Appendix 1

Cheshire Shared Services

Occupational Health Shared Service

Strategic and Operational Review Report

April 2013 v.3

Appendix 1

Contents

Appendix 1

1. Introduction

1.1. Overview

The Occupational Health Unit (OHU) was established by Cheshire County Council to provide an occupational health service to the County Council. The Unit subsequently provided an occupational health service to external customers which generated income. Since the Local Government Reorganisation in 2009 the Unit has continued to supply occupational health services to Cheshire East (CE) and Cheshire West and Chester (CWaC) 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.

OHU provides the following operational functions:

- assessment of the medical suitability of potential employees
- advice to employers on the implications of a range of illnesses on the work force
- advice and guidance to employees to manage sickness
- the measurement and recording of medical data and records.

The strategic goals of the OHU include:

- promoting healthy lifestyles and raising awareness of ‘general health’ issues
- establishing an on-going health surveillance programme
- reducing levels of sickness, thus creating healthier employees
- early identification of trending health issues
- returning employees to work as soon as possible
- maintaining and managing contracts to maximise external income.

1.2. Contact Details

The main contact for this shared service is Eric Burt, Health and Safety Manager.

The main contact in Cheshire West and Chester is Samantha Brousas, Head of HR.

The main contacts in Cheshire East is Mel Henniker, HR Delivery Manager.

1.3. Purpose of Document

This review will:

- Recommend a strategic model for the future delivery of this service that is sustainable, meets the wider needs of both Councils, provides a quality service, and is cost-effective.
- Survey the operations of the OHU and highlight the challenges faced, areas for improvement, and on-going risks, before recommending means to surmount these. This will be informed by the strategic model recommended.
- Identify high-level timescales, costs and effort required to implement the changes

identified.

This review will assess all functions undertaken by the Shared Service to identify areas for improvement; no functions will be excluded. In reviewing the above, the following will be assessed:

- Staffing and structures
- Improvements to working practices, including:
  - Process improvements that will realise further efficiencies
  - Areas of duplication across the Shared Service
  - Opportunities for improved joined-up delivery of functions that could improve service and realise efficiency savings.
- Implications of commercial operation, including:
  - Potential commercial opportunities to increase revenue or realise further economies through increased scale
  - the impact of recent contract losses
  - OHU charging model and the unit's operating costs that inform it.
- Opportunities and challenges associated with client engagement and demands, including:
  - Stress counselling and Employee Assistance Programme
  - Prospective pay-as-you-go arrangement
- Opportunities and challenges associated with new technology:
  - the implementation of the E-OPAS online records management system
- Testing alternative strategic delivery models and whether delivery through the Shared Service is the best mechanism in the future, i.e. could functions be better delivered through CE and CWAC separately or through external organisations?

Throughout all of the above, the quality of service provided to both authorities will be borne in mind to ensure that an acceptable level of performance can be maintained by the Shared Service.

1.4. Structure of Document

This document is the output from a multi-phased review of the Occupational Health Service and is structured in these phases:

Strategic Review – this section presents an analysis of the potential options for the future delivery of the Occupational Health Service and its alignment with the strategic direction and subsequent requirements of both CWAC and CE, resulting in recommendation for the future shared service.

Operational Review – this section documents the findings of the short-term review of the current operation to ensure that current practice and implementation of policy , procedures and guidance is appropriate to the delivery of an effective Occupational Health Service that meets the needs of both CWAC, CE, schools, and external customers. This section will be informed by the strategic recommendations made.

1.5. Background

This Shared Service is currently envisaged as an ongoing arrangement, whereby CE and CWAC continue to share this service, subject to a formal, evidence-based performance review in accordance with the general shared service agreements between both Councils.

The purpose of the Shared Service is to provide a value-for-money range of occupational health functions that manage and mitigate illness in the workforce, assess the health and suitability of employees and prospective employees, and provide managers with accurate and actionable information which will help them manage absence. The OHU strives to market these services to other organisations to generate income for the parent councils.

The purpose of this review is to look at both delivery strategy and service operation to identify potential opportunities for improved efficiency, enhanced quality, and greater profitability, as well as assessing alternative delivery models that could potentially provide all of these. The service will then implement the recommendations of this review, seeking to reduce costs whilst continuing to provide services to both CE and CWAC.

Appendix 1

2. Executive Summary

2.1. Introduction

This Shared Service is currently envisaged as an ongoing arrangement, whereby CE and CWAC continue to share this service, subject to a formal, evidence-based performance review in accordance with the general shared service agreements between both Councils. The OHU was initially considered as part of the proposed ICT/HR & Finance SLE, but was discounted as it was not sufficiently commercial in its practise.

The purpose of the Shared Service is to provide a value-for-money range of occupational health functions that manage and mitigate illness in the workforce, assess the health and suitability of employees and prospective employees, and provide managers with accurate and actionable information which will help them manage absence. The OHU strives to market these services to other organisations to generate income for the parent councils.

The purpose of this review is to look at both delivery strategy and service operation to identify potential opportunities for improved efficiency, enhanced quality, and greater profitability, as well as assessing alternative delivery models that could potentially provide all of these. This review was commissioned to help provide a renewed direction for the OHU and identify the means by which it could improve.

The review has produced a variety of conclusions that are set out in this document. The service is currently working to implement the recommendations that have arisen from this review, seeking to reduce costs whilst continuing to provide services to both CE and CWAC.

2.2. Recommendations

Recommendation One: Improved As Is

The Joint Committee is requested to note the adoption of an 'improved as is' as the operative model for the delivery of occupational health services to CE and CWaC in the immediate future. This model is intended to deliver a programme of commercialisation and service enhancement through the following operational improvements:

- The implementation of the E-OPAS digital records system. E-OPAS is an electronic records management system that will allow the transition of the OHU from labour-intensive, paper-based records to digitised ones. As a digital system, it can produce usage data that will inform the following commercial practices:
    - Charging models that account for customer usage to ensure full cost recovery from contracts.
    - The development of internal performance monitoring metrics.
    - New functionality that will enhance its offering to customers. Notably, usage data allows the production of health reports that catalogue the kinds and volume of treatment being used by a customer, allowing attendance trends to

be charted in the client organisations.

- Electronic (rather than paper) records management will negate the risk of record destruction or theft, and will ensure that the OHU complies with the Data Protection Act.

- The continuation of a programme of policy development to better gird and define the OHU's operation.

- The adoption of a new OHU staffing structure, in which the administrative team is reduced from 7.5FTE to 4FTE and the Occupational Health Advisor (OHA) team is increased from 4FTE to 5FTE. The imminent implementation of E-OPAS will allow a reduction in administrative staff as labour-intensive paper administration is replaced by digital records. As the administrative team is reduced, funds are freed to fill a vacancy in the OHA team, which will create additional nursing capacity to improve performance and cater for more contracts.

- The refinement of contract construction to include greater financial safeguards, and the development of a range of commercial charging models to ensure full cost-recovery from contracts with schools and external customers. Similarly, the contribution of the parent Councils will be converted to a charge rather than the current arrangement whereby CE and CWaC pay the residue that remains when the OHU's income is subtracted from its expenditure.

- The associated benefits for the OHU of an Employee Assistance Programme (EAP) in CE, which is due to arrive in 2014-15. CE currently accounts for two-thirds of the counselling budget, which is overspent. As such an EAP in CE will help lower the OHU's counselling expenditure and release budgetary capacity. A short term, pay as you go charging option tied to counselling usage is to be implemented in the meantime to ensure cost recovery and an equitable charge across CE and CWaC in 2013-14.

The implementation plan for this phase and its constituent improvements is included as Appendix 2. Further details of the 'improved as is' phase are included below.

Recommendation Two: Appraisal of a Commercial Company Model

The 'improved as is' phase is intended to serve as a preparatory vehicle for the eventual conversion of the OHU into a council-owned company or additional factory in the newly-established ICT/HR & Finance SLE. However, the success of such a strategy is contingent on the effective realisation of the 'improved as is' phase. As such, it is recommended that the business case for such a commercial model be reassessed and presented to the Joint Committee in 2014-15 when the programme of improvements represented by the 'improved as is' phase is drawing to completion. Initial work on the practicalities and implications of setting up a council-owned OHU company (be that an SLE or DSO) is contained below under the appropriate options.

2.3. Reasons for Recommendations

Recommendation One: Improved As Is

The 'improved as is' option is recommended by this review as the optimal model for the immediate strategic future of the OHU for the following reasons:

- *Cost Effective:* The parent Councils currently receive a below-average market rate for their occupational health services. On average, CE and CWaC pay £17.64 per employee for their occupational health services. This rate is distinctly lower than the average cost per head of occupational health services used by a sample of comparably-sized councils (£26.76). This data was accrued in a survey attached as Appendix 3. There is thus no need to radically overhaul the service provision in an attempt to find a better deal.

- *Council Control:* Retaining a service that is ultimately owned by the Councils ensures continued council control and ownership of any savings realised. Moreover, this option minimises disruption to the performance of the Unit whilst maximising the potential for improvement.

- *Improved Commercialisation:* The OHU currently operates as a viable business that maintains a number of contracts and effectively services the parent Councils. However, there is greater potential to be tapped if the Unit were to commercialise and improve aspects of its performance. For instance, more effective commercial charging models (as proposed as part of the recommended option) will reduce the risk of the parent Councils inadvertently subsidising high-usage contracts, enable full cost recovery from contracts, and prepare the ground for better commercial operating models in the future.

- *Improved Service Quality:* The Unit currently meets all the statutory health surveillance requirements of the parent Councils. However, there are elements of its service provision that would be upgraded under the 'improved as is' option. The recently installed E-OPAS digital records system allows the OHU to transfer from labour-intensive paper systems to digital ones; this in turn enables the surveillance of client usage data and the provision of reports on OHU attendance trends to customers. Moreover, the policy improvement programme will provide a more honed commercial platform and a roadmap by which the service's standards, aspirations, and ideal practices are defined.

- *Phased Approach:* This option is the necessary first step in a phased development strategy that looks to ensure that the OHU aligns with the strategic commissioning futures of both CE and CWaC. The OHU is currently not ready to transition into a commercial model, lacking crucial operational components such as usage data to accurately construct charging models. However, by improving the Unit's commerciality and operational practices, it can equip itself for later conversion into a council-owned company or additional factory in the ICT/HR & Finance SLE.

- *Precludes nothing:* under this model, all other directions remain open to OHU in the future should the commercialisation programme not deliver the expected gains.

Recommendation Two: Appraisal of a Commercial Company Model

Following the completion of the improvement programme entailed in the 'improved as is' option, the OHU would ideally be ready for conversion into a commercial model or incorporation into the ICT/HR & Finance SLE. This should remain the long-term strategic goal for the OHU for the following reasons:

- All the benefits of commercialisation without loss of council direction.
- The parent Councils profit from all the savings realised.
- All the accumulated experience and efficiencies achieved through sharing are retained and developed further.

- If a shared service is transitioned into a company it conforms to the strategic commissioning operating model being developed by both CWaC and CE and ensures that Shared Services remain relevant and progressive.

However, an OHU company or factory should not be set up to fail, and if the improvement agenda associated with the 'improved as is' option is not realised then such an initiative should not progress.

Thus, depending on the success of the improvement programme entailed in the 'improved as is' option, a commercial model may not be viable, in which case alternative options must be considered. The business case for such a commercial model will therefore be reassessed when the programme of improvements represented by the 'improved as is' phase has been completed.

Appendix 1

3. Strategic Review

3.1. Background

The first section of the review will consider the long-term delivery model for the service, and will be informed by:

- The strategic drivers and objectives of both client organisations with regards to this service to understand whether there is appetite to shrink or grow this area of the business.

- The current and projected workload of the Shared Service, along with the budgetary pressures of CE and CWAC to determine what level of service is viable and cost-effective.

- The scope of the sharing arrangements, assessing whether delivery through the shared service is the best mechanism in the future, i.e. could functions be better delivered through CE and CWAC separately or through external organisations.

- The requirement to undertake statutory health surveillance (audiometry, spirometry etc) as required by Regulations made under the Health and Safety at Work Act 1974.

- the commercial model to be adopted by the shared service, assessing:
    - the opportunities for revenue growth and diversification
    - the charging model to be adopted for the sale of services to organisations other than CE and CWAC

Strategic models for consideration are:

- Improved as is
- Lean model providing for just the parent councils
- Outsource
- Disaggregate
- Direct Service Organisation (DSO)
- Separate Legal Entity (SLE)

3.2. Improved As Is

3.2.1. Option Details

This option situates the long-term strategic goal of the Unit as conversion into a council-owned company; however, in the short to medium term, an ‘improved as is’ period is required to commercialise the Unit’s operation and improve its performance in order to ensure conversion into a company is feasible. To realise this commercialisation programme, this option prescribes a number of operational improvements that are discussed in greater detail in chapter 4:

- The implementation of the E-OPAS electronic patient records management system
- An improved policy portfolio
- Rationalised staffing geared towards the rebalancing of the Unit in favour of nursing staff
- A more commercial approach to contract management and the charging of external customers
- A solution to the stress-related overspends

Not only will these changes prepare the OHU for transition into an SLE, they will also drive greater savings and enhanced performance in the meantime, ensuring that the cost-effective service currently provided by the OHU to the parent Councils is sustained and improved.

3.2.2. Assumed Drivers

- *Income to negate expenditure*

  The Unit is economically more virile, and can be developed more effectively, if it can make an income by sale of its services to external organisations.

- *Unrealised potential*

  The Unit has potential that can be tapped by making operational improvements within the current framework, and that these improvements can drive greater commerciality.

- *Currently cost-efficient*

  The parent Councils currently receive a cost-effective service from the OHU, so there is no financial detriment to retaining the same model whilst the planned improvements are made.

- *Service Quality*

  The Unit currently delivers all the statutorily required occupational health services to the parent Councils at a good quality. It should be noted that, following interviews with client managers, the Unit’s performance is currently perceived as on an upward trajectory, with improved performance recognised in areas such as reporting and clinic provision.

- *Imminent improvement*

  Many of the proposed operational improvements within this model are already well into development, such as the E-OPAS digital records system. Radical change now could be unsighted through lack of usable information, and imminent improvements could be derailed before their effects are felt. The Unit should be given the chance to realise the anticipated benefits associated with the on-going developments so their impact can be properly assessed.

- *Council control*

  Whilst the OHU remains in-house, the client councils benefit from overarching strategic control: their interests are primarily represented in the Unit's dealings. Were the service to be outsourced, for instance, the Councils would become just another customer with service levels dictated ultimately by the contract with little of the flexibility permitted by the current in-house arrangement. In this model, the Councils' interests are paramount to the Unit, and the Councils directly feel the benefits of any external contracts the Unit maintains or any savings the Unit makes.

- *Accords with strategic commissioning future*

  By working to ready itself for transition into a council-owned company, the OHU ensures that it is aligning itself to the strategic commissioning futures of both CWaC and CE. To meet the commissioning strategies of the parent Councils, Shared Services must be holistically reassessed to see which can be transferred into arms-length, council-owned companies. Such companies permit the retention of accrued experience, intellectual property, shared efficiencies, and the ownership of the parent Councils; they simultaneously allow a greater degree of commercialisation, a removal of overheads from the founders' balance-sheet, and a formal customer-supplier relationship. The OHU, as a Shared Service that has a successful history selling services, is a prime candidate for future conversion into a council-owned company. However, such a company should not be set up to fail. For the OHU to successfully transition into a company format, it needs to improve aspects of its service and commercialise its practise. It is this developmental phase that the 'improved as is' option represents.

3.2.3. Expected Benefits

The high-level benefits (and indicators of success) of this strategic model are:

- Improved commercialisation
- Greater value for money
- Enhanced service quality – key performance indicators exceeded
- Improved reputation
- Attainment of awards and standards, e.g. SEQOHS
- Unlocks possibility of conversion into a council-owned company
- Does not represent a massive upheaval to the service.

The detailed benefits of each tranche of operational improvement are summarised below:

- *E-OPAS*

  E-OPAS is an electronic records management system that will allow the transition of the OHU from labour-intensive, paper-based records to digitised ones. As a digital system, it can produce data reports on usage, e.g. inform the OHU how many referrals or vaccinations they have performed for a given customer in a month. Through such data, which the OHU has never previously had access to, more commercial practises are enabled, specifically:

  - Charging models that account for usage to ensure full cost recovery from contracts (see section 4.4 for greater detail on the nature of the models in development)

  - The development of internal performance monitoring metrics.
  - The usage data provided by E-OPAS allows the OHU access to new functionality that will enhance its offering to customers. Notably, usage data allows the production of health reports that catalogue the kinds and volume of treatment being used by a customer, allowing health trends to be charted in the client organisations.
  - Moreover, electronic (rather than paper) records management will negate the risk of record destruction or theft, and will facilitate the operation and review of the Unit through the availability of instant-access usage and statistical data. See section 4.1 for further details on E-OPAS and the implementation plan.
  - The use of E-OPAS will ensure compliance with the data protection act.

- *Policy Improvement*

  The development of tauter OHU policy and of a long-term vision. There are areas of underdeveloped policy within the OHU ranging from strategy to practical guidance, such as confidentiality. The Unit would benefit from a strong policy base to underpin its operations and enable it to concertedly move forward. See section 4.2 for greater detail on policy development.

- *Staffing Recalibration*

  The OHU is currently stretched for nursing capacity given the recent resignation of the Senior Occupational Health Advisor and an increase in patient numbers. The administrative team is currently larger than the nursing team (7.5 FTE compared with 4 FTE). The imminent implementation of E-OPAS will allow a reduction in administrative staff as labour-intensive paper administration is replaced by digital records. As the administrative team is reduced, a vacancy in the OHA team can be filled. This staffing restructure has two benefits:

  - A saving is generated as the total wage bill of the OHU is reduced.
  - By prioritising nursing over administration, the expanded nursing capacity can be turned to improving client service and accommodating more external contracts. The improved cashflow anticipated from enhanced charging models and the negation of corporate counselling costs will further mitigate the impact of additional nursing staff.

  See section 4.3 for a more detailed discussion of the proposed staffing changes.

- *Mitigation of Counselling Overspend*

  Currently, one of the largest contributors to the corporate costs loaded into the OHU is the stress-related treatment of Cheshire East employees. This has drastically increased in recent years: the OHU exceeded its counselling budget by £45,248 in 2011/12.

  These heightened corporate costs are stretching the capacity of the Unit and are driving up the costs it needs to recover. Thus, if these corporate costs can be mitigated then the Unit will benefit from freed capacity and a more competitive charging model.

  The short-term solution is the implementation of a pay-as-you-go cost for CE counselling when a usage threshold is crossed; this is immediately available following the implementation of E-OPAS and will ensure that OHU can fully recover its treatment costs from CE. The long-term solution is the adoption of an Employee Assistance Programme in CE, which is due to be implemented in the next financial year.

3.2.4. SWOT Analysis

Strengths

- Minimal disruption
- Clear ownership
- Service to Councils not governed by contract – little scope for hidden charges
- Council focus and public sector ethos ensured
- Allows income generation to offset council spend
- Allows current improvements to be compounded and the realisation of further imminent improvements (e.g. E-OPAS)
- Helps develop commercialism

Weaknesses

- Lack of commercial acumen currently
- There may be other issues that remain unidentified that could destabilise improvement of current model

Opportunities

- Does not preclude other options in the future
- Strengthens and commercialises the OHU for future development, i.e. transferral into an SLE
- Makes the OHU more competitive when bidding for work
- Expenditure offset by income

Threats

- As councils enter a more commissioning model, core business contracts
- There is little impetus/capability to improve the Unit without a radical change to strategic delivery model
- Contracts already negotiated lock the OHU into unprofitable arrangements before commercial improvements come to bear – the ‘legacy risk’
- If not undertaken, opportunities for improvement are forsaken

3.2.5. Financial Considerations

- Although the current lack of usage data makes full cost-recovery problematic to prove in the OHU, it is possible to demonstrate that, under the current arrangement, the parent Councils receive a cost-effective deal for their occupational health services.

  The contribution of the parent Councils to the OHU is calculated as follows:

Expenditure
Building costs, staff, corporate overheads, equipment, etc.

−

Income
Schools (CE & CWaC), Academies (CE &CwaC), external contracts

=

Residue
50% Paid by CE
50% Paid by CWaC

Appendix 1

When the 2012-13 financials are inserted into this model, the residue paid by the parent Councils equates to an average cost of £17.64 per council employee across each authority. This rate is lower than the average cost per head of occupational health services used by a sample of comparably-sized councils (£26.76). This data was accrued in a survey attached as Appendix 3. See **Fig.1** for a breakdown of the price paid by the Councils per head.

Fig.1 (Headcount and costs accurate as of February 2013)

OHU Cost (Per head) 2012-13 CEC	£18.01
OHU Cost (Per head) 2012-13 CWaC	£17.27
OHU Cost (Per head) 2012-13 average	**£17.64**
Average cost of Occupational Health services in surveyed councils (Per head)	**£26.76**
Comparative saving for CE/CWaC	**34.02%**

- As demonstrated above, CE and CWaC currently receive a comparably cheap service from the OHU for their corporate care, meaning there is no need to drastically recalibrate the Unit's delivery to achieve a cheaper service.

- However, there is an opportunity to build upon this cost-effective platform to develop the Unit and drive further savings by implementing the proposed operational enhancements detailed in this strategic model. By increasing the yield from contracts with improved charging models and mitigating the impact of corporate overheads by lowering the use of stress counselling, the Unit's income can be increased and its expenditure lowered; this can be banked as a saving for the parent Councils or reinvested in the OHU in the form of increased nursing staff.

- It is also worth noting that, as the Councils move towards a strategic commissioning model, there will be a further reduction in corporate business, lowering the overheads, and thus costs, of the OHU. Under this model, as core business declines capacity that was being expended on corporate needs could be redeployed to external contracts, improving service and accommodating more business. This is a better scenario than, for instance, a lean model, in which capacity freed from decreasing core business becomes redundant. In this sense, the Council can receive a dual saving, from both reduced overheads associated with decreasing core business and from any further income generated.

- The below is a projection of the OHU's finances should the proposed changes detailed in this model be implemented. The primary assumptions made are that staffing is recalibrated in favour of nursing staff and there is a higher yield from contracts.

YEAR				
1	2	3	4	5
£000	£000	£000	£000	£000
-5.92	**-15.57**	**-25.45**	**-35.59**	**-45.98**

3.2.6. High-Level Risks

- *Parent Councils draining capacity and stunting development*

Currently the OHU is stretched for nursing and budgetary capacity, especially given the high volume of work generated by the parent Councils. This makes service improvement difficult. However, the proposed staffing structure recalibrates the Unit to house more nursing staff. Moreover, the budgetary burden imposed by high degrees of stress counselling from CE is being mitigated by a short-term pay as you go solution and the long-term implementation of an EAP system.

- *Failure to correctly or speedily implement E-OPAS*
  The E-OPAS system, and the usage data it provides, is a cornerstone of the commercialisation programme. However, ensuring that the staff are well-trained on the system and can convert to a digital rather than paper-based mode of working is critical. This is being mitigated by the prioritisation of retaining superuser skills and the E-OPAS project manager in the staffing restructure.

- *The legacy risk*
  There is the possibility that unprofitable contracts are already in place that could continue to delay the realisation of profit associated with increased commercialisation, as the OHU is obligated to continue honouring the terms of extant contracts where the customer's level of usage is being subsidised. This is being mitigated by the improved financial safeguards being built into contracts coming up for renegotiation. The possession of E-OPAS usage data will negate this risk in the future, as contract charges can be set to ensure full cost-recovery.

- *'Improved as is' becomes a holding pattern*
  The OHU has potential to grow and change to better fit the strategic commissioning futures of both CE and CWaC. To this end, the 'improved as is' option is intended to better prepare the OHU for conversion into a council-owned company. It is critical that this preparatory phase is not mistaken for business as usual: an impulse to improve is essential. This is being mitigated by the implementation timescale for the various tranches of the improvement programme, which has been agreed with the OHU management and ensures a drive towards a future reassessment of the business case for a council-owned company.

3.2.7. Option Summary

This option is **recommended** by this review as the optimal model for the immediate strategic future of the OHU for the following reasons:

- As demonstrated, the OHU currently represents good value for money for CE and CWaC with the potential to improve further.

- Retaining a service that is ultimately owned by the Councils ensures continued council control and ownership of any savings realised.

- There are a number of planned operational improvements within the Unit that could deliver savings and growth if allowed to progress. This includes the implementation of the E-OPAS system.

- This option is the necessary first step in a phased development strategy that looks to ensure that the OHU aligns with the strategic commissioning futures of both CE and CWaC. By improving the Unit's commerciality and operational practises, it can equip itself for later conversion into a council-owned company.

- Precludes nothing: all other directions remain open to OHU in the future should the commercialisation programme not deliver the expected gains.

In short, 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.

3.3. Lean Model

3.3.1. Option Details

This model entails reducing the OHU's capacity and remit: commissioning and funding it to service only the parent Councils. However, whilst the operating costs of the Unit would be lower, these would not be offset by external income, meaning that the Unit would be wholly funded by the contributions of the parent Councils.

3.3.2. Assumed Drivers and Expected Benefits

- By servicing only its parent councils, the Unit can be streamlined to the basic essentials.
- Thus, the Lean Model would entail a reduction of administrative and nursing staff to meet the usage of just the parent councils.
- This model ensures that the Unit is entirely focused on the needs of the parent Councils and remains totally under their direction.
- This option is appealing if it is evident that the contribution paid by the parent Councils to the Unit is being artificially inflated to absorb the cost of providing to external customers.

3.3.3. SWOT Analysis

Strengths	Weaknesses
• Clear ownership • Not governed by contract – holistic services with little scope for hidden charges • Council focus and public sector ethos ensured • Entire capacity geared towards parent councils' needs	• Lack of commercial acumen • Economies of scale discounted • No external contribution to mitigate fixed costs • No opportunity for future expansion • Precludes imminent improvements • Strategic backward step, moving away from current charging basis to strictly in-house basis • Possible staff reductions are not as deep as anticipated
Opportunities	**Threats**
• Downsizing and streamlining potential • No money/capacity is lost subsidising external contracts if no such contracts are maintained	• As councils enter a more commissioning model, core business contracts • Future savings tied solely to the likelihood of reduced corporate headcount • Flouts commercialising and commissioning impulses championed by government • Downsizing further decreases OHU's ability to flex to meet changing demand • Could be focusing on the wrong things: cost cutting rather than expansion and income

Appendix 1

3.3.4. Financial Considerations

- This option is appealing if it is evident that the contribution paid by the parent Councils to the Unit is being artificially inflated to absorb the cost of providing to external customers.

  This is again problematic to ascertain without usage data to separate how much of OHU's capacity is being spent on external contracts. However, as demonstrated in section 3.2.5., we do know that the Unit is able to offer its parent Councils a rate per head that is below the market average.

- More importantly, on a cost per head basis, it can be demonstrated that the external income currently generated by the Unit actually subsidises the contribution of the parent Councils (see Fig. 2). From this, we can conclude that whilst certain external contracts are not as profitable as they could be, as a whole they are currently contributing to a reduction in the parent Council's costs.

- This implies that a lean model is not expedient, as it would remove income streams that are currently lowering the contribution of the parent Councils.

Fig.2 (Headcount and costs accurate as of February 2013)

Actual cost per head 2012-13 (total OHU expenditure shared between total headcount served)	£21.2
Average rate paid by parent Councils (per head)	£17.7
Average rate paid by external customers including schools (per head)	£22.4
Aggregate variance in rate paid by customers compared to parent Councils (per head)	**+£4.7**
Total profit achieved through income from external contracts including schools	**£82311.1**

- This consideration needs to be assessed in conjunction with the fact that a lean model would preclude the further expansion of the OHU's business. A lean model means that any on-going savings are tied solely to declining levels of core business and operational improvements, rather than the complementation of these with income.

- Moreover, and arguably most importantly, the lean model fails to recognise that built into the OHU are certain economies of scale. Whilst reducing the Unit to bare essentials would allow the reduction of certain costs through redundancies and freed capacity, there are many fixed costs that would not be mitigated in this model, such as basic staffing levels, back-office services, and building costs. In fact, the degree of savings achievable through staff reductions in this model are negligible: as the Unit is already so strained for capacity, it could not even provide for the parent Councils if staffing levels were cut further.

- The below is a projection of the OHU's finances should the proposed changes detailed in this model be implemented. The primary assumptions made are that staffing levels are reduced to the lowest possible levels and the income from external contracts is stripped away.

YEAR

1	2	3	4	5
£000	£000	£000	£000	£000
2.49	**17.00**	**43.50**	**70.01**	**70.01**

3.3.5. Option Summary

This option is not recommended for the following reasons:

- A lean model restricts the operation of a business (the OHU) that has already proven itself to be commercially viable
- Removes income streams that are subsidising the contributions of the parent Councils.
- The currently stretched capacity of the OHU means that there are not great savings to be made through staff reductions, as they are already operating at close to the bare minimum.
- Moreover, at a time of austerity a lean model represents a strategic backward step: there is increasing impetus to move away from strictly in-house provision to commissioning or commercial models.

In summary, a lean model would prohibit income and commercial development whilst retaining relatively undiminished overheads.

3.4. Outsource

Outsourcing occupational health services to a private sector company jettisons the internal provision of those services, fully embracing a commissioning approach. Such a decision would be predicated on the assumption that an external provider could deliver a comparable service quality at a lower cost.

Outsourcing would entail a lengthy and costly procurement, with experience suggesting that the time taken would be 12-18 months from the publication of the tender to the signing of the contract. Were CE and CWaC to procure in partnership, this is liable to be an OJEU level procurement, which may prove additionally time-consuming and expensive.

3.4.1. Assumed Drivers and Expected Benefits

- Cost savings and cost restructuring: predictability of returns
- Improved quality: Achieve a step change in quality through contracting out the service with a new service level agreement.
- Knowledge: Access to intellectual property and wider experience and best practice knowledge.
- Operational expertise: Access to operational best practice that would be too difficult or time consuming to develop in-house.
- Staffing issues: Access to a larger talent pool and a sustainable source of skills.
- Capacity management: An improved method of capacity management of services and technology where the risk in providing the excess capacity is borne by the supplier.
- Risk management: An approach to risk management for some types of risks is to partner with an outsourcer who is better able to provide the mitigation.

Appendix 1

3.4.2. SWOT Analysis

Strengths	Weaknesses
• Can utilise companies with proven track records – access to private sector delivery capability. • Risk transferred. • Immediate return on investment/asset. • Aligns with local governmental commissioning models. • Highly predictable returns (but they may be under-ambitious).	• Cost of procurement – plus at least 12-18 month timescale. • Potentially rigid contract – hard to renegotiate, lengthy. • 'One size fits all' solutions – not locally bespoke or imbued with public sector ethos. • Outsourcers tend to sweat assets – client becomes outdated and slow to change. • Client/customer dissatisfaction grows over time – frustration levels at lack of change/competitive edge. • TUPE costs and potentially sensitive staff transfer arrangements
Opportunities	**Threats**
• Opportunity to create a core vender management skill base within client. • Improved quality of service. • Opportunity to remove cultural perceptions of bias based on hosting location	• Likely to operate an aggressive revenue generation/saving model to achieve targets. • Danger that revenue generation culture supplants public representation/service. • Governance purely contractual. • Outsource company will respond to most active/lucrative client – we could be neglected. • Political sensitivities to pure outsourcing – trend of in-sourcing evidence. • Success dependant on financial stability of the outsource company.

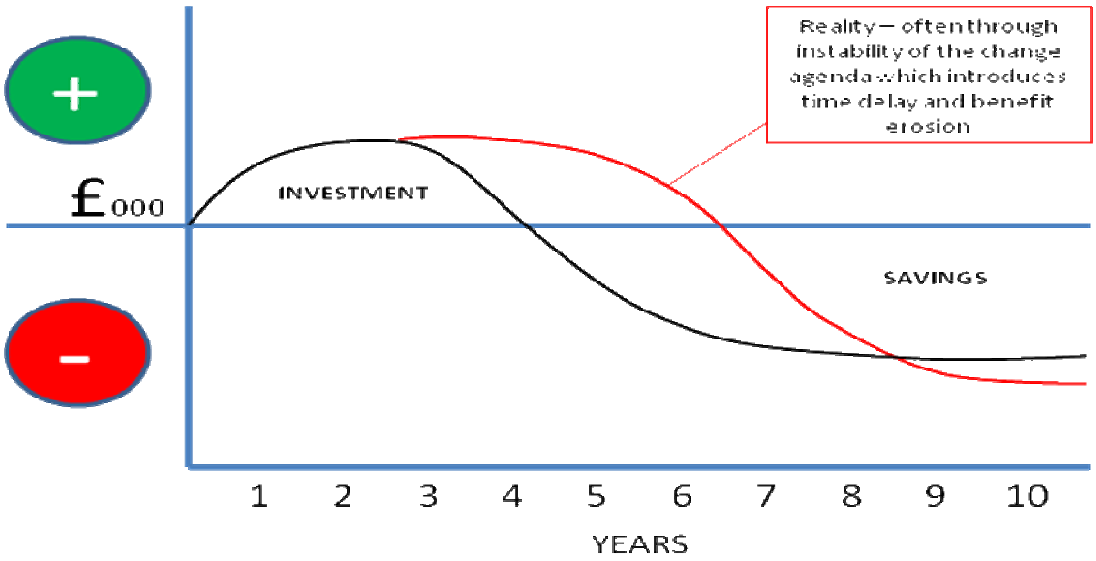
3.4.3. Financial Considerations

- Outsourcing is appealing as it seems to represent immediate savings via the reduction of overheads and the access to ready-made, specialist solutions. However, it is critical to note that, whilst outsourcing can promise a degree of efficiency, this is often delayed and less than expected. For instance, the outsourcing company will have to make a profit and fund their own management of the contract, restricting the level of savings conferred to the Councils and delaying them until much later in the contract's lifespan by increasing the built-in costs of the initial investment. Moreover, the length of the procurement involved further postpones the point from which savings can be realised, and it is important to recognise that other options can deliver savings earlier.

Appendix 1

- The depth of savings that can be realised is also limited, as once new procedures are established there is little impetus for the contractor to continually deliver improved value for money or expanded functionality for the life of the contract. This relates to one of the central problems with outsourcing: antithetically to an in-house service, a contracted provider is not ultimately motivated by the continued improvement or strategic principles of the customer's business.

Illustration of the financial profile – view of attraction from an outsourcer / joint venture partner perspective



- Arguably the most convincing case against outsourcing in the case of the OHU is that it would simply cost too much to the parent Councils. Currently, the levels of usage, particularly with regards to stress counselling brought on by the workforce impact of structural change and austerity would make the Councils an attractive proposition for an outsourcer, who would charge a low base-rate but build in exorbitant charges for expensive treatments or high usage levels.

- A financial projection of outsourcing the provision of occupational health services to CE and CWaC is unreliable without putting the services out to tender. However, as an indicative measure, of the surveyed councils who outsourced their occupational health service (contained in Appendix 3), the average price per head paid was £26.24; this is significantly higher than the average price per head paid by CE and CWaC of £17.64.

3.4.4. High-Level Risks

The risks below are not by any means exhaustive but are presented as the key high level risks to consider.

- *Handing over efficiencies*

As detailed above, outsourcing can often promise a degree of efficiency achieved through the injection of private sector capital and delivery capability. However, as the outsourcer will build a profit margin into the contract, the customer will receive only a portion of the efficiency made. Indeed, other options could deliver similar efficiencies wholly realised by the parent Councils.

- *Dissatisfaction & loss of control*

  Evidence shows that dissatisfaction and loss of control of the change agenda are key factors in why a number outsource arrangements are deemed to be failing, with outsourcers often keen to 'sweat assets'. This position could be improved by the councils through robust commercial and contract management skills and practices.

- *Step in rights & Exit Arrangements*

  It is critical to agree clear exit arrangements and associated costs within any outsource contract. Failure of the arrangement would require either transfer of service in-house or sourcing a new provider at short notice and higher cost.

- *Ambiguity of need*

  As stated above, rigorous contract management is required to ensure that maximum value is extracted from the outsource arrangement. The cost incurred can quickly escalate if usage crosses thresholds and functions not specified in the contract. Thus, accurate knowledge of exactly what services are required from the contractor, and in what quantity, is vital – especially for services such as occupational health, which calculates its costs in small units of time. Currently, the lack of actionable usage data within the OHU means that constructing a contract to outsource would be difficult and potentially fraught, as usage would be based on estimates that could easily be exceeded and thus become costly. Any outsourcing arrangement would benefit from the self-knowledge that would come with E-OPAS' usage data.

3.4.5. Option Summary

Outsourcing is not recommended for the following reasons:

- Efficiencies realised are protracted and negated by the profit taken by the outsourcer.
- Outsourcing could be bettered by an option that allows the creation of future value for the parent Councils and the total retention of the efficiencies achieved.
- There are dangers regarding commercial and contract control: outsource ventures can prove deleterious if they fail to ascribe to the client's change agenda.
- The current lack of available usage data within the OHU makes the construction of a cost-efficient contract a difficult endeavour.

Preparing the OHU for future conversion into an a council-owned company - which allows the commerciality associated with outsourcing whilst safeguarding council ethic - remains a better long-term strategy. However, should the proposed improvements to the

OHU (as per the ‘improved as is’ option) not deliver the enhancements anticipated then it might be that the business case for outsourcing be reassessed – but at the very least the arrival of usage data with the E-OPAS system should be awaited in order to construct a robust and favourable contract.

Appendix 1

3.5. Disaggregate

This option involves dissolving the current sharing arrangement, meaning that CE and CWaC would have to source their own occupational health services independently of one another. This could entail the duplication of in-house services or an external solution such as outsourcing. There is a 12 month notice period to withdraw from the existing arrangements. This option entails a costly replication process and forsakes the efficiencies already achieved through sharing.

3.5.1. Assumed Drivers and Expected Benefits

- A desire for sovereignty and independence
- Simplified governance and commissioning processes to assist in decision-making
- Alignment of future service delivery models to own organisational strategy
- Individual control of change agenda and risk management

3.5.2. SWOT Analysis

Strengths	Weaknesses
• Independence/sovereignty. • In control of own destiny. • Simplified decision-making process. • Avoid commissioning process.	• Substantial one-off and on-going costs. • Split of existing Target Operating Model into two authorities – duplication of current position. • Loss of opportunity for new developments during transition. • Staff morale.
Opportunities	**Threats**
• Potential for service redesign. • More responsive to own organisational and local stimuli. • Less complex governance.	• Delivery costs increase – rebuilding to pre-LGR level. • Staff attrition. • Loss of skills/talent. • Potentially lengthy and acrimonious process. • Perceived as sharing failure – negative reputation and political cost.

3.5.3. Financial Considerations

- The below is a projection of the OHU's finances should the proposed changes detailed in this model be implemented. The primary assumptions made are that core service components will be duplicated to create two distinct in-house services.

YEAR				
1	2	3	4	5
£000	£000	£000	£000	£000
54.03	**80.54**	**76.24**	**102.75**	**102.75**

- This projection accounts for the duplication of in-house services. However, there is another disaggregation route that is viable – even if it cannot be modelled without going to tender. The parent Councils could, independently, negotiate their own outsourcing arrangements – especially if levels of usage become increasingly disparate, e.g. if CE's counselling requirements remain disproportionately high given imminent managerial restructuring, CWaC might prefer to disaggregate and negotiate an outsourcing arrangement more representative of their usage and needs. This option should remain a consideration in the eventuality that the commercialisation agenda advocated in the 'improved as is' option is unrealised.

3.5.4. High-Level Risks

- Highly disruptive to service delivery and to staff.
- High degree of staff attrition: the authorities are vulnerable to the loss of key operational skills to run and manage the service. Covering skill gaps at short notice is likely to come with significant additional costs.
- The huge costs associated with this option will provide budget challenges elsewhere in the organisation to fund this option.
- Reputational and strategic damage: a negative perception of sharing failure could potentially inhibit any future sharing arrangements. Other partners may exploit perceived vulnerabilities.

3.5.5. Option Summary

This option is not recommended for the following reasons:

- Exceptionally disruptive to service delivery with the risk of staff attrition
- Prohibitively costly
- Damaging to the reputation of the parent Councils as they rescind from a sharing enterprise.

Disaggregation should only be considered as a preamble to outsourcing in the event that the expected commercialisation programme detailed in the 'improved as is' model is not realised.

Appendix 1

3.6. Direct Service Organisation (DSO)

This model entails the establishment of an arms-length internal trading company. This company, as with the OHU currently, 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 still 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 entails the DSO buying back corporate support from the parent Councils and, similarly, charging the Councils rather than have them pay the residual operation cost. As such, a DSO converts a service into a self-contained internal company, which enables the service to gain experience of operating like a company even though it cannot trade commercially or make a significant profit.

3.6.1. Assumed Drivers and Expected Benefits

- *Minimal disruption to the business*

  In many ways, a DSO is an accounting exercise designed to reframe a service so all its income and expenditure is in one place. Thus, there is little tangible impact on the delivery of the service itself.

- *Budgetary transparency*

  A DSO consolidates and pools all income and expenditure associated with the service allowing a clear financial picture based on a trading perspective. As would be the case in a full SLE, this fosters less financial ambiguity and permits more effective charging, as total costs can be seen.

- *Phased approach to commercialisation*

  A DSO can act as an interim stage before a service is converted into an SLE. A DSO allows a service to gain experience of being structured like a company – even if the service is limited in the scope of its commercial development.

- *Nothing precluded*

  A DSO is relatively simple to establish or terminate, allowing further transitions to be explored.

3.6.2. SWOT Analysis

Strengths	Weaknesses
• Move to a trading charging model – full cost recovery basis. • Transparency of full cost recovery. • Creates a more customer-focused culture. • Set-up cost low. • Clear ownership. • Retains local authority benefits, e.g. VAT exemption	• Legal restrictions to trade commercially. • Negligible change: OHU already operating like a DSO, e.g. currently trades • OHU has capability to convert straight to an SLE, bypassing the DSO stage altogether
Opportunities	**Threats**

• Repeatable process: Councils have done this before e.g. CBS. • Development of own branding. • More effective charging ensures full-cost recovery and increased cashflow	• Harder sell – prospective clients see real cost and withdraw. • Danger that this model becomes a permanent holding pattern. • Not effecting a large-enough change: greater improvements could be realised elsewhere

3.6.3. Financial Considerations

- A DSO requires only a minimal financial investment to install and represents a low-risk option. The majority of change is in the accounting procedures. Under a DSO all the corporate support that a service receives (i.e. HR, legal, finance) is budgeted for within the DSO, which effectively buys these services back from the parent Councils. This may result in a higher charge to the parent Councils, as the DSO's expenditure is heightened because of these corporate support costs, but savings are made elsewhere in the business accordingly. Conversion of the OHU into a DSO will therefore require a recalibration of budgets across the business to reflect this change.
- The financial forecast under a DSO is very similar to that under the 'improved as is' option. The OHU is already possessive of an operating model much like a DSO and many of the benefits of a DSO also apply to the proposed 'improved as is'. For instance, under a DSO the parent Councils would no longer pay the residual cost of the OHU but a charge; this development is also planned under the 'improved as is'.
- A DSO would require a short-term investment that would defer efficiencies to the medium-term. An 'improved as is' could potentially deliver similar efficiencies in the short-term without any on-costs.
- A financial model for an OHU DSO is being produced. This will be completed using charging projections constructed using usage data from the E-OPAS system's first year of operation. This model will then inform the business case for an OHU company as an alternative option to an SLE.

3.6.4. High-Level Risks

- *Holding Pattern*

  A DSO could easily become a holding pattern for the OHU, especially as the Unit's current operating model is so similar to a DSO, which remains largely a recasting in accounting terms. Similarly to an 'improved as is', a DSO needs to be twinned with an impulse to improve further and create commercial value.

- *Comparatively Diminished Gains*

  A DSO in itself is not a backward step. However, given that the OHU currently resembles a DSO in operation and can incite many of the same improvements as part of an 'improved as is', conversion into a DSO may represent a negligible improvement and a needless cost. In the same time scale and for similar expense, the OHU has the potential to convert into an SLE and create commercial practises and value that is otherwise impossible in a DSO. Indeed, a DSO may be unable to offer any significant further improvement, which can only be realised under a more radical commercial model such as an SLE.

3.6.5. Option Summary

This option is **not recommended** for the immediate future of the OHU. A DSO, whilst positive in principle, does not offer a significant enough improvement over an 'improved as is' 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 an 'improved as is'. There is a risk that, if a DSO was taken forward, it would be at the expense of a superior long-term option such as an SLE.

As such, a DSO could easily come to represent a redundant development phase when, for comparable expense and time, an SLE could be created. In preparing for an SLE, an 'improved as is' remains a superior option as it can realise many of the benefits of a DSO sooner and with lower costs.

A DSO remains a possibility should an SLE look unviable following the performance improvement programme entailed in the 'improved as is' option. Thus, it must be reassessed alongside the SLE business case.

3.7. 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) – i.e. a company - which will deliver services back to the contracting authorities. There are two prospective routes for the OHU within this option:

- Incorporation into the proposed ICT and HR & Finance SLE as an additional factory.
- Establish the OHU as its own, independent SLE. Within this option, the OHU can become a teckal company or a full trading company. It is assumed throughout this appraisal that a teckal company (which allows the OHU to still receive work from the parent Councils without competitively bidding) would be the most suitable initial step, with a full trading company a future option when maximal commercialisation and competitiveness has been attained.

3.7.1. Assumed Drivers and Expected Benefits

- Desire to trade commercially for a profit with other public and private sector organisations.

- To create future value for the authorities that requires modest investment which is low financial risk.

- Exploiting the Teckal exemption allows the shared services company to be more agile in partnering with other local authorities.

- Creating the organisational container in which more commercial cultures are fostered and a strong brand presence created.

- Unification of terms and conditions for staff following the associated TUPE transfer of CE and CWaC employees into the new company.

- Increase focus on strategic marketing to optimise and monetise the service offering of the OHU.

- Under an SLE, the parent Councils would realise all efficiencies made. In the time it would take, for instance, an OJEU level procurement to be completed, an SLE could already be realising benefits and savings.

- Align Shared Services with the strategic commissioning models of the parent Councils. An SLE is the best model to capitalise on the experience and efficiencies of a shared service whilst simultaneously reframing it within commissioning impulses.

Appendix 1

3.7.2. SWOT Analysis

Strengths

- Opportunities to trade.
- Agility to optimise business model and efficiency through economies of scale in terms of partnering (insofar as the Teckal exemption requires no procurement.)
- Low financial risk.
- SLE model requires modest investment.
- Asset retained by local authorities and future options are in local authority control.
- Move to unified T's & C's – staff morale, standardisation.
- Minimal disruption to existing governance.
- Retains public sector ethos and control.
- Remains in Cheshire economy.
- Maximises and retains all cost benefits.
- Quick to implement upon decision.
- Represents a continuation of three year investment into Shared Services and retains intellectual capacity generated in this process.

Weaknesses

- No immediate dividend.
- Needs commercial focus to work – particularly in terms of shaping business propositions and marketing.
- Initial financial injection required.

Opportunities

- Attractive to other partners.
- Exit strategy easier and clearer.
- Does not prevent individual local authorities doing their own things – precludes very little in terms of development.
- Additional income will ensure reinvestment in physical and intellectual assets.
- Step to full outsourcing or floating possible.
- Allows the OHU to remain relevant to the strategic commissioning futures of CWaC and CE.

Threats

- Lack of current commerciality could impair adoption of commercial ethic.
- Conversely, danger that shareholder behaviours are not retained.
- If not taken, opportunity to improve and expand lost.

3.7.3. Financial Considerations

- An SLE is chiefly desirable because of the heightened commerciality that it promises to instil through the implementation of a commercially-driven operating model. This enables an SLE to adopt values akin to those of a private-sector company, as the SLE can make a degree of profit and has greater license to compete for contracts than currently. This will allow much higher income streams from external contracts.
- However, this requires a modest start-up cost to fissure the SLE from the parent Councils. This would entail:
    - Investment to appoint a dedicated head of OHU with budgetary control.

- Expenditure to offset the anticipated rise in pensions contributions that tend to accompany the creation of a new company. It is assumed that the parent Councils would fund the past pensions' deficit; however, the short-term rise in future contribution rates during the company's incipiency would need to be phased in over the initial years. A decision would have to be made as to whether the Local Government Pension Scheme (LGPS) would be open to new members; closing it to new members may be cheaper but is more politically sensitive.
- A cost in working time commissioned to the ICT Shared Service to set up the SLE as a separate body within the Oracle system. However, for an operation of this size, it needs to be considered whether the OHU SLE would benefit from a cheaper and less complex system.
- Costs associated with TUPE transferring existing CE and CWaC staff across to the new organisation

- The parent Councils also need to consider the degree of business that they can guarantee for the OHU SLE. As both CE and CWaC decrease in size in line with their strategic commissioning futures, there will be less core business to fuel the OHU SLE. It would therefore be more dependent on the external business that it is freed to pursue under this model.
- With regards to the Teckal exemption, it is imperative that 1) the parent Councils demonstrate that they retain total strategic control of the SLE; and 2) that the SLE conducts the essential part of its activity for the parent Councils. The case of Tragsa is usually taken as indicative of what counts as essential activity, in which the ECJ concluded that a company which carried out 90% of its activities for the public sector owners and 10% of work for third parties satisfied the Teckal exemption.
- These costs, whilst not prohibitive, emphasise that the OHU needs to be ready to make the conversion into an SLE, as there is the potential for a degree of financial loss should it fail.
- An OHU SLE would cease to be an s33 body. As health services are exempt, the VAT on inputs such as the doctors' contracts could no longer be reclaimed. This would increase the costs base of the OHU.
- A financial model for an OHU SLE is being produced. This will be completed using charging and income projections constructed using usage data from the E-OPAS system's first year of operation. This model will then inform the business case for an OHU company when this is reassessed following the preparatory phase represented by the 'improved as is' model.

3.7.4. High-Level Risks

- *Lack of Commerciality*

  The main risk associated with converting the OHU to an SLE is the degree of commercialism in its operation and culture. An OHU SLE would be dependent on its ability to win additional external business and maximise its profits from these contracts. The OHU currently represents a viable business, maintaining many contracts; however, the OHU would benefit from a concerted impulse to further commercialise its operations, ensuring it is fully prepared and able to function in the open market when transitioned into an SLE. For instance, the current lack of an electronic records system and the risk of inflexibility within the current charging options practised by the Unit would militate against, if not definitively prohibit, a transition to SLE.

Many of these issues are in the process of being corrected, implying that the prudent option is to situate SLE transition as a long-term goal for the OHU, that should be reassessed following the swathe of imminent improvements that promise to enhance its commercial viability. In short, an SLE remains the most attractive long-term option for the OHU; however, it should not be set up to fail, and needs a programme of improvement and commercialisation (outlined in the ‘improved as is’ option) to make it ready.

- *Prohibitive Costs*

  For an OHU SLE to work, the OHU needs to be able win enough new business to offset the start-up costs and the inflated on-going costs associated with higher pensions contributions and the loss of VAT exemption from no longer being an S33 company. Should the OHU fail to win enough new work, an SLE would be unsustainable. It is thus imperative that a preparatory ‘improved as is’ phase is undertaken to upgrade the OHU.

- *Competition*

  The SLE may find itself unable to expand by winning new work or it may lose the initial contract with the Authorities.

- *Leadership*

  A key objective will be to develop the business and develop new markets. Experienced business managers with sound leadership and marketing skills will be required to drive the business forward and may need to be recruited. Similarly, the current structure of the OHU would have to be changed in an SLE. It would need a full-time director or service manager rather than the current arrangement where the Health and Safety Manager also leads the Unit.

- *Risk of failure*

  As with any new business there is a risk of failure if, for example, the business case is insufficiently robust, it does not have sufficient resources, or it develops poor relationships with clients and suppliers. The parent Councils would have to consider whether they would guarantee the company financially, at least initially.

- *Loss of Teckal exemption*

  If a significant number of the currently maintained schools converted to Academy status, the limit on external trading income could be threatened. Similarly, the OHU SLE would be impossible if the level of external work needed to negate its expenditure breached the teckal thresholds.

3.7.5. Option Summary

Conversion of the OHU into an SLE would allow commercial behaviours to be developed at a heightened rate, as well as maximising opportunities for profit within the constraints of the Teckal exemption. Simultaneously, the SLE would still be tied to the strategic directive of the parent Councils, continuing to operate in accordance with their interests. The creation of SLEs across local authority services thus represents a progressive initiative, combining the strengths associated with commissioning whilst ensuring council control.

However, an SLE is far from a ready-made panacea; whilst requiring a relatively low initial investment, an SLE flourishes or falls based on the strength of the service being converted. The OHU needs to be honed and ready for detached commercial operation; it needs to be able to win enough additional, external business to negate the start-up costs and the heightened on-going costs borne of higher pensions' contribution and the loss of VAT exemption from no longer being an S33 company.

The OHU has demonstrated that it has the capability to operate on a commercial basis given its successful charging history, but it is advisable that a number of changes be made to improve this commercial capability before an SLE is embarked upon, ensuring that any new company begins on as sure footing as possible and is capable of winning the additional business required.

Should the anticipated benefits of the 'improved as is' option be realised then the business case for an OHU SLE should be reconsidered so that the service can continue to improve and align itself with the strategic commissioning future of the parent Councils. If an SLE is still thought to be unviable following the improvement and commercialisation programme, then other options should be considered – including a DSO as a further incubation phase.

In sum, an SLE is a viable option for the OHU given its experience of selling services. However, this should remain a long-term goal that should follow measures to consolidate and enhance the Unit's operations and improve its commercial capability as outlined in the 'improved as is' option.

3.8. Chapter Summary

This review recommends a phased development strategy. The 'improved as is' option as detailed in the above appraisal is recommended for the immediate future of the OHU for the following reasons:

- The OHU as it stands represents a viable business model and a cost-efficient provider of occupational health to the parent Councils.
- The OHU has the potential to be developed, and could be improved through a number of measures that will bolster its commerciality and performance. The details and implementation of these measures will be described in greater detail in the following chapter.

As such, the 'improved as is' option paves the way for the conversion of the OHU into a council-owned company, which should remain the long-term strategic goal for the OHU (and indeed, for the majority of Shared Services) for the following reasons:

- All the benefits of commercialisation without loss of council direction.
- The parent Councils profit from all the savings realised.
- All the accumulated experience and efficiencies achieved through sharing are retained and developed further.
- If a shared service is transitioned into a company it conforms to the strategic commissioning operating model being developed by both CWaC and CE and ensures that Shared Services remain relevant and progressive.

However, there is risk attached to this phased development plan. An OHU company should not be set up to fail, and if the improvement agenda associated with the 'improved as is' option is not delivered then such an initiative should not progress.

Thus, depending on the success of the improvement programme entailed in the 'improved as is' option, an SLE may not be viable, or a DSO utilised as an interim stage. The business case for such a company will therefore be reassessed when the programme of improvements represented by the 'improved as is' phase has been completed to gauge the viability of a council-owned company.

The benefit in taking the ‘improved as is’ option as a preparatory phase is that, even if an OHU company is ultimately decided to be unviable, nothing has been precluded: the OHU could continue to trade on its current basis (bearing in mind that it still currently delivers a cost-effective service to the parent Councils), it could be entered into a DSO as a further preparatory stage prior to an SLE, or it could be outsourced if the impulse to commission sooner is strong enough.

Appendix 1

4. Operations Review

This section will assess the operational improvements associated with the recommended strategic model. The expected aggregated impact of these changes has been discussed in the previous section; in the following, their details and implementation will be explained in greater depth. The operational improvements that comprise the recommended 'improved as is' model are:

- The implementation of the E-OPAS digital records system.
- The continued development of a policy development programme.
- The restructuring of the OHU's staff.
- The development of new charging models to ensure full cost recovery of services.
- The mitigation of counselling-related overspends.

4.1. E-OPAS System

4.1.1. Background

E-OPAS is an electronic records management system that will allow the transition of the OHU from paper-based records to digitised ones. As a digital system, it can produce data reports on usage, e.g. inform the OHU how many referrals or vaccinations they have performed for a given customer in a month. Through such data, which the OHU has never previously had access to, more commercial practises are enabled. E-OPAS is highly customisable, with in-build user tools enabling bespoke and ad-hoc tailoring of the system after delivery allowing it to be changed to meet on-going OHU development.

4.1.2. Benefits

- *Charging models*

  The adoption of more sophisticated charging models tailored to the usage history of customers, rather than simply per head as is currently used. This negates the risk that a sudden spike in a customer's usage can cause their required staff time to outweigh the set price per head paid. In certain instances, a pay as you go charging model - or one augmented by premiums when usage thresholds are crossed - is expedient. The usage data provided by E-OPAS will allow such models to be developed and utilised.

- *Performance monitoring metrics*

  The usage data provided by E-OPAS allows the OHU to develop performance monitoring metrics and KPIs based on patients served or time taken to complete any actions arising from contacts, i.e. report writing. This is a critical tool in improving service quality and also in the commercialisation process, as performance data can be cross-referenced against SLAs.

- *Improved service offering*

  The usage data provided by E-OPAS allows the OHU access to new functionality that will enhance its offering to customers. Notably, usage data allows the production of health reports that catalogue the kinds and volume of treatment being used by a customer, allowing health trends to be charted in the client organisations. The frequency and content of these reports will have to be clarified between the OHU and its clients in the SLA. For the parent Councils, this would address the key client concern of having actionable data that charts health trends and allows the identification of high-risk or problematic areas.

- *Efficient management, lower risk*

  Moreover, electronic (rather than paper) records management will negate the risk of record destruction or theft, and will facilitate the operation and review of the Unit through the availability of instant-access usage and statistical data.

- *Low-risk contingency plan*

  Moreover, should the OHU fail to make the anticipated commercial gains associated with the implementation of the E-OPAS system, the usage data it provides will enable the construction of a more cost-effective outsourcing contract, borne from greater knowledge of the parent Councils' usage – both in terms of volume and treatment type.

4.1.3. Financial Aspects and Risks:

- The E-OPAS system has already been purchased by the OHU and as such represents no additional capital expenditure. The system cost £15,356 and was paid for in the 2009/2010 financial year. There are on-going hosting charges and implementation modest implementation and refinement charges from ICT Shared Services. These are accounted for in the OHU's IT budget.
- The two aspects of work associated with implementing the system are the scanning and uploading of current records and the training of the current staff in using the system.
  - The latter objective in particular represents a sizeable risk to the success of E-OPAS and, as such, to the success of the recommended strategic model. This risk is being mitigated by the instalment of an E-OPAS training suite in Goldsmiths House for accessible and routine training. Tactics such as a buddy system for paired training are being implemented to ensure training is pervasively embraced.
  - It is imperative that the retention of the current OHU Programme Manager is prioritised throughout the streamlining of the administrative staff so critical training and superuser skills are not lost. The loss of this expertise would jeopardise the ability of the OHU staff to acclimatise to the new system.
  - There is an on-going training cost associated with E-OPAS and the operation of the aforementioned training suite; these are being met through the OHU's training budget.

Appendix 1

4.1.4. Implementation

Stage 1 – Training and Testing

Present – 8 March 13

This stage entails user testing and the identification of desired changes before final checks by ICT Shared Services and system sign-off with supplier.

Stage 2 – Technical 'Go Live' and Data Input

11 March 13 – 26 April 13

This stage entails applying identified configuration changes to the live environment, and beginning to upload existing patients and new appointments onto the system.

Stage 3 – Operational 'Go Live'

8 April 13 – 26 April 13

From 8 April, all new clinical and administrative information will be entered into E-OPAS and paper files phased out. Additional training needs identified.

Stage 4 –Review and Systems Management

26 April 2013 – On-going

This stage entails the construction of processes and documentation to review, maintain, and improve the system on an ambient basis.

4.1.5. Recommendations

- That the implementation timescale and expected benefits of the E-OPAS system be noted and approved.
- That the retention of the E-OPAS Programme Manager is prioritised throughout the staffing rationalisation.
- That new charging models are established to make best use of the E-OPAS data (see section 4.4).

Appendix 1

4.2. Policy

4.2.1. Background

Currently the OHU has areas of relatively undeveloped policy and guidance. This ranges from both long-term strategies to medical procedure, and work needs to be undertaken in order to deliver a comprehensive programme of policy development.

4.2.2. Benefits

- *Honed performance*

  Policy provides the underpinning to a service's operation, offering a touchstone and roadmap by which the service's standards, aspirations, and ideal practises are defined. Tightly woven policy provides direction, identity, and security, whilst a dearth of policy deprives a service of focus and fosters heterogeneity and malpractice through the lack of unified paradigms.

- *Commercial platform*

  Moreover, stringent policy is required for commercial development to proceed in accordance with the recommended strategic model. Articulated policies provide less ambiguity and clearer expectations when dealing with clients, and ensure that engagement conduct and guiding principles are uncompromised. For instance, in the initial tranche, it has been identified that performance improvement could be driven by tighter health surveillance policy.

4.2.3. Implementation

- Working with the OHU management, the process of identifying areas of weak or absent policy has commenced, with the refinement of policy surrounding health surveillance practise selected as the immediate area for development.
- It has been illuminated that, throughout this process, guidance is required from the Health and Safety teams to help establish the boundaries and scope of action, to work towards the most broadly replicable and safest procedures.

4.2.4. Recommendations:

- That the policy development programme continues to better regulate and define the OHU's identity and practise.

- That Health and Safety teams from both Cheshire West and Chester and Cheshire East are engaged to inform this process.

Appendix 1

4.3. Staffing

4.3.1. Background

The OHU primarily consists of two in-house teams: administrative staff and Occupational Health Advisors (OHAs). These are then augmented with Occupational Health Doctors (OHDs) on a case-by-case basis should a patient's treatment need to be escalated.

OHAs are responsible for the delivery and reporting of the various occupational health services. The administrative team facilitates the operation of the Unit, currently utilising a paper-based system.

The OHAs are currently under-staffed at 4FTE, with vacant nursing position unfilled for budgetary reasons. This lack of nursing capacity has been compounded by an increase in patient numbers and the Senior OHA leaving her post.

By comparison, the FTE of the administrative team is 7.5. However, the imminent implementation of the E-OPAS system will allow the rationalisation of administrative work around more efficient electronic systems; at present, the OHU operates a paper filing system. The digital system afforded by E-OPAS is a less labour-intensive mode of administrative work, and permits a reduction of administrative staff and a realignment of staffing focus towards the hiring of more OHAs.

4.3.2. Recommendation

- The approval in principle of a new OHU structure, in which the administrative team is reduced from 7.5FTE to 4FTE and the OHA team is increased from 4FTE to 5FTE.

4.3.3. Reasons for recommendation

- A reduction of the overall wage bill of the Unit. However, some modest redundancy costs could be incurred should employees not be able to be redeployed.

- The rationalisation of the service around more efficient digital systems, helping to place it on a more commercial footing in accordance with the recommended strategic model.

- A realignment of staffing focus in favour of OHAs. If the reduction of administrative staff enables the recruitment of additional OHAs then the Unit's capacity to treat patients is increased; this additional capacity can be turned to performance improvements or the management of more contracts, increasing the commercial appeal of the Unit.

4.4. Charging

4.4.1. Background

External Contracts

Currently all contracts with schools and external customers are based on a pay per head charging model. This means that these organisations are allowed unlimited access to OHU services for a set price based on their headcount. There are two issues with the current charging of schools and external contracts:

- This charging model contains an inherent risk of the parent Councils inadvertently subsidising service provision to schools and external customers. If, for instance, a school had an epidemic health crisis and required a disproportionate amount of treatment in a short period, they may use more in nurses' time than their fixed per head charge covers. There had previously been no way of ascertaining if a contract with a school or external customer was being subsidised because no usage data was available, meaning contracts were frequently being renewed at unprofitable rates. However, the imminent introduction of the E-OPAS system will permit calculations based on usage, and allow contract prices to be adjusted during renewal to match usage history.
- Furthermore, if the headcount of a school or external client increases over the life of a contract, the OHU could end up servicing a much higher number of employees than the per head fee covers. Currently, no financial safeguards are built into the contracts to account for such an eventuality.

These two issues mean that the OHU is exposed to the risk of not recovering its full costs from its contracts with schools or external customers.

Parent Councils

CE and CWaC currently pay the residual cost that remains after the OHU's income is subtracted from its expenditure. This equates to a very favourable market rate for the Councils.

However, if the OHU is to be readied for commercial trading, the relationship between Councils and supplier needs to be prised apart. With E-OPAS, it is possible for the OHU to begin charging the parent Councils a rate, rather than CE and CWaC paying a residual contribution to the OHU.

4.4.2. Recommendations

- A more commercial approach to contract negotiation is adopted, with stricter financial safeguards built into external contracts to ensure that they do not become unprofitable over their lifespan. This is currently being trialled in the current spate of contract renewals: a maximum headcount variance of 10% is being written into contracts.
- Contract renewal prices are to be informed by a customer's previous usage history.
- The first year of E-OPAS' implementation is taken as a proposition development phase, in which a range of alternative charging models are developed in accordance with the volume of usage from all customers. These models will then be marketed and applied to appropriate contracts the following financial year so as to ensure full recovery of costs from that point onwards.
- In the first year of E-OPAS' activity, the usage of the parent Councils will also be charted, so that they too can be charged by the OHU; this creates a commercial

client/supplier relationship, rather than simply having the Councils pay a residual contribution.

The charging models for development are detailed below:

Charging Model	Description	Pros/Cons	To be applied to
Pay per Head	A flat charge based on the number of staff in an organisation.	+ Upfront fee paid +Less administrative monitoring - Inflexible: Can lead to Council subsidisation if usage cost to OHU exceeds fee paid	- Low usage schools and external customers - Parent councils
Pay as you go	The customer is charged the full cost of every service used on a unit-for-unit basis	+ Ensures full cost recovery + High profit potential - Can be prohibitively costly for some customers - Can be ineffective for OHU if applied to low-usage customers	- High usage schools and external customers (those whose usage costs would not be recovered by a pay per head arrangement) - Parent Councils (if usage is high enough to invalidate pay per head)
Gold, silver, bronze packages	Usage thresholds are set that are scaled in accordance with tiered, per head charges for core services. If the chosen threshold is exceeded, a pay as you go charge applies. Services that entail an additional cost to the OHU (such as counselling, physiotherapy, or vaccinations) are included within these thresholds, with higher calibre packages allowing greater volumes of such services to be used before pay as you go charging applies.	+ Flexible: adapts to the customer's specific usage levels and accounts for sudden spikes in usage. + Commercial propositions: allows each customer to choose a package that they feel best suits their needs and occupational health history.	- Offered to schools and external customers

4.4.3. Reasons for Recommendation

- Enhance commerciality through concerted proposition development
- Heighten yields from contracts and ensure full cost recovery of services provided
- Improved cashflow from higher contract yields can be reinvested in the Unit to increase capacity and improve service quality.
- Create a more commercial client/supplier relationship between OHU and CE/CWaC.

In sum, the usage data of E-OPAS is to be turned to ensuring that costs are fully recovered, cashflow increased, and the possibility of subsidisation is eliminated. The approach to charging sets the tone for more commercial operation and unlocks currently unrealised charging potential and capacity.

4.5. Counselling

4.5.1. Background

Levels of stress-related counselling have risen to new highs in Cheshire, with the OHU's budget for this service being exceeded by £45,248 in 2011-12 – an overspend of 202%.

Interviews conducted with employees at the OHU verified that the increase in stress counselling has been almost preponderantly fuelled by CE referrals. CWaC has an Employee Assistance Programme (EAP): a 24/7 counselling helpline that, as part of its functionality, allows early intervention in the stress-cycle. As such, the EAP negates the number of cases that have to be referred to counselling.

CE has not previously possessed this functionality, leading many cases to only receive treatment when the condition has become severe. This contributed to increased counselling levels, longer periods of staff absence and escalating costs for both the OHU and the parent Councils.

4.5.2. Recommendation

- An EAP has recently been approved in Cheshire East, with appropriate finance allocated and approved by Cabinet as part of the recent Council budget. The anticipated benefits for the OHU of an EAP in CE should be noted as part of this review and inform the financial projections of the strategic options appraisal.
- The EAP will only be implemented in the following financial year. In the short term, a pay as you go arrangement for CE with regards to counselling is in development to ensure that full costs are recovered.

4.5.3. Reasons for Recommendation

- *Anticipating further stress issues*

  The imminent structural redesign that CE is implementing is an obvious catalyst for increased anxiety and stress borne from insecurity and increasing workloads. This will serve to increase stress-related issues all the more, heightening the pressure on the OHU's capacity and making any measures to negate counselling overspends all the more expedient.

- *Mitigate the counselling-based corporate overheads*

  By reducing the overspend connected to counselling, the OHU will benefit from freed capacity and budget to utilise in service improvement or expansion.

- *Early intervention strategy*

  An EAP promotes an early-intervention strategy that aligns with the wider goals of both CE and CWaC to systematically prevent rather than continually cure.

Appendix 1

5. Recommendations

The recommendations arising from this review of the Occupational Health Unit can be summarised as follows:

5.1. Strategic Recommendations

This review recommends a phased development strategy. The 'improved as is' option as detailed in the above appraisal is recommended for the immediate future of the OHU for the following reasons:

- The OHU as it stands represents a viable business model and a cost-efficient provider of occupational health to the parent Councils.
- The OHU has the potential to be developed, and could be improved through a number of measures that will bolster its commerciality and performance.

As such, the 'improved as is' option ideally paves the way for the conversion of the OHU into a council-owned company or additional factory in the ICT/HR & Finance SLE. This should remain the long-term strategic goal for the OHU for the following reasons:

- All the benefits of commercialisation without loss of council direction.
- The parent Councils profit from all the savings realised.
- All the accumulated experience and efficiencies achieved through sharing are retained and developed further.
- If a shared service is transitioned into a company it conforms to the strategic commissioning operating model being developed by both CWaC and CE and ensures that Shared Services remain relevant and progressive.

The viability of this goal will be reassessed following the completion of the 'improved as is' phase.

5.2. Operational Recommendations

The following constitute the tranches of the 'improved as is' option that will serve as phase one of the development strategy.

- The E-OPAS system is developed in accordance with the proposed implementation timescale.
- That a programme of policy development is continued to better gird and define the OHU's operation.
- A rationalised staffing structure is put in place that rebalances the OHU in favour of nursing staff.
- That the construction of contracts is reviewed and a range of charging models developed and trialled to ensure full cost-recovery from contracts.
- That the associated benefits for the OHU of an EAP in CE be noted as a means to lower counselling expenditure and release capacity. A short term charging option tied to CE counselling usage be implemented in the meantime to ensure cost recovery.

5.3. Next Steps

- The appended programme plan, which summarises the various implementation timescales detailed in this review, is followed to affect the commercialisation phase.
- At its termination, the business case for a commercial model be reassessed and action taken accordingly.