



Shared corporate and transactional Services

Outline Business Case

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1. EXECUTIVE SUMMARY

- 1.1 The current efficiency agenda puts shared service delivery in the centre of Government policy and local authorities can no longer undertake any activity on a standalone basis as the most cost effective way of delivering services.
- 1.2 Experience over recent years demonstrates that costs of service provision can escalate unavoidably and unpredictably due to external influences. It will be difficult to absorb such cost increases without either an adverse impact on services to residents or implementing significantly different modes of provision such as shared services. It should be possible to achieve significant revenue savings from a shared service approach through organisational re-engineering, accessing the skills of other partners and cost reductions through economies of scale. There will also be opportunities to free up space from rationalisation of current office space at the council offices.
- 1.3 The council has experience of providing services jointly, or in collaboration with other councils, for example the payroll partnership with Bedford Borough Council. However, such developments have been fragmented and have not been the standard way of developing services.
- 1.4 The council's Strategic Management Board (SMB) has already endorsed a strategic approach to shared services and collaborative working. This was reported to Operations Committee on 28 June 2007. This set out the early work which needed to be done to identify opportunities for shared services.
- 1.5 Recently, there have been some promising opportunities to work in partnership with other local authorities, but through no fault of the council, these have not materialised into collaborative working arrangements that will deliver real benefits.
- 1.6 The Chief Executive has stated the need for the council to proactively seek and develop a shared service partnership. What is required now is a step-change in the approach to shared services that will provide reassurance to the council and the community that the medium to long-term financial standing of the authority is sustainable.
- 1.7 This outline business case sets out the strategic case for fundamentally changing the way some of the council's services are provided and also describes the arguments for doing so. These include the Gershon agenda, prospect of local government reorganisation, government guidance, customer expectations and financial pressures. Key internal and external drivers are also highlighted. The outline financial and non-

financial cases are set out in sections 6 and 7 respectively.

- 1.8 The council's services can be separated into the following functions: -
- a. Front office: the customer/client facing operation of the council, dealing with enquiries, follow-up, service allocation etc;
 - b. Transactional (technical or professional): specialised service delivery or regulatory functions which required specific equipment or knowledge to perform effectively;
 - c. Corporate (organisational support services): all the necessities for running an organisation and its infrastructure securely and legally: accountancy & exchequer, debt recovery, human resource management, procurement, mailroom and print services, facilities management, accommodation, catering etc.
 - d. Strategic management and political leadership: shaping the future development of the council, establishing financial, workforce development plans, identifying and setting out political priorities and working to promote Uttlesford's interests.
- 1.9 There are a number of shared service business models emerging from work already being done by other local authorities. These are discussed in more detail later in this document. However, the models revolve around sharing the corporate and transactional services of local authorities, essentially, the functions described in b and c in paragraph 1.8 above.
- 1.10 On initial evaluation, the preferred option that appears to be the most suitable strategic fit for Uttlesford is a partnership with a number of other public sector bodies. The ultimate objective is for the partnership to establish a separate entity to provide corporate services to the partner organisations at a significantly reduced cost. An outline options appraisal of the various business models is contained at appendix 2. A comprehensive appraisal of each option will be carried out as part of the detailed business case, subject to this outline business case being approved.

2. STRATEGIC NEED

- 2.1 The strategic objectives for advancing shared services as a priority are: -
- To ensure medium and long term financial stability through a period of uncertainty;
 - To retain access to a wide range of skills and competencies;
 - To maintain and increase resilience in provision of all council services;

- To retain jobs in the locality;
- To protect jobs and employee interests;
- To continue to deliver Gershon efficiencies and maintain a balanced budget in the long term;
- To achieve financial savings of between 15-30% of the value of the shared service arrangement;
- To realise income as the partnership begins trading activities;
- To rationalise and optimise usage of property assets.

2.2 The key external and internal drivers for change are detailed below:-

3. EXTERNAL DRIVERS

Efficiency savings

- 3.1 There have been clear signals that the efficiency drive within local government will continue. Recent indications suggest Gershon efficiencies will continue year on year and these will be exceedingly difficult to meet without radical step change. There have also been indications that the government believes that the shared service agenda should deliver significant efficiencies, particularly in respect of corporate or support services. This approach could have significant implications in local authority service provision. The council recognises the need to support local and regional economic delivery by engaging with partner organisations to deliver shared corporate and transactional services.
- 3.2 The council's medium term financial strategy shows that revenue savings of £1.184m are required in 2008/09. This figure rises to £2.010m by 2012/13. The council's internal Organisational Re-engineering programme will help to deliver revenue savings of £1.115m, but this still leaves a significant shortfall. The financial pressures are predicted to become even more demanding and there is concern that the current level of Government spending on public services is unsustainable in the medium to long term.

Local Government reorganisation

- 3.3 The publication of the Local Government White paper has seen an increased emphasis on the need for councils' to share services. This council's approach is an example of the establishment of a partnership arrangement that other local authorities can participate in either at present or in the future.

Information technology

- 3.4 Between 2001 and 2006, the Government committed £675 million in capital investment to help deliver the infrastructure for local electronic government, including £0.9 million in capital grant to every local authority. Building on this investment as part of the national focus on transformational government and acting on the recommendations of the Varney report on service transformation, requires us to make the technology work much harder at transforming public services as citizens receive them, driving out efficiencies through improved service design and delivery.
- 3.5 The council's approach to shared services complements the work already carried out by the Cabinet Office, which is set out in the e-Government report 'Transformational Government – Enabled by Technology'. This recommends that: -
- Services enabled by IT must be designed around the citizen or business not the provider;
 - Government must move to a shared services culture, (front office, back office, information and infrastructure) and release efficiencies through sharing;
 - A step-change in the professionalism in technology delivery – joined-up leadership and governance across government.

Customer expectations

- 3.6 The latest best value performance satisfaction survey results indicate that the residents of Uttlesford have very high expectations of the level and quality of services. This follows a similar trend being experienced in the private sector where customers expect higher standards of service delivery. The council must provide more accessible, value for money services to all its customers and citizens to meet these rising expectations.

Localisation

- 3.7 It is possible to provide services at a distance but customers perceive that services should be provided as locally as possible. This is a more prominent view when the service relies on local knowledge and suggests that shared services will need to balance knowledge, quality, cost and responsiveness carefully. Obviously, where there is no need for a local presence then services can be provided at a distance.

4. INTERNAL DRIVERS

Financial pressures

- 4.1 The council relies upon central government funding and small percentage reductions in this funding can translate into large percentage increases in council tax, for example a £30,000 general fund budget reduction equates to a 1% council tax increase. Over recent years, prioritisation exercises to deliver savings on services and use of reserves have helped to balance the books. We have also embarked on a council wide re-engineering of processes, which will deliver efficiencies and savings. However, there is a finite level of savings, which can be achieved through these methods and a step change is now required to provide a sound financial platform for the authority in the coming years.

Political

- 4.2 The recently elected Conservative administration has set its four key political priorities. They include ensuring that the council has sound financial management and administration and working in partnership to deliver services.

Human resources

- 4.3 The council is small in comparison to most local authorities, which means that it is less able to cope with staff shortages due to vacancies and absenteeism. In addition to this, over recent years it has experienced problems in attracting and recruiting specialist staff in areas such as accountancy and planning. Shared service delivery will provide much needed resilience to council services.

Information Technology

- 4.4 The Council has invested significant amounts in the development of new information technology. This investment has, in the main, been with the help of central Government funding. The council's ICT strategy establishes the need to review current systems on an ongoing basis to ensure that they provide value for money and are fit for purpose. The council's proposed approach to shared services will incorporate a programme of systems convergence with any partner organisations so that benefits of hosted applications can be fully realised.

Continued innovation and change

- 4.5 Despite being a small council, Uttlesford has demonstrated innovation in delivering services to the local community. Although plans are in place to increase internal capacity, further potential developments may not be possible due the size of the organisation, for example increasing customer accessibility times.

5. OPTIONS APPRAISAL

The possible options

- 5.1 Several options for delivering shared services are available. However, as mentioned earlier, recent experience of public/private sector partnerships, for example the West Berkshire Strategic Partnership, indicates that this would not be the preferred solution. Having said that, this is still an option and should not be ruled out entirely.
- 5.2 Paragraph 1.10 stated that the preferred option emerging is a partnership with a number of other public sector bodies. The ultimate objective is for the partnership to establish a separate entity to initially provide corporate services to the partner organisations at a significantly reduced cost. This is evidenced by the headline options appraisal at appendix 2. This should not, however, restrict the business model, which could be a mix of both corporate and transactional services. Appendix 4 shows a basic model for a shared service arrangement.

Scope

- 5.3 The full scope of the shared service arrangement will only really become known when potential partners have been identified and formal discussions commenced.
- 5.4 As a guideline, most services can be classed as either transactional or corporate. It is common for these to be split in the ratios of 65-75% (transactional) and 25-35% (corporate). Examples of services within each function are as follows: -

Transactional

- Planning
- Revenues and benefits
- Environmental health

Corporate

- Finance
- Human resources
- Audit

- 5.5 Councils' that are already implementing shared services with private sector organisations have estimated that between 15-30% of expenditure associated with corporate services can be reduced as a result of entering into such an arrangement.
- 5.6 Appendix 1 gives the full list of services within Uttlesford under each heading and the direct expenditure budget for 2007/08. In summary, the proportion of the budget for corporate and transactional services is as follows: -

<u>Functional head</u>	<u>Budget</u>	<u>Ratio</u>
Corporate	£3,281,220	34%
Transactional	<u>£6,480,826</u>	<u>66%</u>
Total	£9,762,046	100%

- 5.7 The information above concurs with the estimate in paragraph 5.4 above. The potential annual revenue budget reduction by entering into a shared service arrangement could be between £492,183 (15%) and £984,366 (30%).
- 5.8 The above are only estimates and the precise level of savings realised from a shared service arrangement would be more accurately determined as part of the detailed business case for change. This would include an evaluation of all posts within the authority to establish the proportion of time spent by each member of staff on specialist and non complex work.
- 5.9 It should be noted that some savings across transactional services and administrative work will be identified as a result of the internal OR programme. Caution should therefore be exercised when predicting the level of savings to be realised from any shared service arrangement. In any case, the detailed business case will provide a more accurate assessment of the likely savings to be realised.
- 5.10 It should be emphasised that some of the council's services currently perform very well at relatively low cost. One of the key elements of this approach to shared services is the potential to develop a trading arm to generate income. High performing services position the council in the marketplace as a good partner on which to base services which can be marketed to others.

Potential partners

- 5.11 Informal discussions have already started with a number of local authorities on the possibility of entering into a shared service arrangement.
- 5.12 More formal discussions and meetings will take place once outline approval has been given to this approach to shared services. The future discussions will focus around each organisations expectation from joint service delivery, service priorities and decision-making structures. Clearly, potential partner organisations must have similar strategic objectives for any arrangement to succeed. Finally, there would have to be broad agreement on the preferred service delivery model and governance arrangements.

Governance

- 5.13 There are a variety of options for the governance of shared service partnerships. Local government legislation requires decisions either to be taken by elected members or an officer. Where the decision is to be taken by members there are further rules which require some to be taken by the whole council, others by the authority's executive, and others by a politically balanced committee or sub-committee. There are also rules requiring meetings to be held in public and making associated information available to the public.
- 5.14 If the requirement is for a structure that does not fit within local government legislation (e.g. Board members from other public sector bodies, joint officer or member board, non-executive members dealing with executive functions), a company structure will be required.
- 5.15 Local authorities that have implemented public sector partnerships have set up a joint committee between the partnering authorities. This consists of elected members from each authority overseeing the operation of the services included in the partnership. At officer level, an operational board would be established as the link between service delivery and the joint committee.
- 5.16 The precise decision making arrangements can only be decided once the business model and partners are identified.

Procurement

- 5.17 The rules surrounding procurement are complex and need to be carefully considered when deciding the type of shared service arrangement to be implemented.
- 5.18 Recent guidance indicates that consideration should be given to the potential impact on the procurement rules and advertising requirements where public to public service delivery is contemplated or where separate entities are planned with other local authorities. Further exploration of the procurement requirements will be covered in the detailed business case.

6. FINANCIAL CASE FOR CHANGE

- 6.1 The council has finalised the budget for 2006/07 and the medium term financial strategy (MTFS) has been revised. Provided that this revised strategy is maintained and the targeted savings delivered in later years, the council's financial plans will be robust, sustainable over the five year period and affordable.
- 6.2 Appendix 3 shows the MTFS general fund budget requirement for future years. Potential savings targets have been plotted against the MTFS savings requirement for each year. This shows that there is a need to identify savings of £892,000 in 2008/09 and the importance of progressing this approach to shared services. However, in view of the short timescale, it is not possible to realise any savings from a shared service arrangement until 2009/10 at the earliest and this would not represent all selected services. This would have to be built into the MTFS.
- 6.3 The council has undertaken budget prioritisation exercises in recent years to reduce net expenditure. This has resulted in services being developed, which are customer focused, high performing and relatively low cost.
- 6.4 Experience over recent years demonstrates that costs of service provision can escalate unavoidably and unpredictably due to external influences. It will be difficult to absorb such cost increases without either an adverse impact on services to residents or implementing significantly different modes of provision such as shared services. It should be possible to achieve significant revenue savings from a shared service approach through organisational re-engineering, accessing the skills of other partners and cost reductions through economies of scale. There will also be opportunities to free up space from rationalisation of current office space at the council offices. Without innovation and step-change the point will be reached at which it will not be possible to deliver services, keep council tax rises at an acceptable level and avoid front-line service cuts.

- 6.5 To sustain a robust financial position the council needs to identify even more innovative ways of providing essential services which are cost effective. It is considered that this approach to shared services offers the best opportunity to achieve efficiency savings in addition to the measures already being taken.
- 6.6 Based on research the anticipated efficiency savings associated with the delivery of this approach could be significant (see paragraph 5.7). There could also be further efficiency savings associated with the release of the Saffron Walden offices for development or reduction in floor space to accommodate additional occupiers.

7. NON-FINANCIAL CASE FOR CHANGE

Protecting employee interests and job retention in Uttlesford

- 7.1 A key requirement of this approach is to ensure Uttlesford as a corporate identity becomes the focus and that every opportunity is provided to protect the jobs of current employees and retain a local presence. Without action as a first-mover it is likely that as the shared service agenda progresses, Uttlesford will see reduced control and influence as shared service arrangements are established remote from the district. This would result in a consequential move of jobs to other locations and a loss of opportunity due to economies of scale. There is a strong case that the council has to move quickly to attract a partner/s who will commit to the council's approach to shared services. The development of remote and home working arrangements, combined with working closely with other local and regional partners seeks to equip and protect employees from any future location issues, whilst acting as a catalyst to provide job and economic generation on a broader geographical basis.

Capacity and resilience

- 7.2 There is increasing pressure on scarce skills, the consequence being either costly or ineffective support. Additionally, a small service is very vulnerable to vacancies through staff leaving and sickness absence.

Rationalisation of buildings

- 7.3 There is a need to look to the future to determine the optimum office space requirement fit for the future scope and scale of operation. Initiatives such as remote working are reducing the need for office accommodation. There is an opportunity to assess future requirements and plan strategically to meet future need in the most cost effective way. Savings from the rationalisation of office accommodation should be in addition to savings from the direct provision of shared services.

Ultimately, it may be possible to realise the main council offices in Saffron Walden by moving to alternative accommodation.

Council's commitment to shared services

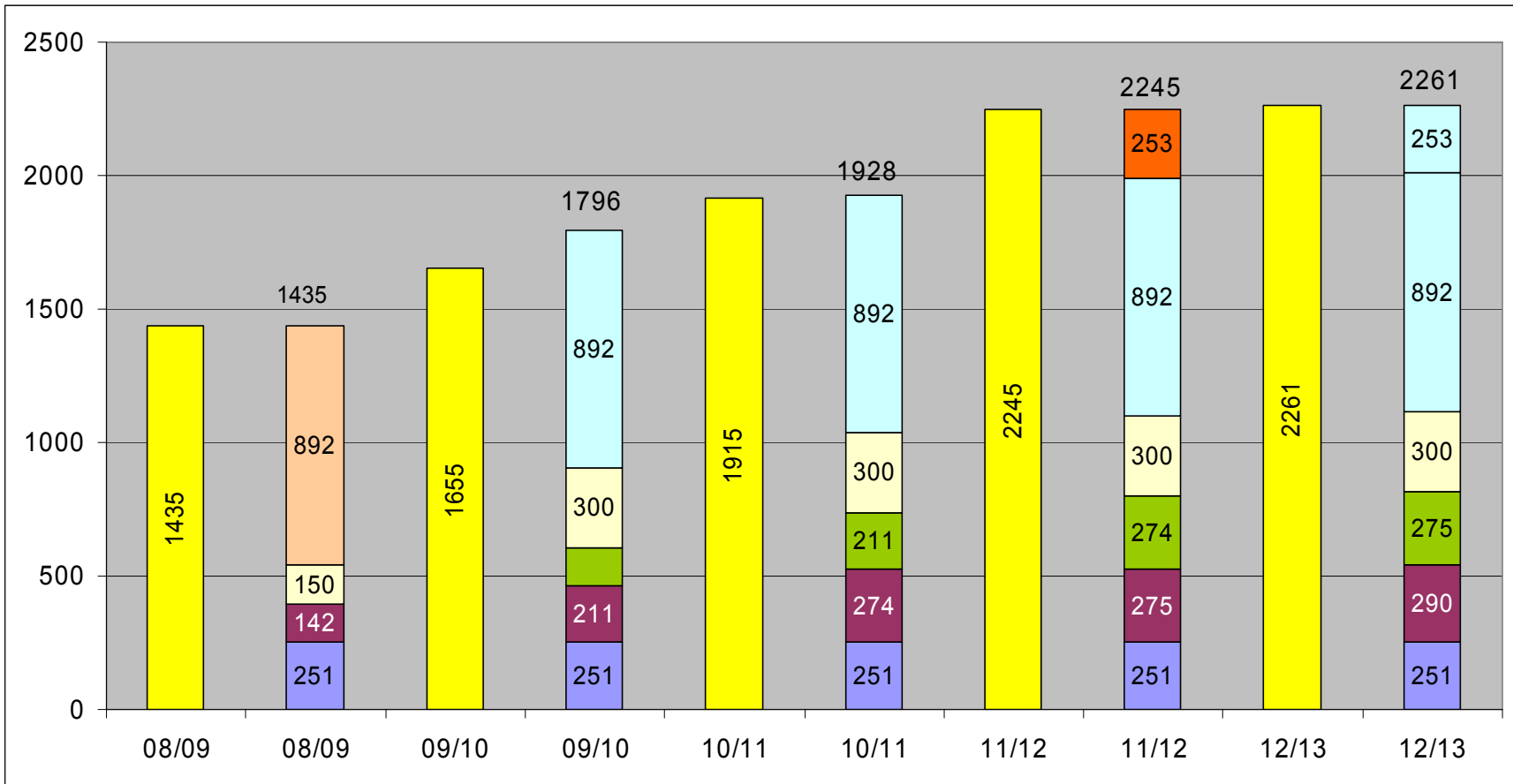
- 7.4 It may be necessary to pump prime capital resource to enable the shared service arrangement to commence and realise significant benefits to the council. Leverage of funds from other sources would be sought.
- 7.5 Any investment towards information technology development should be based on the typical return on both capital and revenue expenditure. Again, leverage of funds from other sources would be sought.

8. BUSINESS CASE

- 8.1 A detailed business case including financial aspects will be developed following initial approval to this approach to shared services. This will cover other issues such as: -
- Comprehensive options appraisal of all the shared service business models;
 - Procurement and advertising requirements;
 - Analysis of outcomes expected from the shared service;
 - Treatment of employees affected by the shared service arrangement;
 - Programme and project management requirements, including timescales;
 - Communication and consultation;
 - Management of change;
 - Risks associated with the arrangement;
 - Cost contribution and benefits sharing from partner organisations;
 - Exit strategy from the arrangement.

Service area	Budget (£ direct exp)
Corporate	
HR	354,080
Finance	590,500
Central services	384,830
ICT	782,010
Communications	163,190
Democratic services	147,960
Legal services	236,030
Corporate administration	49,910
Emergency planning	81,650
Internal audit	107,200
Risk management	55,430
Electoral registration	104,450
Community safety	103,970
Land charges	120,010
	3,281,220
Transactional	
Customer services	242,170
Revenues and benefits	1,474,900
Waste management	2,629,835
Development control	613,765
Planning enforcement	89,818
Planning man and admin	508,258
Building surveying	518,090
Car parking	182,370
Licensing	149,560
Anti fraud	72,060
	6,480,826
Total	9,762,046

Business model	Capacity & resilience	Employment & jobs	Rationalisation of buildings	Innovation	Potential Financial savings	Potential for trading activities
Status quo	N	N	N	N	N	N
In sourcing	Y	N	N	Y	N	N
Public sector consortium	Y	Y	Y	Y	Y	Y
Joint Venture	Y	N	Y	Y	Y	N
Partnership	Y	Y	Y	Y	Y	Y
Outsourcing	Y	N	N	N	Y	N



MTFS	
Savings requirement 08/09	
Savings requirement 11/12	
Previous year savings	
Previous year OR	
Development services OR	
Other OR	
LABGI	

Council A

Customer Contact
Face-to-Face

Customer Contact
Telephony

T R A N S A C T I O N A L	T R A N S A C T I O N A L	T R A N S A C T I O N A L
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Council B

Customer Contact
Face-to-Face

Customer Contact
Telephony

T R A N S A C T I O N A L	T R A N S A C T I O N A L	T R A N S A C T I O N A L
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Corporate services

Model	Description
Status Quo (In house)	The do nothing or do minimum option – the council continues to provide corporate services directly with no external support. Infrastructure, such as IT, is generally bought as off the shelf packages with limited back up support
In house with consultancy (In sourcing)	The council continues to provide services in house but with the support of external service providers whether in the private sector or public sector to offer skills and capacity not available within the authority.
Public sector consortium	<p>The local authority and one or more other local or public authorities join together to effect service delivery of some or all of their activities. The arrangement may involve pooling of budgets and functions and the sharing of technology, staff and accommodation.</p> <p>There are a number of options for co-ordination of resources including: -</p> <ul style="list-style-type: none"> • A partnership board • A Joint Committee • A non profit distribution entity • A profit distribution entity <p>This model can act as a precursor to private sector partnering or outsourcing.</p>
Joint venture	<p>‘Joint venture’ describes a range of different commercial arrangements between two or more separate entities. This model is increasingly becoming a common feature of modern day business practice by enabling parties to work together, utilising the collective pool of assets whether tangible or intangible in pursuit of complementary objectives and the delivery of a successful business venture.</p> <p>Generally it involves a local authority entering into a joint venture with a private sector partner(s) to facilitate the provision or delivery of services, investment or development Joint venture companies can be controlled by the private sector, the local authority or have no absolute control.</p>

Model	Description
Partnering contract	A contract entered into between the local authority and a private sector partner which builds on the experience and lessons of conventional externalisation– the nature of the contract envisages a collaborative role between the council and the private sector partner in relation to the discharge of the private sector partner’s obligations under the contract. The partners jointly agree on the service requirements and share the risk and rewards of any service improvements and/or efficiencies through price performance arrangements.
Externalisation/Outsourcing	In this model the council will contract with a private or voluntary service provider to provide certain services in place of the local authority. This type of contract generally involves a total transfer of the service provision to the service provider. The service provider will secure access to or acquire whatever assets from the council that are required to provide the services which would include employees who would transfer under TUPE regulations. The council would retain a client role for contract management and performance monitoring with a limited number of staff.
Community Interest Company	This is a new company structure available from April 2005. The main criterion for the formation of such a company is that it must pursue purposes beneficial to the community and will not serve an unduly restricted group of beneficiaries. It does not have benefit of charitable status and has no special tax status. It can be limited by shares, by guarantee, or be a plc but in all cases the assets must be used for the benefit of the community.