

CHESHIRE EAST

CABINET

Date of meeting: 7 October 2008
Report of: Deputy Lead Performance and Capacity
Title: Back Office Shared Service Proposal

1.0 Purpose of Report

- 1.1 To progress shared service recommendations made by the Joint Liaison Committee to the Cheshire East Shadow Authority.

2.0 Decision Required

- 2.1(i) To endorse the recommendations of the Joint Liaison Committee (on 19th September 2008) regarding further areas of pan-Cheshire service delivery.
- (ii) To agree, in principle, the recommendation of the Deloitte report on Shared Back Office Services specifically to:
- (a) establish a Shared Back Office primarily located in West Cheshire, subject to confirmation of the governance arrangements, the detailed scope of the service, an outline Service Level Agreement, clarification of the cost-sharing arrangements, the scope for flexible and mobile working and locality-based staff.
 - (b) review the arrangements within two years and to consider further development of the service including market-testing as appropriate
 - (c) engage in the necessary consultation on the details of the agreed approach

3.0 Financial Implications for Transition Costs

- 3.1 The Deloitte report suggests that the proposed approach to Shared Back Office services will minimise transitional costs. However more work will be undertaken to confirm the detailed figures and the outcome of this work will be reported to Members.

4.0 Financial Implications 2009/10 and beyond

- 4.1 The Deloitte report suggests that the proposed approach to Shared Back Office services is the least cost option generating estimated savings of £6m on current operating costs and some £3.5m less than separate services for East and West. More work will be undertaken to

confirm the detailed figures and the allocation of any saving. This will be reported to Members.

5.0 Legal Implications

- 5.1 The report to the Joint Liaison Committee on 1 August considered three possible governance models for Shared Services and recommended the constitutional model as the primary governance needed for Cheshire. Further work will be required to determine the details of the governance model for Shared Back Office Services to ensure that the interests of the Authority continue to be protected and are reflected in the operational delivery of the service. In addition it will be necessary to ensure this meets the service level agreement and the staffing arrangements that there is an equitable sharing of risk

6.0 Risk Assessment

- 6.1 There are no specific additional risks in relation to this in principle decision to set up a shared Back Office Service. A number of strategic risks that are relevant to the whole Local Government Reorganisation apply equally to this case. They are around:
- Ensuring continuity of service delivery as the new authorities set up.
 - The capacity of staffing resources to manage the changes
 - The need to set a balanced budget
 - Adequate communication with staff, unions, services and other stakeholders affected by change
 - Adequate support for staff who are experiencing change

7.0 Background and Options

- 7.1 The Joint Liaison Committee (JLC) has met twice to consider proposals regarding Shared Services.

Joint Liaison Committee 1st August

- 7.2 At its meeting on 1st August 2008 it considered a paper entitled "Shared Services: Principles, Governance and Functions". The JLC made a number of recommendations to their respective Authorities which were subsequently endorsed by Cheshire East. These recommendations were:-

1. Seven Key Shared Services Principles (see Appendix 1).
2. To approve three governance models and endorse the constitutional model as the primary governance mechanism for Cheshire.
3. Shared Pan-Cheshire Services - A limited number of functions were recommended for provision as a shared Pan-Cheshire Service. These fell into two broad categories:-

- (i) **Transitional Arrangements** – Given the very short timescale that we are facing in Cheshire to establish the new Unitaries, there are some pragmatic reasons why a limited number of services which are currently pan-Cheshire may need to remain so, at least for Day 1.
 - (ii) **Functions Recommended for a Shared Service** – These are the functions where officers from all Authorities are collectively recommending establishing a single pan-Cheshire service. This also includes a number of contractual areas (such as Extra Care Housing) which Members of the Joint Liaison Committee also recommended should be supported on a shared basis.
4. That further independent work be commissioned to address the issue of the shared back office.

Joint Liaison Committee 19th September

7.3 At the following JLC (19th September), Members received a further series of potential Shared Service arrangements. The following were recommended as transitional arrangements for pan-Cheshire services.

- (i) Archaeological Service (Regulatory/Planning).
- (ii) DAAT – Drugs and Alcohol Action Team.
- (iii) Commissioned Community Equipment Service.
- (iv) Learning Resource Network (LRN).
- (v) Cheshire Domestic Abuse Partnership.

These areas were proposed after officer discussions at Full Joint Implementation Team. Appendix 2 summarises the reason for each recommendation and for each service area individual business cases and supporting evidence (including the common criteria template agreed by Members) has been produced and are available upon request.

7.4 Members were also asked to note the further progress regarding Research and Intelligence and Strategic Procurement as noted in Appendix 2. In these areas, the Joint Liaison Committee recommended that:-

- (i) Research and Intelligence - a more detailed business case was required to establish collaborative working with partners in the Police, Fire, PCT and third sector prior to structures being developed for each authority.
- (ii) Strategic Procurement - as the projected benefits would only be available to much larger organisations, it was agreed that this service be divided into East and West, but the possibility of joint working in the future was not ruled out and both Authorities are currently participating in the project to develop a procurement hub for the sub-region.

Shared Back Office

- 7.5 At the August Joint Liaison Committee, members recognised that further work was required to examine the case for a shared back office. This would consist of a service which would provide a range of support functions taking advantage of optimised working practices and common IT platform proposed post-transition, the scope likely to include business processes within the operational areas of Finance, Procurement (in particular the “procure to pay” element), Human Resources and Information Technology. As it was likely that this would be the largest Shared Service across East and West Cheshire, it was recommended that a piece of independent work be commissioned to define the scope and business case for such an arrangement.
- 7.6 Deloitte were commissioned to undertake this independent work and the Executive Summary of their findings has been circulated separately with this agenda. Copies of the full report by Deloitte and the summary presentation provided by Deloitte to the Joint Liaison Committee are available to Members upon request. The following paragraphs (7.7 to 7.17) provide a summary of their key findings.
- 7.7 Deloitte were commissioned by the Joint Liaison Committee to undertake an independent examination of the case for shared back office services for Cheshire West & Chester and Cheshire East Unitary authorities. The principal objective being to recommend a preferred strategic route for service provision which would best deliver benefits and minimise risks for both parties.
- 7.8 Deloitte reviewed the current back office business model deployed by the County Council, assessed its current performance levels relative to others, and reviewed the scope to expand and optimise the model to deliver further benefits for the two new Unitary authorities. It was recognised however that this needed to be a new service considering best practice from all seven existing Councils and from elsewhere. The scope of services under consideration are listed in the table below:

Area	Function	Example activities
Transactional Human Resources (HR)	Recruitment	Recruitment, Criminal Records Bureau (CRB) management
	Contracts	New contracts, changes to contracts, leavers management
	Payroll	Payroll calculations, salary and pensions processing, sickness and absence calculations, Inland Revenue correspondence
	HR Systems maintenance	Systems functional maintenance
Transactional Finance	Account Management and Reconciliation	Accounts Payable and Accounts Receivable Reconciliation, Central Account Reconciliation, Bank Reconciliation, Payments Reconciliation
	Financial Data Management	Functional Management of Finance systems, creating new financial structures, accounts maintenance, month end close down, access etc
	Management Information & Report Processing	Transactional support to Strategic finance via journal adjustments, budget adjustments, creation of standard reports

Exchequer Services	Purchasing	Purchase Order processing and administration
	Payments administration	Payments, Cancellations, recoveries of overpayments, scanning invoices
	Income administration	Cash receipting, credit notes, bills processing, direct debits
ICT (non-strategic)	Development	Infrastructure, Programme Management and development, IT Resource Management
	Support	Desktop support, Technical support, Application support, External client support (e.g. schools), i.e. support and development for all ICT operations including shared and non-shared platforms
Shared Services Management Office (SCMO)	Client Management and Contracts	Service Level Agreement (SLA) Management and Integration. Customer training and support
	SCMO Administration	Helpdesk for Service Centre, performance management of Service Centre

Note: Members have already agreed that the current County Council CBS Supplies operation would be part of any Shared back Office arrangement subject to review in its first years of operation

7.9 An independent options appraisal, using the priorities and corporate principles identified by the respective Shadow Authorities, together with a financial assessment of each option has been undertaken to determine the revenue cost impact and associated one off set up costs. Economic appraisal criteria were used to assess operational effectiveness, strategic flexibility and risk associated with each option.

7.10 A number of structural options for back office service delivery in Cheshire were assessed in recognition that the preferred delivery model must identify a short-term transitional and longer-term governance and management structure. Three principal governance models have been considered being contractual, constitutional and corporate.

7.11 Members of the Joint Liaison Committee considered the business case findings and recommendations prepared and presented by Deloitte on 19th September. The Committee was minded in principle to accept these recommendations. In summary there are two principal recommendations;

- Optimising the current set of business processes deployed via the Oracle business system under the umbrella of a single back office based in the West. A constitutional governance model is recommended in the short term, transitional phase.
- To conduct a joint market test of all in-scope back office services, together with the common core ICT systems, to determine a longer-term governance and delivery model for the back office. This is likely to require at least an eighteen month procurement process

7.12 The Deloitte report estimated that a shared back office operation could yield over £6m savings in ongoing structural savings compared with the aggregation of budgets across seven Cheshire local authorities. Furthermore it is estimated that this preferred model has the benefit of

the lowest combination of operating and set up costs compared with other structural options. The report emphasised that these figures represented a 'decision model' rather than a 'budget model' and as such more work is required to assess the detailed budgetary implications.

- 7.13 Approximately 640 back office staff are employed within in-scope back office teams across the seven Cheshire authorities. It is estimated that a headcount reduction of approximately one fifth is possible within a unified pan Cheshire operation. Services will be delivered for the two new Authorities, and Cheshire schools, under a single corporate management framework. Local delivery teams will continue to deliver high standards of customer relationship management, training and support. Flexible and mobile working arrangements and locality-based posts will be considered for some staff currently located in Cheshire East.
- 7.14 In relation to the various alternative options the report estimated that setting up contractual arrangements to establish an arms length company could cost up to £900K to arrange within an extremely tight timeframe prior to vesting day. Splitting the existing back office business model into two shared service centres, East and West, could cost £800k to set up and **£3.5m more** to operate each year. The short-term problem of lack of accommodation for any independent shared service centre in the East is also a limiting factor.
- 7.15 Deloitte has assessed current performance levels and taken into account the scope to optimise these jointly for both new Unitary authorities. To date the County Council's Transforming Cheshire Programme has delivered £467K of savings and is on course to deliver a further £1m in the current financial year. It is estimated that **further savings of £1.2m** can be achieved per annum by optimising current business processes. This is likely to be achieved in the second financial year after vesting day. Such savings would mainly accrue to the two new Authorities through the streamlining of their business processes to reduce costs across all departments.
- 7.16 Deloitte believe that the current centralisation of business processes within a single back office operation is in line with currently accepted best practice around the implementation of modern day financial systems. The guiding corporate principles of standardising, streamlining and automating business processes may continue to provide the benefits of more efficient and effective business practice. Savings and efficiencies achieved in the back office may be invested back into front line services. The percentage of Cheshire schools using the Oracle system has increased from 86% to 96% in the last twelve months on this basis.
- 7.17 Deloitte recommend that a shared back office should be capable of realising substantial savings for both authorities on an ongoing basis but longer term efficiencies are likely to require the involvement of a third party or parties to bring additional customers, technology or location

benefits. Deloitte's second principal recommendation is therefore to market test alternative options once the savings that are achievable internally have been optimised. This would involve both Unitary authorities undertaking a joint procurement exercise within two years. This process should review options to opt for a joint solution using similar business systems and similar business processes or, at an appropriate point, to disengage and pursue alternative unilateral arrangements either procured independently or managed in house. Similar economic and financial criteria may be considered for this.

Next steps

7.18 To agree, in principle, the recommendation of the Deloitte report on Shared Back Office Services specifically to:

- (a) establish a Shared Back Office primarily located in West Cheshire, subject to confirmation of the governance arrangements, the detailed scope of the service, an outline Service Level Agreement, clarification of the cost-sharing arrangements, the scope for flexible and mobile working and locality-based staff.
- (b) review the arrangements within two years and to consider further development of the service including market-testing as appropriate
- (c) engage in the necessary consultation on the details of the agreed approach

7.19 Members are asked to agree to the establishment of a project team to undertake the detailed work now required and to note that a more detailed report on the next steps will be produced for consideration by Members.

For further information:

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Background Documents:

1. Deloitte's report – 'Future back office shared provision in Cheshire- Business Case- September 2008

Documents are available for inspection at:

Westfields, Middlewich Road, Sandbach, Cheshire CW111HZ

Seven Key Principles Underpinning Shared Services

1. Cheshire East and Cheshire West & Chester will be two new authorities with their own objectives, priorities and identities. Shared Services should, therefore, be selected carefully. They should be chosen to allow the new Authorities to concentrate on their core priorities and transformational objectives while securing value for money for the taxpayer.
2. There is a presumption that Services will be split between West and East Cheshire unless there is a strong business case for the establishment of a Shared Service or a short term transitional requirement.
3. Shared Services must deliver clear efficiencies and / or genuine improvements to performance to the mutual benefit of Cheshire East and West and other potential partners.
4. Shared Services, both individually and collectively, should be underpinned by a clear and equitable sharing of assets, liabilities, staff, decision making, benefits and risks between West and East Cheshire. This, for example, may involve the Lead Authority roles being allocated broadly equally between East and West Cheshire.
5. It is recognised that Shared Services arrangements need to be flexible in order to support change and new opportunities. Any arrangement must be subject to regular review and the freedom to end the relationship or develop it to include other partners and providers is essential.
6. Shared Services will be new functions created specifically to meet the needs of the new Authorities and their partners.
7. That any Inter-Authority Agreements contain clear service standards and performance management mechanisms.

2. Recommendations of Joint Liaison Committee 19th September

Ref.	Service	2008/09 Approx. Net Revenue Budget (£ 000s)	2008/09 FTE (approx)	County and / or District function	Recommended Service Delivery Model	Reason for Decision and supporting Evidence	Current Lead Officer
1	Archaeological Service (Regulatory/ Planning)	TBC	6.5 FTE	County / District	Retain current arrangement for 12 months during which time a review will be undertaken to look at the options for disaggregation.	In order to secure the seamless delivery of this statutory service at Vesting Day, with least cost. This would pool the expertise of existing providers in planning, regeneration, characterisation, data management, community involvement and partnership working and the risk of service failure would be minimised.	Greg Yates
2	DAAT	Funding streams totalling in excess of £4.2m. Staff Infrastructure cost = £250K	9 FTE	County-wide commissioning service	Retain current county-wide arrangements for one year (to April 2010). During this period plans are developed to disaggregate the service as Local Authority responsibilities for commissioning, reflected in emerging staffing structures, become clearer.	The current arrangements have strong partner support and deliver a nationally recognised high-performing “beacon” service. Therefore, this is not a function that can be disaggregated in the short term without a significant risk to service delivery and performance levels. The disaggregation of the DAAT will require early consideration of how various functions can be aligned to new service structures and responsibilities as they emerge. This will need careful attention to ensure no loss of the strong shared sense of purpose embedded by the current working model across key strategic partnerships. Furthermore clear lines of accountability will be needed to maintain the stringent reporting requirements expected by Government Office North West and the National Treatment Agency.	Joan Feenan

APPENDIX 2

3	Commissioned Community Equipment Service	£150K	4 FTE	County	Retain as pan-Cheshire service until 2010/11 and then disaggregate	To minimise and manage the risks (both financial and service related) which both the new local authorities and the PCTs could face if the service was disaggregated on Day 1.	Jane Colville
4	Learning Resource Network (LRN)	£350k External Funding £700k p.a. Grant	2 FTEs (temporary)	County	Request for one of the local authorities to act as the Accountable Body in the short term. In the longer term the LRN is seeking to become an independent body.	The timescales are too short for the LRN to achieve independence by Day 1. The possibility of forming two partnerships has been considered but it was felt that the LRN is at a too early stage to split at the moment. Their work needs to be consolidated over the next 12 months and to respond to the new environment of two Unitaries across Cheshire.	Christine Burkett
5	Cheshire Domestic Abuse Partnership	£238K	2 FTE	County	Retain current county-wide arrangements for one year (to April 2010). During this period plans developed to disaggregate the service as Local Authority responsibilities for commissioning, reflected in emerging staffing structures, become clearer	The current arrangements have strong partner support and deliver a nationally recognised high-performing "beacon" service. Therefore, this is not a function that can be disaggregated in the short term without a significant risk to service delivery and performance levels. It is the clear view of the CDAP lead partners that the functions should remain on a pan-Cheshire basis (in the short term) as the most resilient way to secure increased safety, improved health and achievement, participation and economic well-being of families who experience domestic abuse across Cheshire.	Gavin Butler

Other Areas to Report on:

Research and Intelligence: At the August Joint Liaison Committee it was requested that further discussions took place with the relevant Executive Members on the future service delivery model for Research and Intelligence. Arising from these discussions the following recommendations are being put forward:-

1. To recommend that both unitary Councils have their own Research and Intelligence function from 1 April 2009
2. That the Joint Liaison Committee supports the continuation of collaborative working on information and data sharing between public sector partners across Cheshire, Halton & Warrington to evaluate the potential for efficiencies in the collation, management and analysis of community data
3. Requests the development of a business case and options appraisal for the above by 31 January 2009
4. Determines the scope and remit of the R&I function in each authority based on the outcome of the above in February 2009.

Strategic Procurement: At the August Joint Liaison Committee it was requested that further officer discussions took place on the future service delivery model for Strategic Procurement. These discussions are on-going but a final officer recommendation has been deferred until there is confirmation of the proposed service management of Transactional procurement (i.e. the Procure-to-Pay process) and CBS Supplies (the current thinking is that both of these functions are managed within a shared back office arrangement). The evaluation and recommendation is also dependent on the outcome of defining more precisely the role and remit of a potential strategic procurement hub operating across the sub region of Cheshire and Warrington.