



POLICY AND RESOURCES SCRUTINY COMMITTEE – 3RD MARCH 2009

**SUBJECT: SOUTH EAST WALES SHARED SERVICES PROJECT : HUMAN
RESOURCES (HR), PAYROLL AND TRAINING SERVICES**

REPORT BY: DIRECTOR OF CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To seek Members views on the proposals provided by the South East Wales Regional Partnership Board for the design of shared services for Human Resources (HR), Payroll and Training Services, prior to a report to Council on 10 March 2009.

2. BACKGROUND

- 2.1 The background to this project is contained in previous reports to Cabinet and the Policy and Resources Scrutiny committee. Two of the most relevant reports (in terms of background) are attached as Appendices.
- 2.2 In November 2007, the Connecting South East Wales Board (CSEW) Board commissioned the Steering Group to provide a design and full business case for the proposal to establish a shared service. To this end, the Steering Group appointed a Design Team of local authority professionals and appointed Orion Partners to work in support of the Design Team.
- 2.3 The Design Team and Orion Partners have worked with Heads of Human Resources, Heads of ICT, Finance Directors and service users from across the ten local authorities and the South Wales Fire and Rescue Service to develop the proposed service design.
- 2.4 The Steering Group commissioned Orion Partners to prepare a business case for the implementation of the design proposal which identified all the costs and benefits of identified options for its implementation.
- 2.5 In October 2008, the CSEW Board received the culmination of the November 2007 commission and recommended that the Business Case be considered by the Executive of each local authority and evaluated with reference to the circumstances of that authority.
- 2.6 The Design Proposal is intended to provide an improved service which meets the future needs of service users with a capacity to process efficiently routine administration, respond rapidly to routine enquiries and provide substantial specialist resources to the development needs of the local authorities.
- 2.7 The Final Business Case (FBC) tests whether, taking account of future benefits and implementation costs, the implementation of the design proposal can be financially justified. The financial appraisals lead to the conclusion that this is a positive business case.
- 2.8 It is important to note that the FBC has been constructed with a conservative and prudent cost basis. It should be noted that further savings are likely to be made throughout the implementation of the project.

- 2.9 A risk assessment has been undertaken in the project and is outlined in the FBC Report. However, it states that there may also be a significant reputational risk associated with not delivering on the collaboration agenda. A copy of the full FBC is placed in the Resource Centre for Members perusal and also on the Intranet site.

3. THE CURRENT SERVICE MODEL IN CAERPHILLY

- 3.1 The Human Resources (HR), Training and Payroll service is currently provided by around 96 full-time equivalent staff: 61 Administrators, 23 Professionals and 12 Managers. In total, the annual cost of these services to Caerphilly Council (including 3rd party procurement, college, fees, courses, etc) is £4.8 million which includes around £2.2 million spent on external providers of recruitment and training services. The purpose of these services is to support the workforce of Caerphilly Council and the annual cost is £511 per council employee. It is worth noting at this stage that the Caerphilly HR cost per employee in the CIPFA 2008 benchmarking survey, is significantly lower than the average UK local authority cost.
- 3.2 The HR staff are committed to providing a good quality service. Inevitably, when working on a relatively small scale, quite a high proportion of the activity is related to essential administrative processes and the degree of specialisation among the professional staff is not as great as in larger organisations.
- 3.3 Local authorities, including Caerphilly, have long sought to reduce the costs of these central services. There is a view that if this is attempted just by a continuing budget squeeze the effect would be deterioration in the service, when local authorities have restructured their service internally without any of the advantages of shared specialisms and transactions they have struggled to maintain quality.

4. THE PROPOSED ORGANISATION OF A NEW SERVICE

- 4.1 The Design Team agreed that the new service should be designed to achieve the following aims:
- Improve front line service delivery
 - Deliver a timely and responsive service
 - Help managers to manage
 - Improve the employee experience
 - Provide better information for better decisions
 - Achieve more through collaboration
 - Reduce costs and achieve a sustainable service
- 4.2 The proposal is that these aims can be met by reorganising the service into three related parts:
- 4.2.1 Firstly, A Single Transactional Centre
- Within this centre there would be:
- A shared administrative support team which would undertake for all participating authorities bulk administrative tasks such as payroll, CRB checks, recruitment processing.
 - A front line contact service designed to be staffed by teams who are able to provide core advice on the full range of HR queries: training, vacant posts, payroll queries, advice on HR policies.
 - Provision of a modern on-line service which would enable managers and employees to gain advice on HR policies, review employment details and carry out certain transactions.

4.2.2 If all ten South East Wales local authorities participate in the Shared Service it is anticipated that around a quarter of existing staff will be invited to relocate to the single transaction centre. No decision has been made on the location of this centre and it will depend on which local authorities choose to participate. Once the level of participation is known there will be an independent assessment of which of the possible locations provide the least disruption to staff and provide regenerative benefits.

4.3 Secondly, Specialist Service Teams

4.3.1 Specialist Service teams will be created to serve all the participating local authorities. There will be a team to cover each of the following areas of HR work:

- Employee Relations Support
- Job Evaluation
- Designing Pay and Reward Systems
- Recruitment
- Policy Design
- Training Design and Delivery
- Health and Safety
- Occupational Health
- Management Information Services

4.3.2 It is anticipated that up to 30% of existing staff, mainly those with a professional background, will be invited to work within these specialist teams. The teams will work across all participating local authorities and team members will be hosted in a variety of locations. The quality of specialist services to the participating local authorities will be substantially improved through this form of organisation and the opportunities for professional career development will be enhanced.

4.4 Thirdly, Staff Retained by Caerphilly Council

4.4.1 It is anticipated that around 13 senior and professional staff will continue working within Caerphilly Council. These staff will rely on the shared service centre and teams to provide all administration, case work and specialist support. The retained staff will:

- Advise senior politicians and managers on the management of change across the Council and on organisational development
- Work with managers to identify resource and skill gaps and develop plans to manage these.
- Work with service managers to evaluate and improve service organisation in response to the needs of citizens.

4.4.2 Based on the figures predicated in the business case, there is a potential (and a high likelihood based on the assumptions on cost of location of the SS Centre) that up to 83 FTE jobs will, therefore, be lost to the borough.

4.5 Fourthly, Redeployed Staff

It is anticipated that the new shared service will operate with, on average, around 30% less staff than the existing services. Over the three year implementation period it is intended that those HR and payroll staff who are not transferred to the new arrangements will be redeployed to other roles within the local authorities. Financial provision has been made for a limited voluntary redundancy scheme where it is agreed that an individual has skills and experience that cannot be transferred to another role. In our view, the business case does not, therefore, accurately reflect the potential redundancy costs (which, given the age and service profile of our staff, could be significant) to CCBC, as redeploying these staff at a time when we are downsizing the organisation, is unlikely to be practical.

5. APPRAISAL OF OPTIONS

5.1 The FBC concludes that to deliver a shared service there were three options to consider.

5.2 The business case tested the three proposed implementation options as detailed in the FBC.

5.2.1 Option 1

The shared service is introduced once the new shared service technology platform is available which would be in the third quarter of year 3. Borrowing for the implementation of this option reaches a peak of £33 million in year 3. The pay back of this borrowing would be in year 7. After year 7 the annual benefits will be £9.9 million.

5.2.2 Option 2

The shared service is introduced on the platform of existing technologies in the first quarter of year 2, with technology connections made through a Customer Relationship Management (CRM). The replacement of existing technologies takes place by the end of year 3. As there are financial benefits from an earlier implementation, borrowing peaks at £29 million.

5.2.3 Option 3

Option 3 is implemented in the first quarter of year 3 but there is no assumption that a new technology is introduced during the period of the business plan. The service continues to operate on existing technologies linked by a CRM and has higher continuing support costs as a result. Borrowing peaks at £32 million. The pay back is in year 10 after which the annual benefits will be £4.4 million.

5.3 Appraisal Conclusion

5.3.1 Originally, all the options have been modelled in the business plan with the participation of all ten local authorities and with 50% participation. This has since been adjusted to reflect the withdrawal of Cardiff.

5.3.2 Option Three is the least preferable. The financial case for deferring the implementation of a new technology platform is weak. The annual benefits are significantly lower and the pay back period is longer.

5.3.3 There is no strong financial case for choosing between Options One and Two. Both result in similar annual benefits and have similar pay back periods. The relative strength of Option Two lies in its earlier implementation date which would add to the momentum of the project and reduces the time period when existing systems have to be maintained.

5.4 The CSEW Board agreed that the balance of advantage lies in Option Two and it is this option that it has asked each Council to consider.

6. IDENTIFIED BENEFITS OF THE PROPOSED NEW ARRANGEMENTS

6.1 Anticipated Service Benefits

6.1.2 The first and most important reason for sharing these services must be to create service improvements. The business model is designed so that the employees and managers of Caerphilly Council should anticipate a substantially improved HR service.

6.1.2 The specialist HR teams will provide a scope and quality of expert support that no individual local authority, including Caerphilly, will be able to organise for itself. The administrative

processes will be streamlined and through good use of the best technology made more accessible and responsive. The thirteen retained HR staff will be able to provide cabinet members, managers and employees with the strategic support necessary to plan for the best use of staff throughout the Council.

- 6.1.3 Local authorities are increasingly challenged by the markets in which they try to recruit and retain their staff; they need effective HR support to plan for the workforces that they need. Existing HR staff within Caerphilly Council do not have the opportunity to provide this close strategic support; the shared service proposals will allow them to use their potential to this end.
- 6.1.4 Within the retained staff there will be the potential for HR professionals to specialise in the needs of particular services such as education and social services, working directly with service managers and executive members to plan the workforce development in such service areas. As the HR function is improved so potentially will all front-line services as they get the support necessary to recruit, develop and make the best use of the employees who work for them. It should be noted though that this service will be provided on a remote basis.
- 6.2 Estimated Cost Reductions
- 6.2.1 The current services cost Caerphilly Council £4.8 million (including 3rd party procurement costs). The business plan indicates that the proposed new service would, after the implementation period, produce a potential annual saving of £873,000 per annum.
- 6.2.2 The cost reduction will be achieved in a number of ways:
- The sharing of administrative processes and specialist teams means that a higher quality of service is provided with less staff. It is projected that Caerphilly will gain around £210,000 annually from this more efficient use of staff;
 - The shared service will provide specialist teams for recruitment and training that will be able to better manage the procurement of third party recruitment and training services. It is projected that Caerphilly will gain around £660,000 annually from the better management of this procurement.
 - The shared service will manage the procurement of contingency or agency staff for the participating local authorities. It was found difficult to gain a reliable measure of how much each local authority would benefit from this and therefore the overall saving per local authority does not include this potential gain.
- 6.2.3 Local authorities are well used to cutting costs and the projected budget restraints over the coming years will no doubt lead to diminished budgets for this and other services. The advantages of the shared service proposal is that it provides a clear demonstration of how services can be protected and developed at the same time as budgets are reduced.
- 6.3 Opportunities for HR Staff
- 6.3.1 There is always some resistance to change and there will be concerns among staff to the new ways of working, relocation, redeployment and the provision for redundancy. The shared service project support team has worked closely with public service trades unions in developing this proposal. There is agreement to continue working with trades unions to agree the procedures for managing change. It should be noted at this stage though that the trade unions have voiced their own concerns regarding the practicalities of the proposal and the business case.
- 6.3.2 Once implemented there is confidence that the new arrangements will provide better opportunities for staff to develop their skills and learn new specialisms. The experience of working across different local authorities will allow staff to provide better support to each local authority. Whilst this will definitely be the case for staff in smaller local authorities, this will not necessarily apply in larger authorities.

6.4 "A Tailored Solution"

- 6.4.1 The proposed new shared service model has been designed with local government for local government. It will be provided by local government. Its design will fit the needs for specialist and strategic support, along with streamlined transactions, which have been identified by local government.
- 6.4.2 Commercial providers do offer competitive transactional services. They would find it a lot more difficult to provide the same quality of tailored specialist and strategic service which are being offered by this proposed shared service. In seeking a commercial option local authorities would find themselves working with a number of different contractors.

7. IDENTIFIED RISKS OF THE PROPOSED MODEL

7.1 Service Risks

- 7.1.1 Whilst recognising fully the model, which is genuinely one Caerphilly supports, officers remain concerned at the "remoteness" of some of the services provided and given the significant shift from our existing "service" model, is apprehensive about the speed at which Caerphilly could successfully adapt to this new way of working.
- 7.1.2 There is a risk that due to the speed that we would move to the new service, that managers would find the service support unsatisfactory. This will increase the risk of employment law litigation if correct advice and procedures are not applied.
- 7.1.3 Caerphilly has already invested heavily in its new HR system and has begun the process of moving to an internal Service Centre. This is broadly along the same principles as the SEWSS model, which will deliver efficiencies and improvements in service. In terms of risk, this will be far less disruptive to service users and utilises the existing financial and staffing investments the Council has already made.
- 7.1.4 The location of the SS Centre will be critical. Given the large geographical spread and the topology of the landscape, it is likely that there would be significant disruption to staff. The Travel to Work patterns would not suit all employees and there is a concern that the better staff may be lost to the service. This would be counterproductive to the service improvement aims of the project.
- 7.1.5 There is market evidence that staff turnover can be increased by the move to service centres as they are remote operations. This can also be counterproductive to the service improvement aims of the project.

7.2 Financial Risks

- 7.2.1 The financial models have now been adjusted to reflect both the decision of WAG to fund £10.4m as an interest free loan and Cardiff's withdrawal from the project (see Section 9).
- 7.2.2 The revised business case now suggests that the savings of £873,000 for Caerphilly would start to materialise in Year 7 of the project, ie 2015.
- 7.2.3 However, on further examination there appears to be certain assumptions of Caerphilly's business case which needs to be reconsidered, which could reduce the potential savings/ return on investment:-

- (i) 3rd Party Procurement Assumptions (£150k per annum) - It is considered that this is overstated by £150k per annum, given there are certain payments that will not be reduced by a change in service provision, eg college fees.
- (ii) Administration Efficiency (£250k per annum) - The model suggests that there will be no efficiencies applied by Caerphilly over the period leading up to implementation. However, the current cost of service will reduce by a minimum of £250k per annum due to the changes we have already put into place and are planned. (These are included as part of the Corporate Services budget proposals.)
- (iii) Migration/Data (£50k per annum) - The model makes no provision for migration costs and termination of existing arrangements. It is identified that at least £50k per annum will be required.
- (iv) Additional Costs of Borrowing (£50k per annum) - Whilst difficult to project, it is identified that even with an assumption of a reduction of the costs by the provision of WAG funding, Caerphilly will still be required to borrow extra to fund the proportion of set up costs. It is prudent to make a provision of at least £50k per annum.

Total: £500k per annum

The extent to which the financial benefits proposed for Caerphilly can be realised, without a clearer picture of how the governance and management arrangements for the Shared Services Centre and the staff transferred into including:- consistency of policies and procedures; terms and conditions, local working arrangements, etc, is difficult.

7.2.4 Members may be aware that recent similar projects such as that at the DVLA, have significantly failed to hit their initial targets. There is a concern that this may be the case with the SEWSS model, particularly given that the business case already now excludes the largest of the ten local authorities. This is an extremely complex project in attempting to bring together nine HR operations, and the scale must be considered a risk.

7.3 Governance Arrangements

7.3.1 There still remains concern about the operation of the governance model and its procurement.

7.3.2 The legal arrangements – there remains considerable uncertainty on how this arrangement will actually be governed and where responsibilities will lie.

7.3.3 There remains considerable uncertainty on how the Health & Safety arrangement will actually be governed and where statutory responsibilities will lie. This is of particular concern in the area of Corporate responsibilities under Health & Safety legislation.

7.4 Health and Safety/Occupational Health

7.4.1 Caerphilly has rightly invested significant resources on Health and Safety which recently transferred to the line management of our Head of Workforce and Organisational Development. By doing so, inadvertently, all 13 staff were included in the model together with the Occupational Health support. The staff that should, therefore, reasonably be assumed to transfer are the administrative/corporate services staff and not those who provide day-to-day operational support to frontline services.

7.4.2 Consequently, this could further reduce the potential savings identified by anything between £150k - £300k, dependant ultimately on the level of service Caerphilly wishes to retain.

8. PERSONNEL IMPLICATIONS

8.1 These are considered in the report.

9. FINANCIAL IMPLICATIONS

9.1 On 19th January 2009, the Strategic Capital Investment Fund Cabinet Committee (Welsh Assembly Government) agreed to approve a funding contribution in the form of a £10.4m loan at zero percent interest, over 8 years, with repayments taking place in years 7 and 8.

9.2 The financial model has also had to be recast given Cardiff City and County Council's withdrawal.

9.3 The revised business case indicates that the new model (assuming 9 participants and the £10.4 interest free loan) will cost circa £29,145,865. The breakdown in annual benefits and cumulative benefits are:-

	Annual Benefits £'m	Cumulative Benefits £'m
Year 1 (2009)	-3,049,572	-3,049,572
Year 2 (2010)	-22,383,270	-25,432,842
Year 3 (2011)	-3,713,023	-29,145,865
Year 4 (2012)	+4,694,741	-24,451,124
Year 5 (2013)	+5,581,174	-18,869,949
Year 6 (2014)	+6,303,073	-12,566,877
Year 7 (2015)	+6,303,073	-6,263,804
Year 8 (2016)	+6,303,073	+39,269
Year 9 (2017)	+6,303,073	+6,342,342
Year 10 (2018)	+6,303,073	+12,645,414

9.4 The model above identifies that the first return on investment is Year 4 (2012) but that the first year when the model fully recovers its cost and has a rate of return is Year 8 (2016).

9.5 The identified potential savings for Caerphilly is £870,000 per annum, however, having considered the issues identified in 7.2.3 of £500,000 per annum and 7.4.2 of anywhere between £150,000 - £300,000, then the potential savings reduce dramatically.

10. CONSULTATIONS

10.1 The trade unions have reservations about the proposals and do not support the conclusions to move to a Shared Service. Their published conclusions state that:-

"The trade unions are not opposed to Councils looking for savings to be invested back into frontline services but after 3 years of preparing this Connecting SE Wales Final Business Case, there is no guarantee that any savings will be forthcoming. As has been demonstrated in this submission, there are currently too many imponderables and unanswered questions to make a decision at this time. The trade unions ask that Councillors ensure that they have the answers to all their questions before they commit; no other business would proceed on the current basis. Jobs, services and additional costs are just some of the symptoms of failure

along with the loss of political and managerial control of major central functions of the Councils. The WAG may be looking for a “flag ship” Shared Services project but that may not be in the best interest of any of the participating Councils. Shared Services should be just that, a Shared Project with other public sector bodies and not the setting up of a large, divorced and unwieldy separate organisation.”

11. CONCLUSIONS

- 11.1 Caerphilly remains committed to the ambitions of the Making the Connections agenda and have been fully supportive and involved in the HR, Payroll and Training Shared Services project. It also recognises the importance of collaboration and the Making the Connections agenda.
- 11.2 The model proposed is a sound model and can achieve service improvements for participants and Caerphilly.
- 11.3 The financial business case is, in our view, overly optimistic but could have real potential for savings for participants, although the risk is high, which has proved the case in large scale Shared Services elsewhere.
- 11.4 On balance, whilst the aspirations of the model are sound, Caerphilly has a proven track record of collaborative working and consequently could achieve service improvements and achieve further service efficiencies through different collaborative arrangements than those proposed. The Council’s investment in “Trent”, its HR products and the move to the Service Centre model provides Caerphilly with considerable opportunities for us to develop further and offer this as a vehicle to partner with other local authorities, on a smaller scale reducing its exposure to risk.
- 11.5 The detailed work behind this work is not lost and whether or not the Council participates further or not, there are clearly service improvements and efficiencies identified in the business processes that this model has thrown up which we can build on. Therefore, the investment in both time and effort of Caerphilly’s participation, is not lost.
- 11.6 Should Members choose to participate it has to do so having considered the risks involved and the potential for savings, but also the likely service benefits identified earlier.
- 11.7 Should Members choose not to participate then it would seem sensible that Caerphilly CBC open a dialogue, through WLGA, to explore opportunities, afforded through these proposals, to collaborate on HR, Payroll and Training Services with other local authorities.

12. RECOMMENDATIONS

- 12.1 Members are asked to consider the details contained in this report as part of the consultation process prior to a report to Council on 10 March 2009.

12. REASONS FOR RECOMMENDATIONS

- 12.1 Caerphilly are required to determine participation in the proposed Shared Services arrangements.

13. STATUTORY POWERS

13.1 Local Government Act 1991

Author: Nigel Barnett, Director of Corporate Services Tel: 4419
E-Mail: barnen@caerphilly.gov.uk

Consultees: CMT
Nicole Scammell, Head of Corporate Finance
Gareth Hardacre, Head of Workforce & Organisational Development
Phil Evans, Head of Information, Communication & Property
Dan Perkins, Head of Legal Services & Monitoring Officer
Cllr Allan Pritchard, Deputy Leader

Background Papers:

Making The Connections' (November 2004)
Beyond Boundaries/Citizen Centred Local Services for Wales (Beecham, June 2006)
'Making the Connections – Delivering Beyond Boundaries' (November 2006).
CSEW Shared Services Strategic Outline Case (March 2007)
CSEW Shared Services Outline Business Case (August 2007)
CSEW Shared Services Final Business Case and Caerphilly Prospectus (December 2008)

Appendices:

Appendix 1 - Policy & Resources Scrutiny Committee Report dated 5/10/06
Feasibility Study on Shared Services (SE Wales)

Appendix 2 - Policy & Resources Scrutiny Committee Report dated 2/10/07
SE Wales Shared Services Project