



POLICY AND RESOURCES SCRUTINY COMMITTEE – 2ND OCTOBER 2007

SUBJECT: SOUTH EAST WALES SHARED SERVICES PROJECT

REPORT BY: DIRECTOR OF CORPORATE SERVICES

1. PURPOSE OF REPORT

- 1.1 To provide Members with details of the final draft Outline Business Case in respect of Human Resources, Payroll and Training

2. BACKGROUND

- 2.1 Members will have received a number of reports providing updates on the project, the last to this Committee being on 24 July 2007, providing Members with details of the project timescales.
- 2.2 The Connecting South East Wales Board (CSEW), includes the Leaders and Chief Executives of the ten local authorities in the South East Wales region, as listed below:-
- Blaenau Gwent County Borough Council
 - Bridgend County Borough Council
 - Cardiff City Council
 - Caerphilly County Borough Council
 - Merthyr Tydfil County Borough Council
 - Monmouthshire County Council
 - Newport City Council
 - Rhondda Cynon Taf County Borough Council
 - Torfaen County Borough Council
 - Vale of Glamorgan County Borough Council
- 2.3 The Feasibility Study seeks to explore whether a meaningful partnership between the ten CSEW local authorities could be developed based on sharing back office services, to improve public service delivery.
- 2.4 Phase 1 of the study delivered a Strategic Outline Case (SOC) for seven service areas. Then Phase 2 refined and further validated the data collected in Phase 1 and analysed in more detail the feasibility of sharing HR, Training and Payroll functions across the CSEW authorities.
- 2.5 Following a risk assessment of the recommendations made in the SOC by the CSEW Steering Group, recommendations were made to the CSEW Board in April 2007.
- 2.6 The Board agreed to proceed to the Outline Business Case (Phase 2) and High Level Implementation plan (Phase 3), reconfirming the scope for Training and HR & Payroll services with external support.

- 2.7 The Outline Business Case (OBC), which includes an Outline Implementation Plan is the outcome of Phases 2 and 3 of the study and is intended to provide:-
- An overview of the strategic context for the project and an assessment of whether the proposal would demonstrate strategic fit.
 - An assessment of the HR, Training and Payroll function in terms of their suitability for sharing and what the high level costs and benefits of that might be in practice.
 - An objective assessment of the service as to their suitability for sharing.
 - Enough information to allow the Board to decide whether it wishes to continue the investigation into a Detailed Business Case (DBC) and Initial Design phase for one or more of the options presented in this OBC.
- 2.8 The OBC illustrates the key features of how a shared services function for HR, Training and Payroll could operate, what elements of the service would be retained by individual councils, the proposed staffing arrangements and the governance arrangements. It also sets out timescales for implementation.
- 2.9 **The OBC provides much more detail about the potential for improvement through sharing HR, Training and Payroll than was provided in the SOC.** The Detailed Business Case and Initial Design will help to finalise how sharing could work in practice and detail the costs and benefits that councils could expect to realise.
- 2.10 With regard the project vision, this feasibility study is about functional shared services – potentially bringing together internal support services functions, but it is important to recognise that we have regard for the “bigger picture” espoused by the Welsh Assembly Government around one public service rather than one local authority. The desired outcomes of the overall study as stated by the CSEW Councils, include:-
- Employing a cost effective and time efficient means of utilising available expertise to research the business case for shared services
 - Establishing a clear and consistent understanding across participating authorities on appropriate services to be included and potential benefits to be accrued
 - Identifying a methodology for implementing a shared services project
 - Establishing a clear and consistent understanding across participating authorities of how benefits accruing from shared services would be handled.
 - Enabling authorities to take an informed decision about their level of participation in the programme
 - Identifying the cost of implementation and other resource implications and future potential for efficiency gains
 - Establishing a clear understanding of timing and phasing aspects and issues

3. KEY FINDINGS OF THE STUDY

- 3.1 The key findings of the work detailed in the OBC identify that there is a:
- Strategic case to move to a Shared Services environment
 - Potential for significant improvement in quality of the services from what is currently

being provided

- Potential for service improvement and efficiency gains
- Consensus on what should, what could and should not be shared
- Financial case highlighting potential for savings in circa of £41m across the 10 local authorities over 10 years (dependant upon model chosen)
- Number of different models which could be developed from one single large Shared Services organisation or 2 Shared Services organisations, one East and one West (*favoured by most*)

3.2 However, there are also significant challenges:

- The financial model requires significant “up front resources” (to get things going) circa £11m
- The potential for the loss of at least 20% of staff across the 10 authorities, ie 172.2 fte
- Significant challenges in terms of IT infrastructure and transition to new ways of working
- Legal governance, procurement and personnel challenges
- Transition of itself whilst maintaining current service levels
- Ambitious timescale to commence work in 2008

4. WHAT WILL BE IN A SHARED SERVICES MODEL

4.1 A key concern of all those involved in the project has been to ensure clarity about what is to be retained by councils and what would move to a shared services environment.

4.2 The findings of the OBC identify that:-

Retained Service	Shared Service
HR Management & Function Management	Human Resources Management Information Data Maintenance
Health & Safety	Recruitment Administration
Occupational Health	Leaver Administration
Organisational Development	Occupational Health Administration
Resourcing	Health & Safety Administration
Reward & Recognition	Shared Centre Management
Talent and Succession Planning	Supplier Management
Employee Relations	Pensions Administration
Performance Management	Absence Management

Retained Service

HR Consulting/Business Partnering

Shared Service

Payroll Processing

Learning & Development Administration

Employee Relations Administration

5. OPTIONS FOR THE SHARED SERVICES ORGANISATION

5.1 A number of options were initially considered, however, two options were identified as potential models for further consideration:-

5.1.1 **Option One** – One Shared Services Organisation.

5.1.2 **Option Two** – Two Shared Services Organisations based on geographical area.

5.2 The favoured model was Option 2 with two distinct regions, ie:-

5.2.1 West Region

Bridgend	}	Staff:	491	(57%)
RCT		Payroll:	62,332	(66%)
Vale of Glamorgan		ICT Cost:	£667,000	(61%)
Cardiff				
Merthyr		Total Cost:	£18.6m	(54%)

5.2.2 East Region

Blaenau Gwent	}	Staff:	370	(43%)
Monmouthshire		Payroll:	32,358	(34%)
Torfaen		ICT Cost:	£431,000	(39%)
Newport				
Caerphilly		Total Cost:	£16m	(46%)

6. FINANCIAL SAVINGS

6.1 Dependant upon what model and how it was phased, the potential savings were considered for:

- Big Bang, ie all in one go.
- Phased by Councils, ie by Councils joining in three phases.
- Phased by Functions, ie HR across all (10 or 5).

6.2 The potential savings (over 10 years) were:-

Option 1 – One Shared Services Organisations

Option 2 – Regional SSO

- | | | | |
|-------------------|---|--------|--------|
| ▪ Big Bang | - | £45m | £44m |
| ▪ Phased Councils | - | £32.6m | £38.5m |

- Phased Functions - £39.4m £38m

- 6.3 The number of steps towards sharing or outsourcing taken by each council will depend entirely on what makes good business sense for them individually. As all councils need to move to detailed data mapping to realise benefits from simplification, standardisation and/or sharing, it is sensible to consider how this could be undertaken as a CSEW group, in order to share project management, methodology, information on current good practice and design of a best practice target operating model.
- 6.4 There are also other benefits in CSEW councils moving forward as a group. For instance, the production of this OBC has enabled councils to understand the similarities and differences in the way each of them run the HR, Training and Payroll service that otherwise would not have come to light. There has also been a significant change in the visions and aspirations of the people involved in service delivery, sharing of knowledge and experience and an acceptance that there may be better ways of working and opportunity for improvements for both the service professionals and their customers. It is recognised that some staff in some councils may not have progressed as far on this change journey if they had not participated in CSEW workshops and events and been introduced to the thoughts and opinions of their neighbouring councils.
- 6.5 Should the Councils decide to move to the next phase it is estimated that it will cost circa £550,000 to complete. This cost does not include Council resource or specialist legal or ICT advice should it be required. (It is anticipated that WAG will be asked to provide this upfront.)
- 6.6 As a constituent member of the SEWC Board, Caerphilly have to now determine whether it agrees to be involved in the final stage of this project, ie to full business case.

7. PERSONNEL IMPLICATIONS

- 7.1 Clearly, there are significant implications, but it is still too early to tell what this will mean for Caerphilly CBC employees. However, it is anticipated that on average 20% less posts will be required overall, for Caerphilly CBC this could represent approximately 30 full-time equivalent posts.

8. FINANCIAL IMPLICATIONS

- 8.1 Details of the “bigger” picture and potential savings are identified in 6.2 above. The OBC identifies potential savings for Caerphilly CBC of circa £350,000 to £800,000 dependant upon which model was adopted and how it was implemented.
- 8.2 A key assumption would be that whichever the model and phasing was adopted, that this should take a maximum of 3 years to put in place. It is suggested that the Welsh Assembly Government pay £11m set up costs up front and then recover it over 6 years.

9. CONSULTATION

- 9.1 All trade unions have received a copy of the OBC and information is provided for discussion at the Chief Executive’s Joint Consultative Committee.
- 9.2 A newsletter will provide details of the up-to-date position for staff.

10. RECOMMENDATION

10.1 Members are asked to consider the details of the report presented.

11. REASONS FOR RECOMMENDATIONS

11.1 To seek Members views on the Outline Business Case.

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Background Papers:

Connecting South East Wales Outline Business Case - HR, Training and Payroll Shared Services