

CHESHIRE EAST COUNCIL CHESHIRE WEST & CHESTER COUNCIL

SHARED SERVICES JOINT COMMITTEE

Date of Meeting:	20 May 2016
Report of:	Cheshire West & Chester – Director of Finance Cheshire East – Chief Operating Officer
Subject/Title:	New Arrangements for ICT Shared Services and Transactional Shared Services

Report Summary

- 1.1 In October 2015 the Shared Services Joint Committee took the decision to bring back in and disaggregate the arms length ICT and Transactional services trading company – CoSocius Limited. Consequently work was undertaken to put new shared service arrangements in place by April 2016 which would see ICT being hosted by Cheshire East Council and Transactional Services being hosted by Cheshire West and Chester Council.
- 1.2 At the meeting on 18 March 2016 the Joint Committee authorised the Directors of Legal Services for each authority in consultation with the Section 151 Officers to finalise the detailed terms and conditions for, and enter into, all the necessary legal documentation and processes required to effect the new arrangements.
- 1.3 This report provides a summary on the final stages of the transfer project and requests formal closure of this initial phase whilst setting out the next steps for the six month transition period from 1 April 2016 to 30 September 2016 during which time the business plans of the two services will be implemented including delivery of planned savings.

2.0 Recommendations

- 2.1 The report recommends that the Shared Services Joint Committee:
 - I. Endorse the formal close down of Phase 1: Transfer of Services provided by CoSocius Limited to New Shared Arrangements;
 - II. Note the revised governance arrangements for Shared services as provided in Appendix;
 - III. Note the summary of lessons learned from the CoSocius project as outlined in Section 6, and
 - IV. Note the plans for Phase 2 of the implementation programme as outlined in Section 7

3.0 Reasons for Recommendations

- 3.1 Phase 1 of the activity to transfer ICT and Transactional Services from CoSocius Limited has been completed as planned and the focus now shifts to Phase 2 of the programme which will take forward transitional activity to stabilise new working arrangements to enable broader service transformation going forward.

4.0 Background

- 4.1 Approval was granted in 2013 to establish Cheshire Shared Services as a single Council owned company. The company began operating in shadow mode in October 2013 from when it continued to develop as a commercial entity under various joint Operating Agreements with both Councils.
- 4.2 In October 2015, the Shared Services Joint Committee reviewed the current operating position of the company and identified a number of areas of concern and consequently agreed that the additional costs of operating CoSocius as a standalone company were no longer justifiable and approved a number of actions to cease its operation and trading as a standalone company following which a programme of activity was initiated to revert service delivery to in-house Shared Services hosted by each council across three phases:

Phase 1 - Transfer	October 2015 to 31 March 2016
Phase 2 - Transition	April to September 2016
Phase 3 - Transform	September 2016 to March 2018

- 4.3 A Joint Programme Board chaired by the respective S151 Officers was established in November 2015 to ensure a safe disaggregation of the company and to establish new hosting arrangements as outlined below:

ICT SHARED SERVICE hosted by CEC	TRANSACTIONAL SHARED SERVICE hosted by CWaC
<ul style="list-style-type: none">• Service Management• Infrastructure Services• Network and telephony platforms• End-User Services• Application Management and Support• Professional Services	<ul style="list-style-type: none">• Managed Payroll Service• Recruitment Services• Managed DBS Services• Contractual Administration• Accounts receivable and cash management• Accounts payable

- 4.4 A full programme of activity to deliver the desired outcomes was reported to this Committee in March 2016 but the key objectives and high level deliverables are summarised below:

4.5 Objectives

- Cease trading and operations as CoSocius Ltd
- Transfer ICT delivery to Cheshire East hosting (Shared Service)
- Transfer Transactional Services delivery to Cheshire West hosting (Shared Service)
- Maintain service delivery throughout transition
- New Shared Service arrangements in place with a 6 month period of transition from April 2016, followed by a further 18 months of transformation

4.6 The required deliverables for Phase 1 of the programme were:

- Successful disaggregation and TUPE transfer of CoSocius employees
- Maintaining “business as usual” - no disruption to service delivery
- Underpinning legal agreements for new shared arrangements in place by 31 March 2016

4.7 Consequently hosting arrangements for ICT and Transactional Shared Services have been established supported by transitional structures, performance management frameworks, service definitions and business plans. Progress in each area is summarised below.

5 Progress Update – ICT and Transactional Shared Services

5.1 Progress on the implementation of ICT Shared Services:

- The on-boarding of ICT services into CEC was successfully transitioned on 1st April in consultation with Staff and Unions. A number of staff engagement events have been held with further formal CEC staff induction events planned for 17th & 18th May. On the whole staff are responding very positively to the change.
- In line with the interim business plan a Management restructure has been underway to reduce 8 senior posts to 5. Following informal consultation a new management structure is now in place with effect from 1st April. Further activity is now underway to review existing structures, roles and accountabilities ahead of any further consultation on a revised Operating Model scheduled implementation by October.
- A significant focus for the team has been on Cost Management activity to robustly address and close the 16/17 budget gap. A number of initiatives have been introduced, including; the release of 26 contractors to realise £2.2m of savings; vacancy management; a revised staff allocation costing model ensuring focus placed on further reducing the need for contractors, particularly those who are delivering core (BAU) services. To support this, a new time recording regime has been introduced to enable the management team to have a baseline on allocation of resources and to better understand and target further remediation plans.

- Throughout the change leading up to and beyond 1st April, Service continuity has been maintained with no major service outages attributable to the change.
- The team have redesigned and developed a new Commissioning Model which was implemented on 1st April. Although still very much in its early infancy, the aim is to work towards continual improvements from day one to complete the transformation of the process by October. This process has been designed with the client at the centre with the core outcome being to focus on improving outcomes for clients and stakeholders in CEC, CWaC and other clients by cultivating a culture of collaboration across the different functions, adopting greater transparency and defining new ways of working that will result in the delivery of ICT services that are fundamentally better in terms of results, speed of response, value for money and efficiency.
- An ICT Transition Programme Board has been convened to ensure that all the 180 day interim business plan objectives will be met. A further update on programme plan, outcomes and benefits will be provided at the next Joint Committee.
- Cultural change represents a significant challenge for the newly formed service. This will be addressed by a Programme workstream dedicated to Culture and Organisational Development. The new Management Team, supported by the programme will ensure that a culture of customer focus, collaboration, accountability and empowerment will be adopted. The Management team are currently evaluating the roles & responsibilities of individuals, teams and functions together with the priorities for the whole service to ensure that the right Operating Model is in place for October. All ICT staff will attend a formal induction into CEC to understand expectations on values and behaviours and each will have objectives set through the CEC Performance Management framework. Leadership skills development, financial control and accountability will remain a top priority for the management team.

5.2 ICT Shared Services - Progress against closing the 16/17 Budget Gap.

Below is a summary of progress to date (from 1st April to 10th May 2016) on the savings proposals that are underway to meet the key business plan objective of closing the 16/17 budget gap. Overall confidence that the savings are achievable is high and the RAG status is a realistic & prudent view of deliverability in these early few weeks of transition.

ICT Shared Services - Status of Savings against budget

Proposal	Target	Gap	Delivered	WIP	At Risk	Variance	RAG	Note
	£m	%	£m	£m	£m	£m		
Proposals not dependent on investment or service Charges	3.485	81.5%	2.470	1.027		(.012)		1
Proposals with Minor Service Impacts	0.215	5.0%			0.215	0.215		2
Proposals requiring Investment prioritisation	0.275	6.4%		0.275		0.000		3
Outline proposals under development	0.300	7.0%		0.300	0.000	0.000		4
	4.275	100.0%	2.470	1.602	0.215	0.203		

Notes

1

Management Restructure
Releasing Contractors
Increased Third Party Income

Realised Savings

WIP Target Operating Model
Further reduction in Contracted Staff Costs
Third Party Contract Rationalisation
Reduction in subsidies

Current WIP

2

Out of Hours Maintenance / Service
Academy Oracle Build

Total at Risk

3

Legacy System Decommissioning
Data Centre review
End User Computing simplification
User Self Service Strategy

Total WIP

4

Oracle Delivery Model Rationalisation
Rationalisation of Professional roles away from contracting model

Total WIP

£m

0.165

2.200

0.105

2.470

0.603

0.200

0.224

0.000

1.027

0.085

0.130

0.215

0.050

0.075

0.100

0.050

0.275

0.200

0.100

0.300

5.3 Progress on the implementation of Transactional Shared Services:

- Day 1 for the on-boarding of HR and Finance services into CWaC's Transactional Service Centre went smoothly, with staff largely engaged and welcoming of the new arrangements. A staff focus group was established as part of the on-boarding phase; this has been retained and continues to operate effectively as a representative group of all staff. Operational activity continued unaffected and the on-boarding process overall has had no negative impact service delivery.
- The process of management review and restructure has commenced, with the senior post of Corporate Manager (Transactional Finance) advertised with a closing date of 22 April with the recruitment process expected to conclude by the end of May.
- A small number of vacancies have arisen in the run up to 1 April and in the short time since. In advance of any wider consideration of staffing these roles are not being filled and savings used to offset the 2016/17 funding gap, a key deliverable in the six-month business plan
- Cultural change also represents a significant challenge for Transactional Services and this is being addressed through a structured induction programme that will begin to embed the Council's core values of THRIVE: teamwork, honesty, respect, innovation and empowerment.

5.4 Overall the first phase of the programme was delivered to plan and to time and consequently the Programme Board has been formally disbanded with transitional governance being transferred to the respective Transition Boards (as described in Paragraph 10). Going forward these Boards will be responsible for overseeing the next phase of transitional activity.

6 Lessons Learned

6.1 In taking the decision to terminate CoSocius Members were keen to ensure that lessons from its creation, existence and demise were captured to enable both Councils to learn from this experience. Consequently research was undertaken with key stakeholders involved with predecessor ICT and Transactional shared services, CoSocius Limited and / or the new sharing arrangements to ascertain: what had worked well, what could have been improved and the skills and training needed to support any alternative service delivery models going forward.

6.2 The findings are summarised below but it should be recognised that these relate to CoSocius alone and must not be considered in any way as a reflection of any other companies operated by either Council.

6.3 Key Learning Points from CoSocius were:

- The business case for change to a commercial entity needs to be robust and demonstrate a fundamental understanding of the market place. It

needs to be based on credible data and take full account of investment requirements to make the operation truly commercial

- People developing and delivering a separate legal entity need to fully understand the workings of a commercial operation and design-in specific requirements tailored to the market (e.g. suitably qualified staff, resources training plan etc.)
- The company needs to have the right people in the right roles to take it forward and make it a success – they need to balance core business with developing new business
- Expectations need to be realistic – developing and embedding an appropriate culture is paramount to a successful commercial operation. This can take time to achieve (months not days) depending on the type of service.
- Company governance needs to be robust with clear lines on roles, responsibilities and independence
- Client / Supplier relationships need to be truly commercial but not adversarial and not unduly influenced by previous working relationships - the focus should be on managing / meeting business needs and securing workable solutions
- Contract performance issues need to be addressed but at an appropriate level to avoid undue negative impact on company employees
- The company needs to ensure that its employees are adequately trained in the skills needed to operate in a commercial environment and should not be reliant on public sector experience alone. Training should focus on commercial awareness and skills development including customer care, business relationship and contract management, governance and influencing skills.

7 Phase 2: Transition

- 7.1 The delivery of the Day One key milestones sees the project move into its second phase – Transition. This will see both services focus on a 6 month period of operational stability and transition that will lay the foundations, financially and technically, for significant change moving forward. This period will provide the platform for more resilient services delivered in a sustainable model which will form the basis for potential wider future collaboration and ongoing product development.
- 7.2 In order to support and develop the ICT and HR & Finance ‘on-boarded’ services through the initial six-month ‘transition’ phase from the enactment of the new sharing arrangements to the implementation of a new target operating model by 1st October 2016 interim Business Plans have been developed. These are contained in a report elsewhere on this agenda but in summary they set out the scope of the services to be delivered; financial and

staffing resources; the key objectives and deliverables of the six-month transition; and the performance framework to monitor and manage delivery.

7.3 The key objectives for the both services will be:

- Business Continuity - ensuring continuity and reliability of service for customers/users throughout the transitional phase
- Closure of the 2016-17 Budget Gap - implementing measures to close the gap between budgeted and actual spend inherited from 2015-16 (see section 9)
- Develop and implement a new target operating model - agreeing the new service catalogue for each service, a refined pricing mechanism and agreeing each Council's specification to ensure processes and procedures are standardised, automated and aligned to deliver greater efficiency. A checkpoint review will be undertaken in June 2016 to measure progress in delivery of the new operating models; and
- Development of Strategic Business Plans – aligned with the development of the new Target Operating Model, to provide a more formal and strategic Business Plan setting out the scope of activity; efficiency measures; income/savings target; key success measures; and commercial direction beyond October 2016.
- **(ICT only)** - Development and Implementation of a new Commissioning Model - The redesigned model will ensure that the overall process is more customer focussed, agile, less bureaucratic, transparent and cost efficient. The new model was launched in April and will be continuously evaluated and refined to ensure successful embedding of new ways of working and to ensure that benefits are delivered.

7.4 Throughout this phase a programme of transformational work will be undertaken within the two Shared Services to ensure service delivery is aligned to the future expectations of the two authorities. This activity will be linked to the ongoing ICT Service Review programme (as reported elsewhere on the agenda) which will also help to identify opportunities for making solutions available to other public sector partners.

8.0 Financial Position

8.1 The focus of financial attention throughout this process will be to ensure that these services are delivered in the environment which is best placed to achieve value for money for the Council and that this structure is supported by a governance framework which ensures that costs are managed effectively and required savings targets are delivered.

8.2 Since the previous report to Joint Committee the process of closing down the activities of CoSocius has been largely completed. While the company will not be fully wound up until later in the year it has ceased to trade from 1st April and the final 2015-16 deficit has been confirmed at £2.6m. This is more than

the previously projected overspend (£2m) because of higher than forecast agency staffing costs and overly optimistic forecasts of project income.

- 8.3 The scale of the costs incurred by CoSocius in 2015-16 reinforces the need to change how ICT and HR & Finance Transactional Services are delivered going forward, but also increases the scale of the challenge that the new delivery model has to address. The outline business plans focus has been on implementing service redesign in both areas and through this the removal of significant costs from the previous system. In total these plans are seek to remove over £4m from the inherited cost base, as reported to the Joint Committee in March 2016 these are necessary to bring costs in line with existing 2016-17 budgets and shouldn't be considered as new cashable savings.
- 8.4 Given the scale of savings required it will be critical to ensure the overall financial positions of both shared services are closely monitored throughout the transition period (Phase 2). A lack of certainty over the scale of cost commitments and income expectations was a contributory factor to the overspending within CoSocius. Enhanced arrangements to ensure that costs are closely controlled and linked to available funding have been built into structures which have been implemented for phase 2 and will be a core requirement for any long term solution. These will enable prompt corrective action should expected savings not be achieved. Regular monitoring reports will be submitted to the Joint Officer Board and updates on progress will be reported to the Joint Committee throughout the year.

9.5 Close down of CoSocius and Final Accounts

- 9.6 As from 1 April 2016 CoSocius has ceased trading and no new financial transactions impacting the company should now occur. The consequences of the company's financial balances at 31st March 2016 are being reflected in the 2015-16 accounts of the two Councils. This includes recognising the impact on each Council of addressing the company's overspends from 2014-15 and 2015-16 and the estimated pension deficit as at 31st March 2016.
- 9.7 The final set of company accounts for CoSocius will be extended to cover the 15 month period to 30th June 2016 with the three month extension enabling the financial wind down to be completed in a thorough and orderly manner and for the company's residual assets and liabilities to be settled or distributed. This process is already well progressed with the assets linked to delivery of the ongoing shared services transferring to the Councils on 1st April 2016 and the company's pension liabilities transferring back to the Councils at the same point. Once this process is complete the formal process to wind down the company can be completed.
- 9.7 A further report confirming the final outcomes from the close down of the Company will be brought to the Joint Committee when the process is complete.

10.0 Governance

- 10.1 On completion of the disaggregation of CoSocius the Programme Board was formally disbanded with transition governance arrangements being transferred to the ICT Transition Board (hosted by Cheshire East Council) and the Transactional Services Transition Board (hosted by Cheshire West & Chester Council). Both boards include representation from the client authority.
- 10.2 These Transition Boards will oversee progress against Phases 2 and 3 of the ICT and Transactional Shared Service programme which will be subject to regular monitoring through the Joint Officer Board and Shared Services Joint Committee. This will align the new ICT and Transactional Shared Services with other shared arrangements between the two Councils as shown in the Appendix..

11.0 Risk Management

- 11.1 All risks associated with the transfer of services from CoSocius were managed by the Programme Board. Responsibility for these has now transferred to the appropriate Transition Board and these will continue to be monitored by the host authorities and its management team through the organisation's risk management processes. Progress will also be monitored by JOB and reported to this Committee at regular intervals.
- 11.2 The key risks and mitigating actions were detailed in the previous report to this Committee but for convenience these are summarised below:
- I. Shared Services fail to implement the agreed measures to close the gap between budgeted and actual spend during 2016/17.
 - II. Potential downward trend in performance in transitional phase e.g. KPIs (service requests and incidents) and improvement due to staff maturity, training and stabilisation of the new Target Operating Model).
 - III. Significant cultural change will be required within the two shared services and host authorities to achieve objectives of their respective business plans.
 - IV. Risk that existing knowledge/resource within CoSocius Ltd will be lost post April 1st 2016 as key personnel take the decision to leave.
 - V. Risk that the new service fails to deliver expectations/requirements of the two councils.
 - VI. Risk that Shared Services fail to deliver the agreed objectives detailed in their respective business plans including the implementation of the new Target Operating Model by 1st October 2016.

12.0 Wards Affected

- 12.1 This report relates to Shared Services that operate across both Cheshire East and Cheshire West and Chester so all wards are affected in both Councils.

13.0 Local Ward Members

13.1 Not applicable.

14.0 Policy Implications including

14.1 None.

15.0 Other Options

15.1 None.

16.0 Conclusion

- 16.1 The transfer of ICT and Transactional operations formerly delivered by CoSocius Limited to new sharing arrangements between Cheshire East and Cheshire West and Chester Councils was completed to plan without any major disruption to services. In effect Phase 1 of the overall programme has been completed to plan with minimal issues being carried forward into the second, transitional phase of the programme.
- 16.2 The new ICT and Transactional Shared Services have picked up ongoing risks and will build these into their respective business planning activity to ensure that these are effectively managed and monitored via revised governance arrangements. Consequently the Joint committee are requested to formally endorse the closure of Phase 1 of this programme.
- 16.3 The financial close down of CoSocius Limited is now largely complete and year end balances as at 31st March are being consolidated into the 2015-16 accounts of the two Councils. Final accounts for the company itself will be produced in July to cover the 15 month period to 30th June 2016 and these will be reported to the Joint Committee once complete.
- 16.4 The Programme now moves into its second phase where the focus will be on transition. This will focus on the objectives and key deliverables as stated in Section 7. These will be closely monitored to ensure that they are achieved prior to moving into the third and final stage of the programme – Transformation, which will commence on 1 October 2016. The Joint Officer Board will maintain an overview of progress with updates being provided to this Committee on a regular basis.

17.0 Access to Information

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

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Background Documents:

*Documents are available for inspection at:
Cheshire East Democratic Services
Westfields
Middlewich Road
Sandbach
CW11 1HZ*

Or

:

*Cheshire West & Chester Democratic Services
HQ Building,
Nicholas Street,
Chester,
CH1 2NP*

1. Shared Services Governance Model – ICT and Transactional Services

Legend

— 'Service Delivery'
— For info



