CHESHIRE EAST COUNCIL
CHESHIRE WEST & CHESTER COUNCIL

SHARED SERVICES JOINT COMMITTEE

Date of Meeting:	28th June 2013
Report of:	Cheshire East – Chief Operating Officer Cheshire West & Chester – Director of Resources
Subject/Title:	Occupational Health Unit: Service Review

1.0 Report Summary

1.1 This report summarises the conclusions of the recent review of the Occupational Health Shared Service and recommends a direction for the future delivery of occupational health services to Cheshire East Council (CEC) and Cheshire West and Chester Council (CWaC). The Strategic and Operational Review of the Service (SORS) is attached at Appendix 1.

2.0 Recommendations

2.1 It is recommended that the Service is taken forward in two stages, firstly to continue to improve the in-house service so that it is in the best possible shape for commercialisation and at that stage to then place it in an appropriate delivery vehicle.

2.2 **First phase: Continuing to improve and develop the in-house service**

2.3 The Joint Committee is requested to note the planned programme of commercial and service improvements laid out in section 2.2 of the SORS. This phase is referred to as the "Improved As Is" in the SORS.

2.4 These steps in summary will include; the introduction of an electronic records management system (E-OPAS) providing for better information and cost recovery, greater clarity on the role and operations of the service, the implementation of a leaner staffing structure which better responds to changing need, improved contracting arrangements, the introduction of commercial charging models and improved counselling arrangements primarily for CEC.

2.5 **Second phase: Establish OHU as a commercial company**

2.6 The programme of improvements in 2013/14 will be key in developing the service and preparing it to become a commercial operation. The planned changes will improve the service offered, make it more economic and importantly through E-OPAS, will provide quality usage and cost data which can be used for the purpose of soft market testing.

2.7 It is recommended that the business case for a commercial model will continue to be assessed during 2013/14 and that a further report be brought to the Joint Committee during January 2014 recommending an appropriate commercial vehicle for the service, including the potential of out-sourcing, integration into the proposed SLE as an extra factory, or the conversion of the service into a Council owned company.

3.0 Reasons for Recommendations

3.1 First phase: Continuing to improve and develop the in-house service

Out of the 6 options explored in section 10.4 below, this option is being recommended as the immediate short term solution for the following reasons:

3.1.1 **The service is already cost effective:** costing on average (for the two councils) £17.64 per employee per year. This, at 67% of the cost, is significantly lower than the average fee of £26.24 being paid by other comparable sized councils for outsourced OHU services. This information was obtained from a survey undertaken as part of this review (see Appendix 2). Cost is not therefore a key driver to change how the service is provided.

3.1.2 **Improved Commercialisation:** Whilst the service already operates well commercially and as a consequence is cost effective for the parent councils, there is further scope to; enhance the service's commerciality, improve service standards and to reduce cost.

3.1.3 **Improved Service Quality:** As the service moves to E-OPAS and the use of electronic processes data and information, this will both free up time which can be better invested in service improvements such as interrogating the data to look at usage trends and employee attendance trends for customers.

3.1.4 **The phased approach**: This option will ensure that the service can be better prepared both commercially and operationally for a successful conversion to a council owned commercial business. This for instance will enable the service to have commercial data available to it, such as usage data (through E-OPAS) to better inform its charging models.

3.1.5 **Council Control**: Retaining a service that is ultimately owned by the Councils ensures continued council control and ownership of any savings realised. Importantly this option also minimises disruption to the services performance whilst it is further improved.

3.2 Establishing OHU as a commercial company

3.3 Following the improvements planned in the first phase, it is expected that the Occupational Health Unit (OHU) will be ready to operate commercially either in the proposed ICT/HR & Finance SLE or in a council owned company. This will remain the mid-term strategic goal for the service with the transition by April 2015 at the very latest.

3.4 A transition to a council owned company will ensure that the plans for the service conform with the strategic commissioning practice of the parent councils, whilst at the same time ensuring that; the benefits of commercialisation are realised without a loss of council direction, the parent councils benefit from the resultant savings and the ongoing efficiencies achieved through sharing since 2009 continue to be realised.

3.5 It should be noted that the readiness of the service for this transition will be dependent upon the planned improvements being delivered. The services readiness for full commercialisation will continue to be monitored throughout the development phase. It is expected that the service should be ready for transition in late 2014/15 and certainly by no later than April 2015.

4.0 Wards Affected

4.1 Not applicable.

5.0 Local Ward Members

5.1 Not applicable.

6.0 Policy Implications

6.1 There are no direct policy implications.

7.0 Financial Implications

7.1 The current cost of the service to the two councils is commercially attractive at £17.64 per employee year compared to £26.76 per employee in a sample of comparably sized councils, equating to 66% of the cost. The current charging model for the two councils' works on the basis that the councils pay the net/residual cost after all income is offset against expenditure.

8.0 Legal Implications

8.1 The Administrative Agreement sets out the overall arrangements in relation to the manner in which the Authorities will work together. The Shared Service Agreement and Secondment Agreement set out the mechanisms for disaggregating transitional shared services.

8.2 As a local authority shared service, the OHU is not permitted to make a profit from its schools or external clients. Under the recommended model, the OHU will be better equipped to ensure that it achieves full cost-recovery from its contracts with schools and external customers, which will result in improved cash-flow. However, the OHU must be careful not to turn a significant profit from these contracts whilst it remains a shared service.

9.0 Risk Management

9.1 **Continuing to improve and develop the in-house service** is considered to be a low-risk option that enables continuous improvement. This is the most stable way forward which continues to build upon the current cost-efficient service base.

9.2 Below are listed the key risks associated with the recommended strategy and details of how they are being mitigated:

9.2.1 **Parent councils affecting capacity and preventing development**
Currently the service is stretched for nursing and budgetary capacity, particularly due to the high level of demand from the parent councils, which makes service improvement difficult. This risk will however be mitigated by the increase in nursing provision in the proposed staffing structure and by the move to a short term pay as you go solution for counselling services for CEC whilst an EAP system is introduced in 2013/14.

9.2.2 **Failure to implement E-OPAS effectively**
Access to and the ability to interrogate meaningful usage and charging data will be essential to the commercialisation of the service. This is being mitigated by the retention of the E-OPAS Team Leader in the staffing restructure and a training programme.

9.2.3 **The in-house service becomes the holding pattern**
Whilst continuing to improve the in-house service is intended to better prepare the OHU for conversion into a commercial business, it is critical that this does not come to be mistaken for business as usual. This potential has therefore been mitigated by the implementation plan and the clear intention for the service to become a commercial business.

10.0 Background and Options

10.1 The OHU was initially established to provide services to Cheshire County Council and grew over time to also provide occupational health services to a number of external customers.

10.2 Since Local Government Reorganisation in 2009 the service has continued to supply occupational health services to both parent councils under a shared service agreement. The Unit also sells occupational health services to a number of external customers in the public and private sectors.

10.2 The OHU was initially considered as part of the proposed ICT/HR & Finance SLE, but was removed from the in scope services as it was not felt to be sufficiently commercial in its practise.

10.3 This review was therefore commissioned to help provide renewed direction for the OHU and to identify how it could improve commercially. This enables the parent councils to revisit the question of including the service in the proposed SLE at a later date and to consider whether instead it should become a council owned business.

10.4 To consider how this could be taken forward a strategic options appraisal has been completed which identified the following 6 options. The fuller strategic and operational review of the service (SOSR) is appended at Appendix 1:

10.4.1 **Improved As Is.**

This is referred to as continuing to improve and develop the in-house service in this report. This is **the recommended approach** and is felt to be a necessary step in order to prepare the service commercially and operationally for its transition to a commercial business.

This option is explored more fully at section 3.2 of the SORS and the option summary at 3.2.7. This option allows for the refinement of a model that is currently working, allowing the OHU to consolidate and build. It paves the way for the possible creation of a council owned company whilst still representing the most cost effective option in the meantime.

10.4.2 **Lean Model**

This model changes the services remit to solely respond to the operational needs of the two parent councils. Whilst the operating costs of the OHU would be lower, these would not be offset by external income, meaning that the service would be wholly funded by the contributions of the parent councils.

This option is not recommended for the reasons stated in section 3.3.5 of the SORS. In summary a lean model would prohibit income and commercial development whilst not having much if any scope to directly diminish its overheads.

10.4.3 **Outsource**

Outsourcing the service would fully embrace a commissioning approach and would be predicated on the assumption that an external provider could deliver a comparable service quality at a lower cost.

This option is not recommended for the reasons stated in section 3.4.5 of the SORS. In summary outsourcing would be likely to be more expensive as the average price paid by the surveyed councils who have outsourced their service is £26.24 per employee annually compared with the current average cost or £17.64 incurred by the two councils. The current lack of useful usage data would also makes it difficult to construct and assess a contract and the resultant bids.

It is therefore recommended that the host council continues to improve the in-house service so that it is in the best possible shape for commercialism and at that stage to then place it in the appropriate delivery vehicle. The planned improvements are laid out in section 2.2 of the SORS.

10.4.4 **Disaggregate**

This option is subject to a 12 month notice period and would involve the termination of the current sharing arrangement with the parent councils then independently sourcing separate occupational health services.

Whilst we are **not currently recommending that we proceed with this option** at this stage, it should be reconsidered as part of the review and further report in January 2014.

10.4.5 **Direct Service Organisation (DSO)**

This would entail the establishment of an arms-length internal trading company. This company, as with the current service, would not be permitted to make a significant profit. Discretionary services can be sold but only on a cost-recovery basis. The DSO remains a legal adjunct of the parent councils, who control its budgeting and strategy. However, the key difference (and appeal) of a DSO is that it pools all income and expenditure associated with the service, allowing the service in question to maintain a holistic and ring-fenced budget and view its finances on a total income/expenditure basis.

This option is **not recommended** for the reasons stated in section 3.6.5 of the SORS. In summary this option does not offer a significant enough improvement over the 'improved as is' model to warrant the time and expense needed to establish it. The OHU currently operates like a DSO and many of the benefits that a DSO could deliver are also entailed in the 'improved as is' model.
It is considered that preparing for commercialism under an 'improved as is' model can realise many of the benefits of a DSO sooner and at a lower cost. In addition taking a DSO model forward would be at the expense of a superior long-term option such as incorporation into the ICT/HR & Finance SLE.

10.4.6 **Separate Legal Entity (SLE)**

This model is appropriate where there is a desire to trade commercially for a profit with other public and private sector organisations. It involves establishing a separate legal entity (SLE). There are two prospective routes for the OHU within this option:

1) Incorporation into the proposed ICT and HR & Finance SLE as an additional factory. This is preferable as it would ease the on-costs by sharing technical and administrative infrastructure.

2) Establish the OHU as its own, independent SLE. Within this option, the OHU can become a teckal company (which allows the OHU to still receive work from the parent Councils without competitively bidding) or a full trading company.

An SLE is recommended as a long-term goal for the reasons stated in section 3.7.5 of the SORS. In summary, the councils would benefit from the savings realised and the commercialism of the company without losing control. The SLE would enable the councils to retain and build upon the accumulated experience and efficiencies already achieved through sharing.

However, there is risk attached to this phased development plan. The success of establishing a commercial company for the provision of OH services will be dependent upon the service improvements being delivered as laid out within this report.
An OHU SLE will only succeed if it has the commercial competence to win enough new business to negate the start-up costs and inflated on-going costs created by the heightened pensions' contributions and loss of VAT exemption from no longer being an S33 company. Thus, depending on the success of the improvement programme under the 'improved as is' option, an SLE may not be viable, and alternative options may need to be considered when the business case for a commercial model is reassessed in 2014-15.

11.0 Background Papers

The background papers relating to this report can be inspected by contacting the report writers:

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