

**FUTURE OPTIONS: TECHNICAL NOTE
BEST PRACTICE REFLECTIONS**

<p>Title Best Practice Reflections</p>
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<p>Author(s) Jenny Stephens</p>
<p>Submitted to Member Group Draft version: 30th August, 2011 Final version: 15th September 2011</p>
<p>1.0 Introduction</p> <p>1.1 The Future Options Project is exploring a range of options to facilitate debate and prompt a decision on what is the best operational model for Harborough District to adopt. Options that have been explored can be categorised into three broad categories as agreed per the Full Council meeting of 25th July 2011</p> <ul style="list-style-type: none"> • Re-engineering ‘in house’ provision which could involve: <ul style="list-style-type: none"> ○ Re-structuring to reflect new requirements (Localism, Big Society) ○ Delivering savings through a transformation programme • Outsourcing certain functions or services, which could involve: <ul style="list-style-type: none"> ○ Re-structuring to reflect outsourcing business models ○ Ceasing provision of certain functions or services, and exploring other models of delivery by private or third sector providers • Entering into shared management or service delivery arrangements, which could involve: <ul style="list-style-type: none"> ○ Sharing a Chief Executive or management teams and or services <p>1.2 These options will be researched with the core principle being applied of providing supporting evidence of current models in operation across local authorities; capturing as many learning’s and best practices; to be presented for a topic of debate at a</p>

strategic level.

2.0 Definitions

2.1 Re – engineering “in house” will explore the concept of organisations being fit for purpose and the journey taken to get there. How the organisation used as learning examples have the capability to be effective and efficient whilst also having the inbuilt flexibility to respond to external pressures whether that is legislative or budgetary. In–house transformation is driven usually by the need to become more efficient; achieve costs savings; improve service; provide resilience or ultimately change the culture within the organisation to shape and deliver strategic priorities in the most effective way to meet customer or community needs.

The process used to undertake such a transformation is based on principles that have long been tested and tried in the private sector and in more recent years introduced into the public sector.

Two main principles of achieving in-house efficiency gains are evidenced in Local Authorities Case Studies. These two separate methodology principles are referred to as Lean Systems Thinking and DECAT - Delivering Efficient Corporate and Transactional Services.

Both these methods are used to identify opportunities for efficiencies, through a structured approach to transformational change or business re engineering to deliver corporate services.

2.2 Outsourcing certain functions or services will look at the different operational approaches used by other authorities to achieve efficiency and resilience, rather than relying on in-house transformation or re-engineering. Outsourcing other models of delivery by private or third sector providers will also be explored and evidence captured of the rationale behind this chosen option.

Outsourcing certain functions or services is based upon the concept of the service being provided by a pre-existing external company or organisation (most likely in the private sector), with the main source of control for the council being via SLAs (service level agreement) and contracts.

This will be more limiting than being a partner in a shared service model with regards to the ability to be able to influence operations and developments ‘from the inside’. Councils would not normally be shareholders but could potentially participate as a shareholder in a joint

venture arrangement. The point to note is that services are normally then owned and run by private sector suppliers with service level agreement targets & pricing being agreed as per contract.

With regards to influencing the service culture the council will need to be aligning themselves between the service provider and end customer.

The amount of influence will be affected by the nature of the governance structures, the number of other partners and (possibly) the stake that a council has taken. In the absence of this, contracts and SLAs will be the main tool for asserting influence on business operations

2.3 Entering into shared management or service delivery arrangements, will look at not only the impact in terms of operational functions, but also the political aspect and the impact on sovereignty of individual authorities will also be considered.

Sharing services or the concept of a shared CEO is perhaps the most commonly talked about and topical model for local authorities achieving savings. The concept does not have limitation of boundaries and is regarded as the sharing of like for like services to reduce costs; improve resilience; improve service levels as well as achieving an efficient means of service delivery. Unless a commercial partner is contributing to the set-up cost, shared councils will need to inject investment for technology and organisational/ infrastructure changes as required. This will also include costs associated with migrating to the shared service.

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 Shared Service. 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.

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 Shared Services. 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.*

* CIPFA's report *Sharing the gain*, published in 2010

2.4 Other operational models that are found during the course of the research will also be tabled to give the widest possible spectrum based on evidence found, to facilitate strategic debate under the banner of HDC's Future Options.

3.0 “Vehicles” – Delivery Models

3.1 In order for any change to happen there have to be a method of delivery/ model, or “vehicle” that provides the framework and definition for the proposed structure. The following table will highlight the differing “vehicles” as well as a short description and key features for each potential option.

VEHICLE	Description	Details
<p>Lead Authority Leicester City and HDC (Payroll) Leicester City under a delegated agreement provide the payroll service for HDC</p>	<p>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</p>	<p>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</p>

<p>Joint Service Anglia Revenues Partnership (Breckland District Council, East Cambridgeshire District Council & Forest Heath District Council.) The Partnership is governed by joint committee, consisting of 2 council members from each authority, it sits quarterly and provides the operational policy for the service delivery sets the budget and approves the annual delivery plan.</p>	<p>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 Shared Service, which then matures into a different vehicle, such as a company</p>	<p>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 existing infrastructure, rather than new locations and premises</p>
<p>Company Limited by Guarantee</p>	<p>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</p>	<p>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</p>

† CIPFA's report *Sharing the gain*, published in 2010

	<p>company's constitution</p> <p>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</p>	<p>or NNDR</p>
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4.0 Advantages and Disadvantages of Different Models[†]

Arrangement	Advantages	Disadvantages
In-house	<ul style="list-style-type: none"> ○ 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 	<ul style="list-style-type: none"> ○ 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 unless investment is made into technology or staff development
Public-Public	<ul style="list-style-type: none"> ○ 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 	<ul style="list-style-type: none"> ○ 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

	Guarantee will involve legal preliminaries)	
Public-Private	<ul style="list-style-type: none"> ○ 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 	<ul style="list-style-type: none"> ○ 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
Arrangement	Advantages	Disadvantages
Outsourcing	<ul style="list-style-type: none"> ○ Simpler and quicker to implement than setting up a new Shared Service ○ 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 	<ul style="list-style-type: none"> ○ 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 Shared Service
Pooled procurement	<ul style="list-style-type: none"> ○ Simple and easy to implement ○ Minimises staff disruption ○ Minimises costs and risks associated with change 	<ul style="list-style-type: none"> ○ 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

‡ *CIPFA's report Sharing the gain, published in 2010*

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Sources of Information

Government websites; Local Government websites; Committee Reports; Local Authorities regionally and nationally; commentary from private sector and public sector professionals

CIPFA “sharing the gain”

CIPFA’s report *Sharing the gain*, published in 2010, offers guidance to help local public service bodies understand and take advantage of collaborative working opportunities. Although primarily focused on corporate services in smaller public bodies (especially district councils), the report contains much information and insight of wider relevance.

Consultees

Charlie Adan (Babergh and Mid Suffolk CEO)

Officer Conclusion

Through the research that has been carried there is evidence of all 3 options that the Project Team were asked to look at as part of the scope of the project, relating to; in-house transformation; shared services/shared CEO/shared management teams as well as outsourcing being put into practice by other Local Authorities. There is no “one size fits all” remedy. The Local Government Improvement and Development Agency stress that if the only driver for change is financial, things will fall apart because it does not address cultural issues and the change in mindset that is now needed across all tiers of any organisation to be successful in any form of effective collaborative working.

In addition to the predefined models to research, there was also commentary found relating to the possibilities of “mutuals”; services being run by staff along the same principles of a John Lewis Partnership. Association for Public Service Excellence (Apse) has recently written a report on Mutuals called the Proof of Delivery. Research has been carried out in conjunction with De Montfort University. One of the highlights refers to the fact that “the analysis revealed that a complex combination of factors must be in place for the model to be sustained. It is necessary to give these organisations enough time, enough work and a proper financial commitment; public subsidy and advice are also necessary, as is buy-in from all staff, elected members, citizens and service-users.”

Barnet Council highlighted the option for an “easy council” approach, which worked along the guidelines of basic services provided; residents pay for extras (conceptualised by the analogy to Easy Jet or budget airlines at the time of conception). Both these models are at their embryonic stages so it is too early to comment on success or failure of these organisations.

A question that needs asking is before entering into a model whether it be shared services or outsourcing is whether the authority in its current state is fit for purpose and working as effectively and efficiently as possible. If that answer is no, the authority’s ability to find a suitable partner to share with could be restricted as they are not an attractive partner. If looking at outsourcing the benefit is with the private partner as they could potentially increase their charges for their services to realise the efficiencies. The saving is in effect pocketed by them and paid for by the authority.

A Deloitte’s research paper “In the hot seat. Reducing costs in public – sector organisations in an age of austerity”, suggest that “moving from planning cost reductions to delivering actual savings is a difficult and complex process”. However, they recommend “reshaping organisations, to focus resources where they can have the most impact rather than making uniform cuts within existing structures”.

Recommendations are ” to tackle public sector financial pressures in a sustainable way there has to be a willingness to learn from public sector peers and private sector forerunners who have:

- Developed a comprehensive and credible strategy to lower costs permanently
- Improved the commercial skills which are crucial in judging priorities, managing transition, commissioning suppliers and assessing value for money.
- Collaborated within their organisations, their locality, and their delivery network and across government, for example using commissioning to build effective partnerships with the private and third sectors.
- Built the capability to deliver a coherent, sustainable cost reduction programme, and to monitor and realise the benefits.
- Mobilised their people behind a positive view of the future and invested in leadership at all levels.

The main point to note is the practice of getting the organisation operating at its most efficient will drive out waste and drive down costs. Not only is this reinforced by Deloitte's but also the Treasury has recognised that "There are numerous and diverse examples of continuous improvement in public services, based on Lean principles, which have delivered substantial improvements. Continuous improvement driven from the front line is effective, sustainable and comparatively inexpensive."

Shared Service Architects (organisation that delivers training to ensure shared services are successfully carried out) stress in their training before entering into any form of shared service the first priority is to make sure the relevant service area is as efficient as possible before contemplating entering into any form of shared service, as this will increase the chance of success between the partners. Currently, taking into account private and public sector shared services, it is recognised that 60-65% of shared services will not be successful in terms of delivering what they set out to achieve.

This is evidenced by councils having clear strategies in place to make sure that their transformation programme is structured in such away that all service areas go through the process of being analysed; identifying opportunities to make sustainable savings by looking at the service from outcomes to be delivered rather than targets to achieve; whilst delivering the identified service redesign through a planned transformation programme. Once this programme is completed the service area has the potential to build resilience or reduce operational cost through a shared service approach. Some council's have opted to embark on a shared approach to transformation, working jointly together to join together the service delivery whilst applying a lean systems thinking approach on a structured transformation programme for all service areas.

What ever the model there where some main themes and learning's that need to be acknowledged as well as the potential risks of any option.

Learning's

- The first point to acknowledge and understand is that at the heart of each process/option that is ultimately decided upon; there are people at the core of each process. Recognising that differing behaviours and emotions between all parties will exist; that these will need to be managed so that from the onset trust is gained and visions and priorities are aligned. This concept applies whether it relates to external or internal stakeholders; internally led transformation; shared

services or outsourcing.

- Evidence exists where potential shared services or CEO have broken down; due to both parties having differing idelas.values and priorities leading to one trying to force their priorities onto the other party. This leads to an atmosphere of mistrust and conflict which often happens months into the process, with a key impact being a costly one for all concerned; both financially and in terms of resources and time wasted.
- Some of the key learning promoted by South Norfolk Council on a Shared Service Model refer to the need::
 - § to “develop mutual trust”,” build trust and clarity between stakeholders”; “listen to staff and stake holders”; “agreeing what each values”. These are not financial or KPI’s but more emotional priorities that are instrumental in achieving success.
- Two Essex Councils, Colchester Borough Council and Braintree District Council decided against sharing a Chief Executive and senior management teams after 6 months of discussions; citing they would continue to work on some “shared objectives”. Originally both councils had been in talks about the possible move to help make budget savings however they could not ultimately find common ground to proceed.
- Derby City Council who went through and are still undergoing internal transformational change through DECATS project state key elements that have driven the project forward include;” strong leadership”; good communication (internally and externally) a clear strategy and good working relationships” – all soft skills to deal with emotional needs.
- CIPFA (The Chartered Institute of Public Finance & Accountancy) also state in a 2010 report “Sharing the gain” - on risks to potential change in an organisation; “ unless top management – including elected members in the case of councils – are fully supportive of the case for change, achieving buy in and access to resources further down the organisation will be virtually impossible”

- The Institute of Employment Studies report into Back office Efficiency: Shared Services Case Studies(July 2010) comments on one of the critical success factors being:
 - § “it was noted that whilst the financial business case currently is probably compelling for many organisations, they also have to want to engage in a sharing of services otherwise it can become a battle of control and sovereignty over ownership.”

- Back Office service areas that are most likely to be successfully shared are HR, Finance; Payroll; Revenue and Benefits; properties facility management and ICT due to similarity in processes and customer enquiries. This also offers the opportunity to share across other public bodies not just Local Authorities i.e. Southwest One (Somerset County Council, Taunton Deane Borough Council, Avon and Somerset Police powered by IBM in a joint venture)

- In terms of outsourcing, the service areas featured predominantly in any outsource model are Finance; HR; Payroll; ICT; Revs and Bens, Corporate Services, Customer Services, Business Improvement and Facilities Management. The following extract is from the South Derbyshire’ Council website following being awarded the Government Business Outsourcing Award 2011.

“Launched on August 2nd 2010, under the terms of the agreement, Northgate took on responsibility for managing much of the District Council’s Corporate Services and guaranteed to deliver £2.1m of savings over seven years, to continuously improve services and to create economic opportunities for the area

- Front Facing services most likely to be shared services or outsourced in the public sector points towards, Communications; Websites and Customer Contact Centres. This is based on the similarity of process and the potential to share costs not only in ICT but also in terms of location by co-locating in one contact centre or the principle of “ home working/mixed location working” with the shared cost or investment by a private contractor in the required technology needed.

- Internal transformation has been completed successfully by Nottingham City Council applying Lean System Thinking, whilst Derby City Council has also been on it’s own transformation journey using DECATS Delivering Efficient Corporate and Transactional Services as it’s methodology.

Personal viewpoints on the role of a Shared CEO

Chris Elliott, Head of Transformation, Staffordshire Moorlands District Council and High Peak Borough Council in an interview summarised the benefits and learning's from a shared CEO between the two Councils. The interview was conducted by the IDEA as part of their Case Study.

Interview text

- Why Staffordshire Moorlands and High Peak decided to share a Chief Executive was because High Peak had a vacancy for a Chief Executive. Staffordshire Moorlands' Chief Exec had already partaken and been part of a shared chief exec experience with another county or district within Staffordshire. It worked. It gave members confidence and they wanted to give it a go. How did we decide to share services? Well after the Chief Executive was put in post, we put a business case together, supplemented by some external resource. We did it over about a four-week period. Members were involved. That identified that we could work together, create significant efficiency savings and improve performance for the public. The major achievements so far have been significant efficiency improvements over the last two years of about ten per cent cashable efficiencies per year. We've improved performance along a number of service areas – primarily, grounds maintenance, environmental health and community safety.
- If we were to start again, we'd probably put the senior management structure in place quicker. We tried to transform services whilst we had separate heads of services from the two councils. It really didn't work. Staff didn't know who the boss was. It created tensions that were unnecessary. So I'd say, if anybody was trying to do this, get your senior management structure sorted out first. The measures we put in place to make sure the changes are fully embedded are around process improvements so that the process design is irreversible, so that staff can't go back to the old way of doing things. On top of that, as part of the transformation board, it's important to have other enablers who support the transformation, particularly around finance and organisational development. They operate a quality assurance role to make sure that performance continues to improve and we make the efficiency savings we need to.
- If I were to give one piece of advice to other organisations embarking on the same journey, I would be saying, develop your own capacity. If you need to use some external help to start off with, that's ok. But try and use your own staff. Develop your own methodology to implement change within the organisation.

The Role of a Shared CEO – A Personal Insight by Charlie Adan (Babergh and Mid Suffolk CEO)

Charlie Adan shared some of her learning's and experiences from a personal point of view from the integration and transformation programme that is currently under way at Babergh and Mid Suffolk as the Shared CEO.

Key points to be aware of:

- A clear vision; values and narrative must be identified and shared at a political level to drive the process.
- With a single management structure to deliver the priorities it can be easier if the councils are aligned.
- It's about achieving more with less, and working with and through others to deliver better strategic outcomes. By default this saves money.
- You will have more impact with size
- Districts are limited by size and capacity, and the need to innovative could be difficult without the kick start of a shared CEO.
- Collaboration means you have to compromise between the two councils. Its all about relationships, and the members, CEO or shared team need to be very emotionally intelligent for sharing to be successful. People involved in leading it need to feel it is the right thing to do as well as be supported by a strong business case.
- Parity is important. Otherwise if size, budget etc are not comparable between councils, one council could feel that they are at a disadvantage. This can be overcome, but issues relating to lack of parity need to be tackled head on. It may not succeed if one party fears take over.
- There is a need for a “programme approach” to take you from a to b
- With a new shared CEO, there is a fresh start; no baggage; honest broker; independent and impartial about the past. No previous alliances with a single council. This means the ability to deliver could be faster.
- With sharing an existing CEO it's a “safe hands” approach. They will be experienced and well routed in the area, but delivery of change could be iterative and possibly less radical. The adopted pace could be measured so as not to be seen to be taking over the other council.
- A shared CEO needs to possess strong leadership skills and be able to undertake challenging and difficult conversations both politically and operationally. A key focal point of the role is managing the two political structures and ensuring dialogue channels are established and maintained allowing a means of compromise as

necessary between the authorities. Periods of conflict will happen but the CEO does not take sides and has to remain impartial