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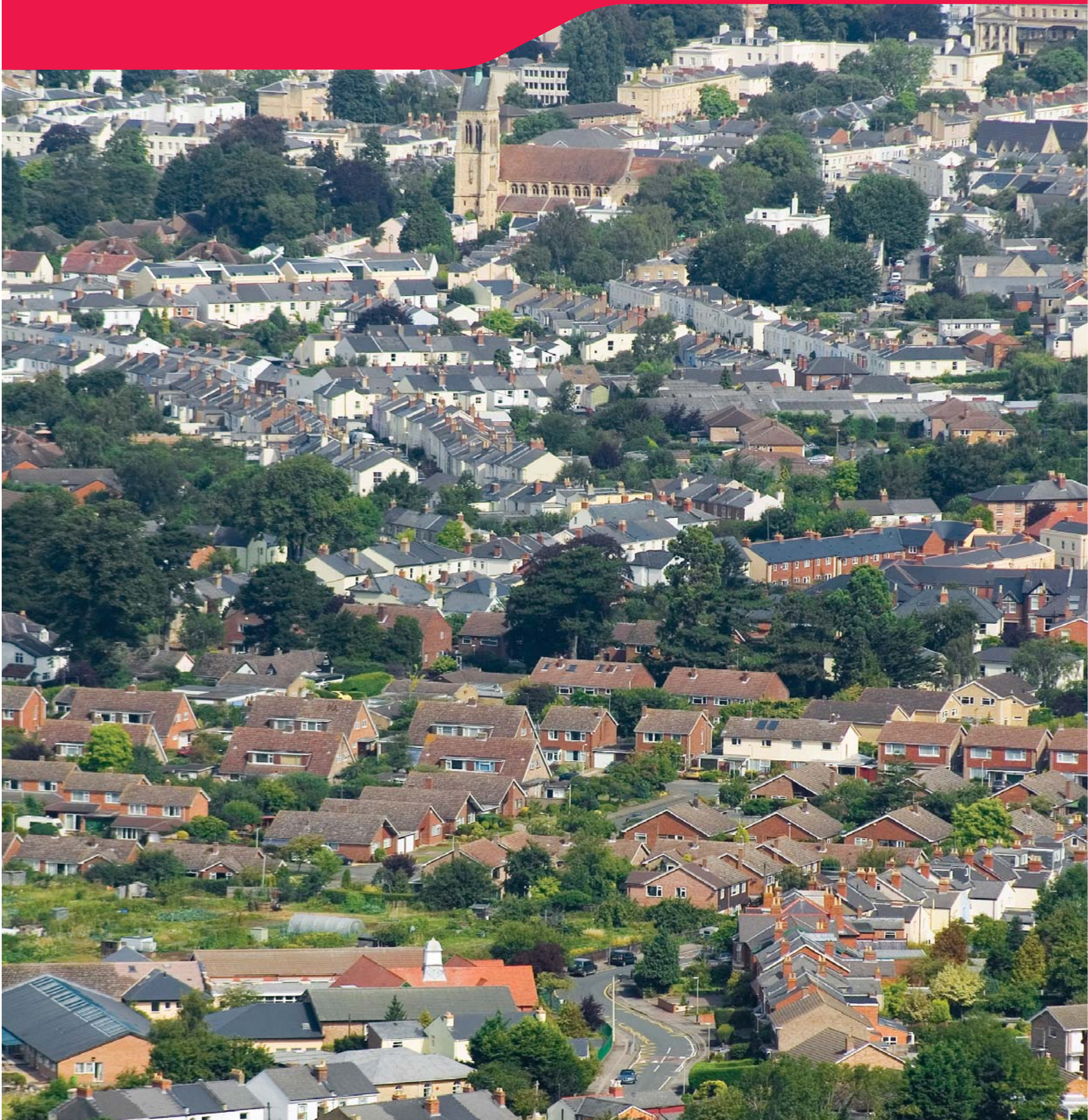
White paper: The future is shared – how collaborative delivery models can benefit local government



This round of Unitary status is the first step in the Government's plan for a more productive public sector. Unitary authorities will certainly be in a strong position to deliver Government's targets.

But where does that leave everyone else?

Introduction

In July 2007, the Department for Communities and Local Government (DCLG) announced which of the short listed proposals from councils in England and Wales for unitary or pathfinder status have been successful.

Although the unitary bid process is of huge importance to the participants, it is the intention behind it that makes it a catalyst for changes that will affect the future of every authority where two-tier governance still exists.

The DCLG's overarching ambition is to get the public sector to work together for the benefit of all citizens. At the same time, Government, as demonstrated by Gershon, Lyons and now CSR07, wants the public sector to become more cost-effective and delivering services which are chosen rather than the "only option".

The DCLG has set out how it wants local authorities to transform their traditional approach to service provision. It expects each organisation to:

- challenge traditional methods of delivery
- root out waste
- work with other public bodies to share assets, systems, data, skills and knowledge more effectively
- create sustainable communities
- keep all activity under review.

Time pressure

- July 2007: DCLG announced decision on new unitary authorities
- December 2007: latest practical deadline for all local authorities to finalise responses to CSR07
- January 2008 – December 2009: CSR07 cost savings expected
- January 2010: financial point of no return for authorities that have not met budgetary constraints?

Reasons to change

Ambitious efficiency gains are required from this process. The early signs are that CSR07 will set savings targets of 25-30% on current levels of expenditure, a significant step up from the 3-5% earmarked by the Gershon Review less than three years ago.

In one sense the outcome of the unitary bid process is academic, since all local authorities face the same challenge, regardless of their status within the new system. Yet the authorities that achieve unitary status will be in a stronger position to achieve these targets. The rationalisation of governance structures, re-organisation of local management and downsizing of accommodation requirements provide immediate opportunities for cost savings.

For the rest, opportunities are fewer in a landscape that is far more complex. Time is against those authorities that have yet to heed Government's message. For poor performers, persistent failure to meet budgetary constraints will most likely lead to reduced funding and a gradual loss of autonomy which could even culminate in Government intervention. As cost cuts and asset sales can realise only a limited amount of money, the logical end-point of non-compliance is financial failure.

There is however a clear incentive structure in place to motivate behavioural change. Those who accept the challenge to work in collaboration with neighbouring authorities and like-minded public bodies to realise savings and who show innovation in their delivery of services to citizens, are likely to be rewarded with relatively bigger budgets and greater financial freedom from central government.

Why shared services?

So how will these savings be achieved? Cutting back on public services or reducing departmental headcount in front-line delivery areas is simply not feasible. In fact, both Government and customers are pushing local authorities to provide a much wider selection of more relevant services, so the expectation is for more choice, not less. The reduction or termination of core services in sensitive areas such as education, health, social care and transport is not feasible and would certainly not be tolerated by the taxpayer.

Furthermore, employee morale and other cultural factors that can impact customer service levels and the customer experience preclude making job cuts on the level required. As Government has indicated, the obvious way forward therefore has to be in the collaborative sharing of services and delivery bodies.

Why shared services?

- reduce costs
- improve productivity
- increase customer satisfaction
- redeploy resources
- encourage co-operation
- increase financial freedom.

Multiple benefits

Shared service delivery models offer many potential advantages.

The centralisation of common functions, particularly in back-office areas, can generate significant economies of scale. For historical reasons, many organisations will have accumulated multiple departments in areas such as payroll, human resources and IT that operate independently of one another, often supported by individual IT systems and business processes. Shared service models allow for the eradication of this duplication at both management and operational levels.

The resources that are freed up can be reassigned to areas of greatest need, which, depending on prevailing political priorities, could be investment in front-line services or cuts in Council Tax, or else taken out of the organisation altogether.

Investment can be targeted more effectively. With a more favourable balance of input to output, productivity is usually increased. Service quality and customer satisfaction can also be measured more easily and areas for improvement addressed.

Shared service models can therefore lead to savings in the cost of providing existing services or support the introduction of new services, depending on how the organisation chooses to rationalise or redeploy its financial and operational resources.

A further advantage of implementing shared service models is the financial security it can provide against future reductions in Government funding. Recent trends in the distribution of central funding have favoured certain regions over others and there are no signs that this is likely to change in the short-term.

Finding the right solutions

A common misconception in relation to shared services implementation is that it must involve large-scale change. This has been compounded by the Government's promotion of areas such as HR, payroll and finance as the natural starting points for a shared services agenda.

Political and operational obstacles mean that it can take a long time to effect service sharing in these areas. Introducing the technology is relatively straightforward. The harder part is getting the buy-in and co-operation of multiple departmental heads and then agreeing and implementing a standard operating model that is underpinned by a robust governance framework and common business processes.

The potential of these areas for greater efficiency means that they are certainly worth pursuing. However, in the meantime quicker wins may be available. Service providers, business processes and infrastructure can also be shared across organisations to mutual advantage. For instance:

- extending the geographic coverage of one refuse collection agency to cover several authorities should be more cost effective than employing a local agency for each area
- common procurement processes make it possible to balance capacity demand and priorities on a just in time basis
- introducing shared services between directorates within the same council promotes greater co-operation and helps to break down outdated 'silo' mentalities
- while not without challenges, consolidating and sharing business resources such as customer service centres and communication networks would allow organisations to cut costs and also save on future capital expenditure.

These examples show the value of thinking beyond conventional definitions of shared services. The scope and opportunities for collaboration are actually much greater than Government realises. Furthermore, by acting as a test bed for shared services to show what can be achieved both qualitatively and quantitatively, smaller initiatives can prepare the ground, both culturally and technically, for more ambitious projects further down the line.

Finding the right partners

In thinking about the future, the inherent flexibility and scalability of shared services mean that it will become increasingly possible to bring people together in new and more adventurous ways.

Current thinking is rooted in the assumption that suitable partners will most likely be found in neighbouring geographies. Yet there is an argument that says comparable demographics provide a more meaningful measure of compatibility. For instance, it is possible that a coastal community's service requirements will align more closely with those of another coastal community elsewhere in the country than a nearby inland community.

Although there is not yet a practical way for these communities to share services that are pertinent to their particular needs, there may be so in the future, particularly as the shared service environment develops over the next few years.

Conclusion

Government's requirements mean that local authorities have to act and soon. As the DCLG has made plain, maintaining the status quo is not an option.

In this environment, the winners will be those organisations that embrace change and show true leadership in finding the right partners and pursuing the right solutions. That means co-operating across organisational and political boundaries, but also involving people who are familiar with the challenges and best practices of implementing shared services. The public and private sector has a wealth of experience that can be used to minimise the risks and maximise the benefits of shared service projects. Without this expertise, ambitions and expectations are unlikely to be fulfilled.

By getting the right input at the right time, which means early in the process, local authorities can increase their chances of success and accelerate their progress towards successful outcomes. If the future really is shared, then it makes sense to start working together as soon as possible.

No way back

"The Government believes that the status quo is not an option in two-tier areas if councils are to achieve the outcomes for service delivery that communities expect, and deliver substantial efficiency improvements."

Department for Communities and Local Government, October 2006

Case study: breaking new ground with local government

Hedra plc is working on a ground-breaking project in Scotland to help five socially and politically diverse local authorities to implement a shared service organisation. This is the first project on this scale in the UK.

Beginning with finance, HR, payroll and procurement, the scalable and replicable model that Hedra is helping Clackmannanshire, East Dunbartonshire, Falkirk, Perth & Kinross and Stirling Councils to create will lead to the provision of more customer-focused services across the participating councils at a lower cost.

The proposed model offers potential for significant economies of scale and corresponding savings for the taxpayer. Transparent governance arrangements – local accountability is maintained – and the inclusion of quality assurance mechanisms will support continuous improvement to reach best-in-class performance and benefit delivery.

In the interim period, while the Scottish Executive considers approval, each organisation is taking steps to improve their individual performance in the chosen areas by acting on tailored recommendations that Hedra has provided based on current capabilities and performance levels.

The business change and associated efficiency savings that the councils have already achieved mean that this is a solution that offers escalating returns.

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