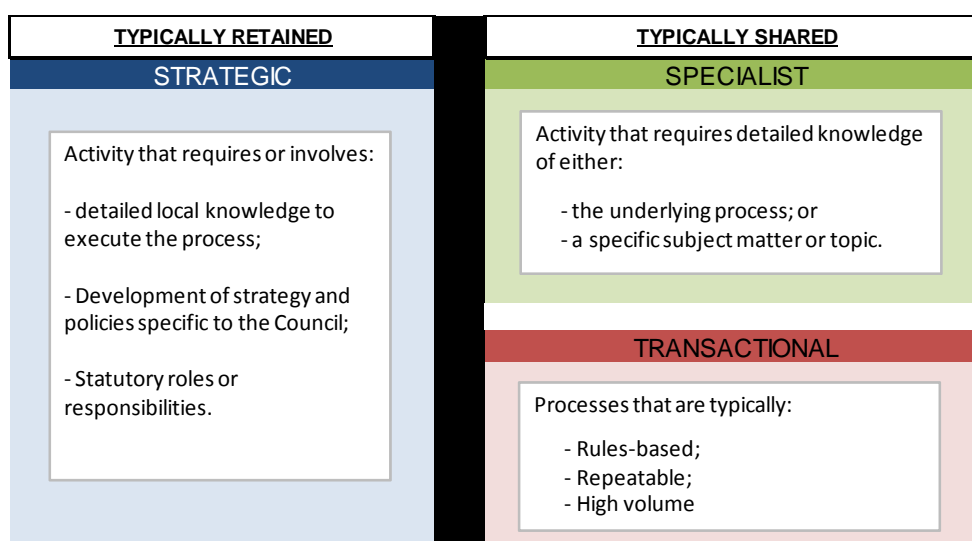| Council / Function	HR / Payroll	Finance	ICT	Customer Access	Revs & Bens	Council Total
East Dunbartonshire	37 FTE	54 FTE	51 FTE	8 FTE	41 FTE	*191 FTE*
	£1.5m	£1.8m	£3.5m	£0.3m	£1.2m	*£8.2m*
East Renfrewshire	39 FTE	34 FTE	62 FTE	27 FTE	36 FTE	*198 FTE*
	£1.3m	£0.8m	£4.5m	£0.9m	£0.5m	*£8.0m*
Glasgow City	307 FTE	229 FTE	200 FTE	258 FTE	587 FTE	*1,581 FTE*
	£8.3m	£6.1m	£26.5m	£5.3m	£14.6m	*£60.7m*
Inverclyde	43 FTE	39 FTE	42 FTE	31 FTE	50 FTE	*205 FTE*
	£1.3m	£1.4m	£2.1m	£0.5m	£2.2m	*£7.6m*
North Lanarkshire	178 FTE	69 FTE	155	44 FTE	157 FTE	*602 FTE*
	£5.4m	£3.3m	£5.7m	£0.8m	£7.5m	*£22.7m*
Renfrewshire	91 FTE	71 FTE	99 FTE	61 FTE	87 FTE	*296 FTE*
	£4.5m	£2.3m	£6.8m	£1.7m	£2.0m	*£10.9m*
South Lanarkshire	130 FTE	92 FTE	149 FTE	16 FTE	185 FTE	*572 FTE*
	£6.2m	£4.1m	£10.8m	£0.9m	£5.4m	*£27.4m*
West Dunbartonshire	55 FTE	79 FTE	57 FTE	15 FTE	90 FTE	*296 FTE*
	£1.8m	£3.2m	£2.3m	£0.3m	£3.3m	*£10.9m*
Clyde Valley Total	879 FTE	667 FTE	814 FTE	459 FTE	1,232 FTE	*4,051 FTE*
	£30.3m	£23.1m	£62.2m	£10.7m	£36.5m	*£162.9*

The outline business case has been developed on the assumption that each of these functional areas across all eight Clyde Valley councils is included within the scope of the shared service. Table 2 on the previous page provides a breakdown of the staff numbers and costs associated with these functional areas in each of the eight councils, together with a total for the Clyde Valley.

In total there is 4,051 FTE within the scope of these functional areas across the eight councils with a total cost of £162.9million. It is worth noting that this is approximately the same number of FTEs within each of the three smallest Clyde Valley councils, which illustrates the scale of the ambition inherent in this workstream.

Depth of scope within function

A key discussion point within the workstream has been the extent to which the various activities within each functional area lend themselves to sharing. These activities can be broadly split into three main categories as illustrated in Diagram 1 below.

Diagram 1 – Categorisation of activities

TYPICALLY RETAINED	TYPICALLY SHARED
STRATEGIC	**SPECIALIST**

Activity that requires or involves:
 	
- detailed local knowledge to execute the process;
 	
- Development of strategy and policies specific to the Council;
 	
- Statutory roles or responsibilities.
	Activity that requires detailed knowledge of either:
	
	  - the underlying process; or
	  - a specific subject matter or topic.

	TRANSACTIONAL

	Processes that are typically:
	
	  - Rules-based;
	  - Repeatable;
	  - High volume

During the initial discussion for this workstream that took place over the summer period, the focus had primarily been on transactional activities. However the Outline Business Case development phase that commenced in September challenged this assumption and through a combination of individual meetings and workshop sessions with functional lead officers, identified opportunities to extend the scope into the professional, specialist and advisory areas of activity.

While these may have been difficult and uncomfortable discussions for many functional lead officers, the project team have been greatly impressed by the professional and constructive approach that has been shown by those involved. A key driver for these discussions was the request for ambition that had come from the Clyde Valley Leaders and Chief Executives, which meant exploring all viable options. It was also recognised that:

- An effective transactional shared service would require a substantial investment in underpinning technology, and that further significant benefits could be leveraged from this investment by deepening the scope of activities undertaken by the shared service.

- Some of the professional activity undertaken within these functions is not technology dependent and benefits could be achieved quickly by pooling expertise and resources and removing duplication.

Retained function

It is important to highlight that shared services does not mean that all of the activity within a function is transferred to the shared service operation. Each council will retain those strategic and advisory activities that are vital to effective corporate management, statutory responsibilities and the provision of tailored local service delivery where required.

The retained function also plays a crucial role in engaging with the shared service, ensuring that the councils' strategic needs are recognised and met, and that their own staff interact with the shared service in a way that maximises benefits.

Particular attention was paid to the arrangements for the Customer Access function, given the important role this plays within each council's own internal cost reduction plans. It is considered that much of this activity (particularly face to face contact) would be retained within councils, and that only these activities that would enhance customer value and support council service re-design be included within the scope of the shared service.

Additional functional areas

The workstream was asked to consider Legal Services and Property Services (maintenance and facilities management) for future inclusion within the scope of a shared service.

While there are examples of shared Legal Services, the potential financial savings appear to be less significant than for the five functional areas already within the scope of the shared service. It is proposed therefore that the focus of this workstream should remain on those areas that offer the greatest potential for savings, although Legal Services could be considered for inclusion at a future date.

The potential savings from property maintenance and facilities management services may be of a greater order across the Clyde valley, but given the lack of synergies between these services and the five functional areas within scope of this workstream, it is not considered appropriate to include property as part of the next phase. If there is strong interest amongst some councils for this area then it could be pursued as part of the Clyde Valley property workstream being led by South Lanarkshire Council.

One area where it is believed that the Clyde Valley councils would benefit from increasing the scope, would be to include the Procurement function. This would support the adoption of a standardised procure to pay process, but of potentially greater significance, it would bring together expertise and capacity to focus on driving cost reductions in those local goods and services that are not being pursued by Scotland Excel.

Participation by other public organisations

The shared support service work being undertaken by the Clyde Valley councils has attracted interest from several other councils and public organisations, and some early briefings have been given to interested parties. It is considered likely that such interest will continue if the workstream develops further and it will be important that mechanisms for future expansion of the shared service to new participants are considered as part of the next phase of work.

3.   Strategic options

Two main strategic options were identified with the necessary scale and ambition to address the financial challenges faced by the councils and which have been termed "transactional" and "enhanced scope". The transactional shared service brings together those aspects of the five functional areas that are primarily high volume and repetitive, as highlighted in Diagram 1 on the previous page.

The enhanced scope shared service combines both the high volume transactional elements of the five functional areas, together with those additional professional, specialist and advisory activities that lend themselves to standardisation and/or pooling within centres of excellence.

Summary information on these two strategic options is given in Table 3 on the following page and more detail can be found in Sections 5 and 6 of the main Outline Business Case Document.

In order to financially model these two options it was necessary for the project team to make an informed choice about the depth to which the activities would be shared within the enhanced scope option and it was then assumed that all eight councils would share to the same depth.

In reality however, the transactional and enhanced scope options represent two ends of a spectrum, and there will be flexibility within some functional areas for councils to choose the depth to which they wish to share and the timing of their transition into the shared service arrangements.

Table 3 – Strategic Options

	1. Transactional Shared Service	2. Enhanced Scope Shared Service
Strategic Option	Transactional SS	Full Scope SS
Description	• The creation of a shared service operation that primarily delivers the high volume transactional elements of the five functional areas such as: 　○ Payroll processing 　○ Invoice payment 　○ Council tax billing 　○ Mail handling 　○ Recruitment administration • This would involve the transfer of approximately 1,527 staff out of the total of 4,051 employed by councils in these functions to the shared service operation. • 2,524 staff would be retained within the councils providing the non-transactional elements of the functional areas, all face to face public contact and the majority of telephone based contact.	• The creation of a shared service operation that delivers <u>both</u> the high volume transactional elements and additional professional specialist, advisory activities such as: 　○ Training and development 　○ Fraud detection 　○ Producing standard financial reports 　○ IT applications management • This would involve the transfer of approximately 2,889 staff out of the total of 4,051 employed by councils in these functions to the shared service operation. • 1,162 staff would be retained within the councils providing the strategic advisory elements of these services, all face to face public contact and a significant element of telephone based contact
Key Assumptions	• All eight councils participate in shared service for the same transactional activity • Standardised transactional processes are agreed and deployed across the participating councils • The shared service operates on the basis of a standardised ERP platform for Finance, HR, Payroll, which is adopted within each of the participating councils, together with a common Revenues and Benefits technology platform.	• All eight councils participate in shared service to the same depth of scope for each function • Standardised transactional, advisory and specialist support processes and services are agreed and deployed across the participating councils • The shared service operates on the basis of a standardised ERP platform for Finance, HR, Payroll, which is adopted within each of the participating councils, together with a common Revenues and Benefits technology platform
Non financial benefits	• Implementation of self-service model for support services, enabling wider Council transformation and cultural change. • Improved management information and reporting for the in-scope areas. • Creation of new capability and capacity focussed on 'commissioning and contract management' within councils. • Provides a sustainable way of improving and investing in high quality service deliver within the functions in scope • Potential to attract other non-Clyde valley council or public sector participants • Potential to influence or lead national public sector shared service developments	• Centre of excellence capacity within shared service supporting transformational change activity within councils. • Improved management information and reporting for the in-scope areas. • Creation of new capability and capacity focussed on commissioning and contract management within councils. • Provides a sustainable way of improving and investing in high quality service delivery within the functions in scope. • Enhanced potential to attract other non-Clyde valley council or public sector participants. • Enhanced potential to influence or lead national shared service developments. • Potential to support more flexible working arrangements and use of property assets across the clyde valley. • Potential to enhance the competitiveness of the Clyde Valley 's shared service sector and its contribution to the local economy.

The project team also identified two sub-options of the enhanced scope option described above, and these are described in Table 4 on the following page. These were not included within the financial model as they did not offer any advantage over the enhanced scope option. However, if the eight councils were unable to reach agreement on taking forward either of the two strategic options, some version of these sub options could still provide a way forward for a shared service with reduced scope (fewer functional areas, and/or fewer councils).

Table 4 – Sub Options

	Functional Specific Shared Service	**Customer Specific Shared Services**
Sub Option		
Description	• This option creates on or more functional based shared service arrangements covering both transactional and professional services	• This option creates up to two shared service arrangements that are based on the predominant 'type of customer' that is being served (primarily a split between services that are delivered to internal Vs external customers)

4. Options appraisal

The options appraisal consisted of two main elements, a financial comparison of the main costs and benefits, and a risk based assessment of a number of key criteria.

Table 5 below summarises some of the key financial metrics. This comparison highlights that the enhanced scope option offers over double the financial savings of the transactional option, but the necessary investment does not increase to the same extent.

Table 5 – Summary of financial metrics

Summary of key metrics	Transactional SS	Enhanced Scope SS
Anticipated staff transferring to Shared Service	1,527 FTE	2,889 FTE
Annual existing cost associated with transferring functions (staffing + contract costs)	£45.2m	£101.7m
Total 5 year cumulative gross saving	£34.2m	£79.5m
Annual recurring net saving from year 5	£18.1m	£37.8m
Anticipated staff reduction by year 5	644 FTE	1,147 FTE
Indicative investment cost over 5 years *	£26.7m	£31.6m
Estimated staff release costs over 5 years *	£18.2m	£31.6m

* Note that while these costs have been calculated for the shared service options, some councils will have budgeted for investment in their own internal change programmes and the associated staff release costs. Participating in the shared service may be an alternative to these programmes for some councils and this needs to be taken into account when making comparisons to avoid double counting of these costs.

It is important to note that the projected savings in Table 5 are not in addition to those savings councils were planning to deliver through their own internal change plans over the next three years.

Participating in the shared service would provide an alternative route to achieving these savings and in the medium to long term, would provide a significantly greater level of cumulative savings than could be achieved individually, as illustrated in the Diagram 2 below.

Diagram 2 – Comparison of cumulative savings from internal v shared service delivery
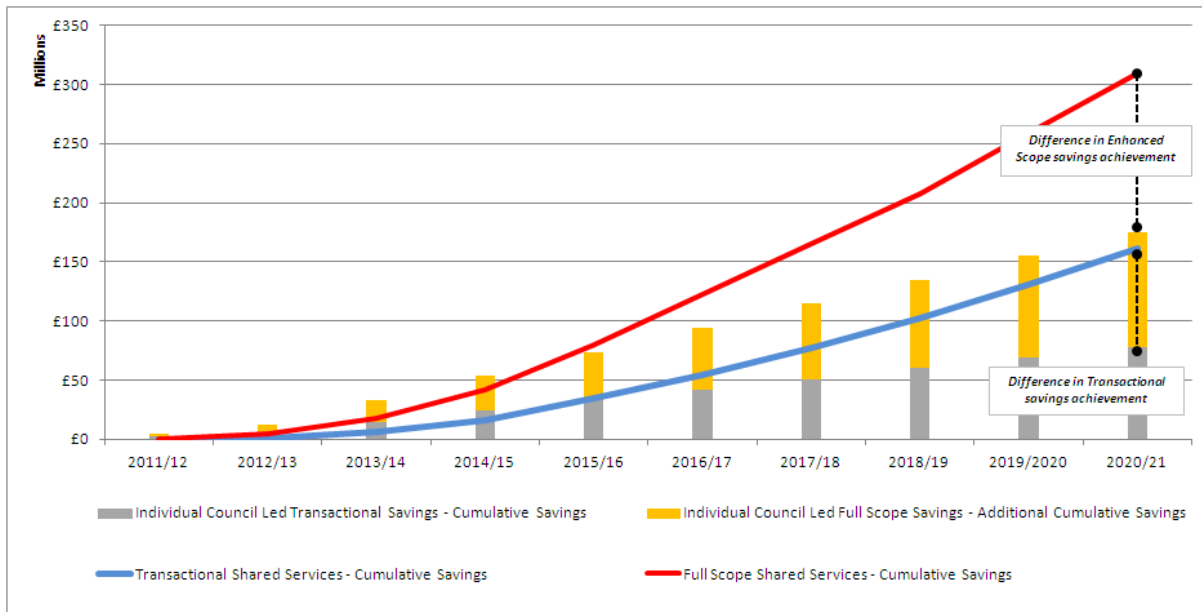

Table 6 below summarises the risk based assessment and highlights that the risk associated with a number of key criteria does not change as you move from transactional to enhanced scope.

Table 6 – Summary of key risks

Summary of key risks	Transactional SS	Enhanced Scope SS
1. Significant senior level commitment and leadership required to ensure agreement on common processes and subsequent compliance within participating council departments	Major risk factor which doesn't differ significantly between options	
2. Large scale TUPE transfer with associated industrial relations issues and potential cost risk resulting from uplift to best terms and conditions amongst transferring staff.	Both options involve staff transfers, but enhanced has 2X numbers which increases risk.	
3. Significant reduction in staff numbers with potential industrial relations consequences	Both options involve large staff reductions which will be unpopular with staff and trade unions..	
4. Major technology and process change requiring the adoption of new ways of working for a large number of staff and managers in councils	The technology change is the same for both, which while complex, has been done elsewhere.	
5. Significant investment funding required for technology costs and associated technical and change management expertise.	Investment is similarly large for both, but pay as you go models could mitigate this.	
6. Some reduction in customer service levels are likely to be experienced during the implementation phase.	The impact on external customers is the same, but full scope has more impacts on internal ones.	
7. UK government plans for Benefits will remove the benefits administration component of the shared service by 2017.	Benefits is a larger proportion of Transactional SS so savings levels relatively more effected	
8. Scottish Public Sector reform initiatives post the 2011 Parliamentary election may impact on current public service arrangements and structures	Both options should remain relevant and add value regardless of potential structure changes	

## 5. Overview of delivery mechanisms

In addition to exploring the strategic options for sharing, the project also considered the mechanisms by which the shared service option could be delivered. A range of options were identified, as illustrated in Diagram 3 below.

Diagram 3 – Delivery vehicle options
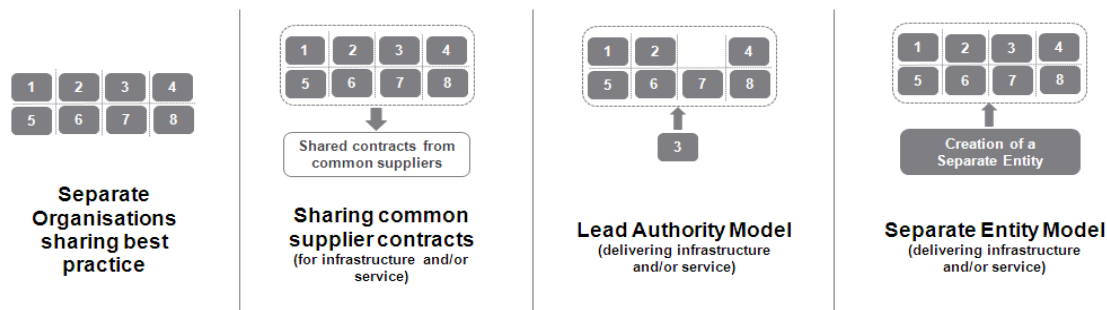
Discussions with Chief Executives and an assessment of the options against agreed design principles identified that only the Public/Public, or Public/Private arms length joint venture company options would provide an effective vehicle for the delivery shared service options of the scale and scope being proposed (as outlined in Diagram 4 below).

Diagram 4 – Range of 'Separate Entity' Delivery Mechanisms
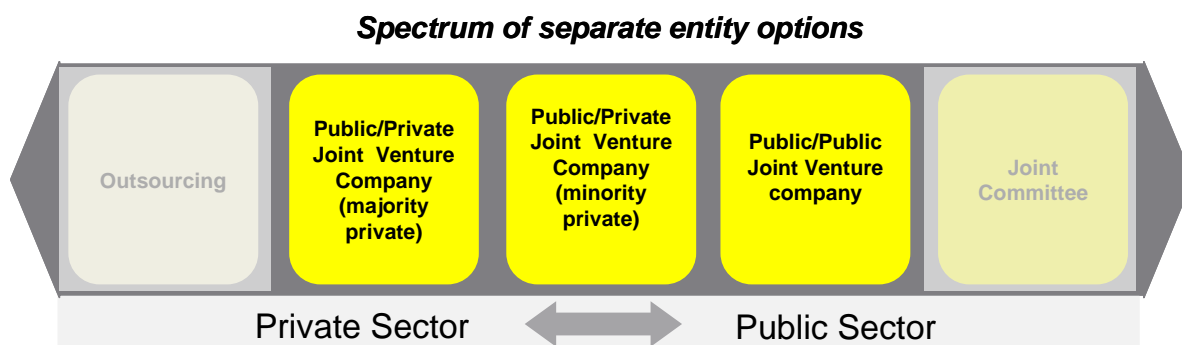
However, the choice is complicated by the fact that within these two main groupings there are a number of different company types, each of which have features which impact on important aspects of the shared service. Choice of delivery vehicle is also influenced by a range of factors which need more time to assess and understand, including

- The amount of the external investment and skills required;
- How quickly savings require to be delivered;
- The extent to which you want other public bodies to be able to join in;
- The mechanism by which other public bodies can join;
- Existing assets within the participating councils;
- Market interest and views, and
- Legal/Finance/Procurement advice on powers, VAT, Tax, Challenge.

6.   Conclusions and Recommendations

Key observations

In reaching a conclusion on the most appropriate option for shared support services for the Clyde Valley a number of supporting observations can be drawn from the work undertaken to date.

Significant scope for financial benefits
Shared support services could provide significant efficiency savings, but this is directly related to the number of functions included, the depth to which sharing can be achieved within these functions and crucially, the number of councils participating.

Scope for flexibility
The transactional and enhanced scope options represent two ends of a spectrum. In modelling the enhanced scope option, the project team took an informed view on where the line is drawn between what is retained within councils and what is transferred to the shared service operation. A degree of ambition was built into this, but it is recognised that beyond the non-negotiable transactional elements of service, the depth of transfer of value added services in some functional areas does not have to be a 'one size fits all' model. The actual position will be agreed for each council based on detailed discussion and negotiation (with benefits sharing being adjusted as appropriate). It is anticipated that there would be a "gateway" process during the transition journey that will provide participating councils with defined decision making points in relation to their depth of participation.

Shared Service versus individual council efficiency savings
Where information was provided by councils, the financial model has taken account of budgeted reductions in staffing and costs for 2010/11. However, beyond 2010/11 it must be highlighted that the efficiency savings shown for the shared service options are not additional to future savings currently being assumed for internal cost reduction programmes in councils.

The chart shown in section 4 above, forecasts the potential additional benefits that could be derived from the shared service in comparison to the average indicative savings target provided by councils for their internal change programmes. It will be for each council to compare the forecast data for the shared service with their own anticipated changes to determine which provides a better route to the delivery of longer term, efficiency savings and sustaining high quality support services.

High level of Investment needed
A substantial investment will be required in relation to technology and process change and the subsequent adoption of new ways of working within the shared service operation and wider council services.

The level of investment does not differ significantly between the two options proposed since both require the same underpinning technology components.

The ability to leverage existing investments in systems and processes needs to be explored to manage down investment costs. The major suppliers will also provide hosted "pay as you go" options for their software which would replace up-front capital investment with a revenue based payment model. Similarly if this investment was funded by council borrowing then the payment profile would be smoothed over the long term.

Note that no assumption has been made about the potential for the shared service investment to remove the need for future planned investments within individual councils, but this may provide additional benefit to individual councils not quantified in the business case.

Significant Risks and challenges
There is a link between the extent of the ambition and the scale of risk and a number of significant risks and challenges have been identified for the shared service options being considered. Section 4 above however indicates that the key risks are broadly similar between the transactional and enhanced scope options.

The most significant risk relates to leadership and commitment at both the Clyde Valley partnership level and within each council. The latter is particularly important given that a significant element of savings will come from the standardisation of processes and systems and the subsequent adoption and compliance with new ways of working within each participating council.

Impact on wider council transformation and efficiency

There is a requirement for the retained functions in each council to be re-designed to allow effective engagement with the shared service and ensure that the retained function does not seek to duplicate activities transferred to the shared service.

The new ways of working that will be introduced by the shared service (streamlined processes, self service, automation, work flow etc) that could support significant culture change and efficiency improvement across council services. The extent to which this is realised will be dependent on how quickly and robustly the new ways of working are adopted within each council, and therefore the outline business case has not assumed any such savings within the financial model.

Particular attention has been paid to the arrangements for the Customer Access function, given the important role this plays within each council's own internal cost reduction plans. Only those activities that would enhance customer value and support council service re-design have been included within the scope of the shared service. This in turn can help leverage further efficiency and service improvement within individual councils, but no savings from this have been assumed within the outline business case.

Delivery vehicle to implement shared service operation

Further detailed work is required to identify the most appropriate delivery vehicle to take forward the preferred shared support service option, which will take account of the number of committed partners, the agreed scope of sharing in terms of the functional areas and, the depth of sharing in each. Work to date has narrowed down the preferred options to either a public/public or a public/private joint ownership company.

Sub-optimal options

Should Clyde Valley Councils be unable to reach a consensus on moving forward together on the recommended option, there are a number of sub-options, involving particular functional areas, where smaller scale shared service arrangements would still provide benefits for those willing to participate. The level of overall benefits however would be significantly less than that achieved by the two main strategic options.

Conclusions

Given the scale of the financial challenge faced by Councils and the wider public sector over the next decade, councils will be required to undertake bold and radical changes to the way services are delivered. On the basis of the work undertaken in developing the outline business case, it is concluded that:

- There is a business case for both the transactional (option 1) and enhanced scope (option 2) shared services;

- The financial case for enhanced scope shared service (option 2) is substantially more compelling and robust;

- The key risk factors for the enhanced scope option are not significantly greater than for the transactional shared service option;

- There is sufficiently flexibility within the enhanced scope shared service to accommodate the different starting positions and preferences for the majority of councils, without compromising the benefits case unduly, and

- The enhanced scope shared service option provides more scope for supporting wider transformation and efficiency within councils and wider strategic benefits for the public sector across the Clyde Valley and beyond.

Recommendations

On the basis of these conclusions it is recommended that the enhanced scope shared service (option 2) is best able to meet the strategic requirements of the Clyde Valley councils. Accordingly the Partnership is asked to:

(i) agree in principle to share support services on the basis of the enhanced scope shared service (option 2) described in the outline business case document;

(ii) invite each individual council to confirm their participation in a detailed design phase of activity that will develop a full business case for the enhanced scope shared service;

(iii) agree to the establishment of the necessary governance and project team arrangements to enable this detailed design phase to progress immediately;

(iv) note that there may be a requirement for participating councils to provide further funding and resources to support the detailed design phase activity,

(v) note that a key component of the design phase will be to undertake an options appraisal of delivery models and bring forward recommendations; and

(vi) agree that subject to formal confirmation of participation by individual councils, that the full business case is brought back to the partnership for consideration by June 2011.