



# *Developing the local government services market*

---

Working paper on local authority shared services





# *Developing the local government services market:*

*Working paper on local authority shared  
services*

PricewaterhouseCoopers LLP

May 2007

Department for Communities and Local Government: London



*In the event that, pursuant to a request which the Department for Communities and Local Government has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. The Department agrees to pay due regard to any representations which PwC may make in connection with such disclosure and the Department shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, the Department discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

Communities and Local Government  
Eland House  
Bressenden Place  
London  
SW1E 5DU  
Telephone: 020 7944 4400  
Website: [www.communities.gov.uk](http://www.communities.gov.uk)

© Crown Copyright, 2007

*Copyright in the typographical arrangement rests with the Crown.*

*This publication, excluding logos, may be reproduced free of charge in any format or medium for research, private study or for internal circulation within an organisation. This is subject to it being reproduced accurately and not used in a misleading context. The material must be acknowledged as Crown copyright and the title of the publication specified.*

Any other use of the contents of this publication would require a copyright licence. Please apply for a Click-Use Licence for core material at [www.opsi.gov.uk/click-use/system/online/pLogin.asp](http://www.opsi.gov.uk/click-use/system/online/pLogin.asp), or by writing to the Office of Public Sector Information, Information Policy Team, St Clements House, 2-16 Colegate, Norwich, NR3 1BQ. Fax: 01603 723000 or email: [HMSOlicensing@cabinet-office.x.gsi.gov.uk](mailto:HMSOlicensing@cabinet-office.x.gsi.gov.uk)

If you require this publication in an alternative format please email [alternativeformats@communities.gsi.gov.uk](mailto:alternativeformats@communities.gsi.gov.uk)

Communities and Local Government Publications  
PO Box 236  
Wetherby  
West Yorkshire  
LS23 7NB  
Tel: 08701 226 236  
Fax: 08701 226 237  
Textphone: 08701 207 405  
Email: [communities@twoten.com](mailto:communities@twoten.com)  
or online via the Communities and Local Government website: [www.communities.gov.uk](http://www.communities.gov.uk)

May 2007

Product Code: 06 LGSR 04517



# CONTENTS

Introduction	5
Defining shared services	6
The benefits of shared services delivery	8
Identifying services for inclusion in shared services arrangements	11
Developing models for shared services delivery	12
Competition & market issues	15
Challenges and opportunities in expanding shared services arrangements in practice	16
Opportunities to expand shared services delivery in the future	19
Conclusions and next steps	21
Acknowledgements	23









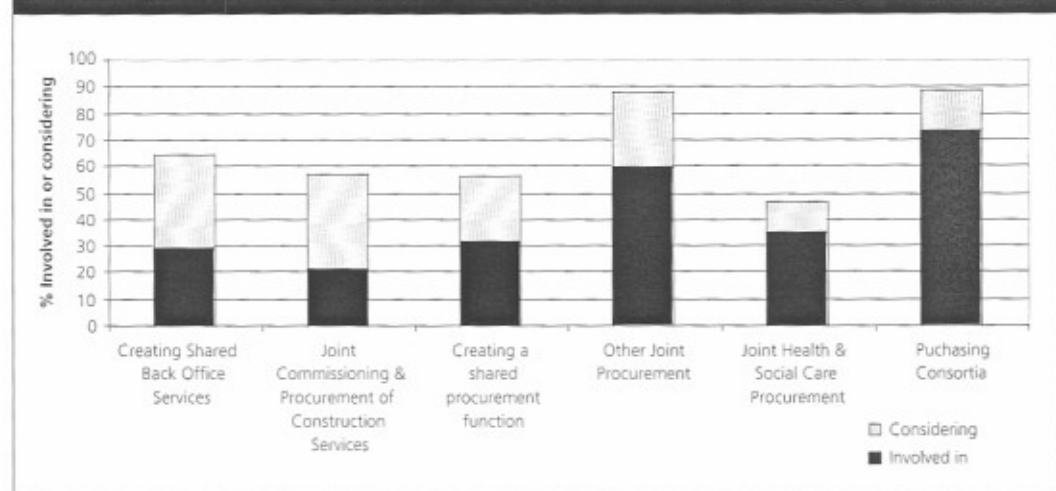
# Introduction

- 1 This working paper is one of a series that highlight findings from research undertaken by PricewaterhouseCoopers LLP (PwC) into key local government services markets, on behalf of the Department for Communities and Local Government. This paper is focused on the development of shared service solution in local government and is designed to support debate and discussion of key issues by stakeholders.
- 2 The evidence sources for the paper include a number of sector roundtable meetings and specific workshop sessions on the development of shared service solutions. These involved local authority stakeholders, relevant professional bodies, suppliers and policymakers that was convened and facilitated by PwC in 2005, as well as other referenced research evidence; the paper was completed in August 2006. Where the views of particular stakeholders or groups of stakeholders are described in this paper, these are not necessarily shared or endorsed by either PwC or the Department for Communities and Local Government. Our work has been undertaken in accordance with the terms and conditions agreed between ourselves and the Department on 26th July 2004. We do not accept any duty of care or responsibility to any party other than the Department. Any oral comments made in discussions as concerns our reports and letters are not intended to have any greater significance than explanations of matters contained in the final written reports or letters. We shall not be held responsible for oral advice unless we confirm such advice formally in writing.
- 3 The development of shared services in the public sector is not a new concept. But it is enjoying a particularly keen focus across local government at the moment, as a potential panacea for many of the key challenges facing the sector. The promise of potential efficiency gains, integrated customer-centric services, and better use of scarce skills and capacity is certainly attractive in principle to many local authorities.
- 4 In practice however, there are currently few examples of where the potential benefits mooted for shared services arrangements have been fully realised. Recent survey evidence commissioned by DCLG (see Figure 1) suggests that only 29% of local authorities are involved in shared 'back office' arrangements with other authorities, and whilst 35% claim to be 'considering' such arrangements, almost a third are not doing so, with overall progress considered weak in this area. The same source found that in the context of undertaking options appraisals as part of a service review, 'partnership with other tiers of local government' is considered by only a quarter of local authorities as a potential alternative service delivery option.<sup>1</sup> Nonetheless, the fact that half of local authorities are considering this as a delivery option is indicative of both the attractiveness of shared services as a solution 'in principle', and provides a positive starting point for the potential development of shared services across a wider number of local authorities.

<sup>1</sup> *Evaluation of the Local Government Procurement Agenda: 2nd Survey Report*, Institute of Local Government Studies (INLOGOV), Forthcoming.



**Figure 1 Survey of councils involved in, or actively considering, collaborative procurement arrangements**



5 Perhaps as a result of this tension between principle and practice, the subject of shared services came up across a number of the roundtables held as part of this study, in service contexts as diverse as ICT transformation, libraries and regulatory services. The following discussion reflects on some of the key issues that emerged in roundtable discussion and in other conversations with stakeholders, and places this in the context of other current thinking on this subject. We focus in particular on:

- defining shared services – what they are and what they are not
- the benefits associated with shared services delivery
- identifying those services that are likely to be suitable to shared services solutions
- developing models for shared services delivery
- market effects & competition
- the challenges to establishing shared services in practice
- opportunities to expand shared services delivery in the future.

## Defining shared services

6 In recent years the concept of 'shared services' has been subject to much discussion across the local government and wider policy community. The need for clarity in defining what constitutes 'shared services', as opposed to other forms of collaborative working, was therefore identified as a key issue at a number of the roundtable meetings held during the project. Roundtable participants representing both local authority commissioners as well as suppliers argued that part of the problem in developing workable delivery models for shared services has been confusion in the use of the term itself.



- 7 In the private sector, shared service solutions have frequently been developed by large organisations through bringing together business support services, which previously split across different business units and subsidiaries under single an organisational structure, with common operating platforms. By contrast, in the public sector, and in local government in particular, the focus of current reform is often about different organisations – local authorities – sharing services in common. This represented a more challenging proposition. Although roundtable discussions indicated that many upper tier councils still had progress to make in operating one-single back office right across their functions.
- 8 At its widest, a shared services arrangement might be defined as one where two or more authorities work together to commission and/or deliver a service or function for the purposes of improving that service or function. This implies a very broad range of possible collaborative scenarios. At one of the spectrum, strategic alliances between local authorities and NHS bodies to commission integrated health and social care. At the other end of the spectrum, explicitly aggregated delivery arrangements such as consortia arrangements for the delivery of support services, where staff from several authorities are transferred into a single organisational structure, with a single management team and a single budget, providing services to the participant authorities through a contractual or quasi-contractual (service level agreement) arrangement.
- 9 There are also a number of other broad options in between these two ‘poles’, which involve the pooling or sharing of expertise and resources between local authorities. The key structural differentiators of these different arrangements will include the extent of:
  - aggregation and/or integration of functions/outputs and outcomes
  - functional integration – either geographically or virtually
  - governance and accountability arrangements
  - organisational and management structure
  - pooling of staff and other resources.
- 10 The attraction of treating all of these forms of collaborative working as ‘shared services’ is simplicity, and the holism of such a definition. The problem with such an all-encompassing definition is that it begs the question of what shared services are not, and makes it harder to focus on some of the specific challenges of making shared services – as opposed to other forms of collaborative working – work in practice, and how to overcome them.
- 11 The following discussion is therefore predicated upon a definition of shared services as a collaborative approach to service delivery in which a number of local authority functions or services are concentrated into a discrete, semi-autonomous business which has a management structure, staff and other resources designed to add value to the participating authorities and their stakeholders, be this in terms of cost reduction or efficiency gains, and/or improved front line service delivery. It will also involve either geographic or





virtual co-location, through maximising the use of ICT investment. Such arrangements may or may not also involve the participation of a private sector partner or third sector, to provide capacity, infrastructure, delivery expertise or ultimately to run the shared service on an outsourcing basis.

- 12 In setting out this definition, it is important to emphasise that this is not to downplay the importance of other forms of collaborative working – individual authorities and groups of authorities will identify options for joint working to suit their circumstances and the challenges they face. Nonetheless, it is helpful to tie down a definition of shared services that enables exploration of the benefits, challenges and potential delivery models that are set out below.

## The benefits of shared services delivery

- 13 Given the well-documented 'in principle' benefits of shared services delivery in improved efficiencies through scale economies in delivery/commissioning of services, and of equal importance, the opportunity to integrate front and back office functions and transform local services in ways that make more sense to service users, the benefits may appear self-evident. Nonetheless, it is worth briefly reviewing the potential benefits in their widest sense.
- 14 First of all, there is a wider emerging policy agenda for local government, to which shared services provide an important practical response, which will need to be considered in the future. Secondly, considering the broadest spectrum of potential benefits makes it easier to envision the application of shared services delivery models beyond the 'usual suspects' such as corporate support services, revenues and benefits, and customer contact centres; something which the most innovative local authorities and their partners are already focusing on, for example through jointly commissioned health and social care arrangements, which require the engagement of a broad range of partners, for example from the third sector.
- 15 The most obvious potential benefits, which have been documented in previous work<sup>2</sup> in this area and were confirmed in discussions at roundtable meetings held during the project, include:
  - the potential for cost reduction and efficiency gains, flowing from reduced management overheads, commonly procured ICT and other support systems, standardised work processes, the avoidance of duplication of activities, and opportunities for estate/accommodation rationalisation;
  - the potential for improved user-centric services, particularly in two-tier areas, whether the users are the participant authorities in receipt of integrated corporate support services such as finance or HR, or 'end users' receiving front office services such as benefits provision and advice;

<sup>2</sup> *Crossing the Boundaries*, New Local Government Network 2002



- an improved capacity to make best use of scarce professional specialisms, for example in relation to some regulatory services (such as environmental health, trading standards, planning and building control), by providing them on a draw-down basis across a sub-regional or regional area; and
  - where shared services arrangements involve the commissioning of support from third parties in the private sector and elsewhere, for example in relation to major ICT systems, such arrangements can provide increased buyer power, lower costs and capacity to shape patterns of supply and market development at a regional and sub-regional level.
- 16 There are also other potential benefits associated with the development of shared services solutions, some of which were explored in the roundtable meetings. First of all, shared services delivery models can provide a platform for the development of trading with other local authorities or groups of authorities, because they provide a 'critical mass' of delivery capacity, which is often one of the barriers to individual authorities seeking to trade on their own. The Anglia Support Partnership, in which a semi-autonomous arms-length agency provides shared back office services for a group of Primary Care Trusts, provides a practical example of this kind of shared services/trading model.<sup>3</sup>
- 17 Secondly, shared services delivery models could provide a practical response to some of the wider policy issues that will become increasingly important to local government in the future. Perhaps most tangibly, Local Area Agreements (LAAs) provide much greater flexibility in the use of funding streams being channelled into local authority areas, and offer real opportunities for local authorities and their partners to think innovatively about reorganising the commissioning and delivery of services around the needs of their population. This will require the kind of shift in thinking from 'institutional responsibilities' to 'people and places' that is already being demonstrated by the best local authorities and their partners, and in developments such as Children's Trusts and joint health and social care commissioning arrangements, which have a strong focus on service integration around user needs. Such examples demonstrate that shared services delivery arrangements, particularly when applied to front line services, provide a practical opportunity to reshape and reorganise the commissioning and delivery of services around more precisely users' requirements, and in doing so support the achievement of outcomes associated with LAAs.
- 18 The potential quantifiable benefits of shared services for local government, as one of a number of possible responses to the Efficiency Review and the pressure to demonstrate value-for-money within Comprehensive Performance Assessment (CPA) are significant. Private sector experience suggests that savings can come from a number of areas through a progressive approach to simplification, standardisation, and sharing (see Figure 2), including:
- reduction of management to staff ratios – which in the private sector has yielded savings on 'baseline costs' (i.e. pre-transformation) of between 20% and 30%

<sup>3</sup> see [www.aps.nhs.uk](http://www.aps.nhs.uk)



- headcount reductions
- process re-engineering and standardisation – which in the private sector has yielded savings on ‘baseline costs’ of between 10% and 25%
- common ICT and shared platforms – which in the private sector has yielded savings on ‘baseline costs’ of up to 30% on software licensing alone
- integrated procurement
- accommodation rationalisation.

**Figure 2 A progressive migration from simplification to a shared services arrangement**



**What might this scenario look like in a specific local government service?**

Simplification	Minimisation and rationalisation of stock servicing requirements associated with preparation of stock to make it ‘shelf ready’
Standardisation	Adoption of common standards and platforms for stock procurement, including ICT, by a group of library authorities
Aggregation (Shared Service)	Common selection and purchasing of stock through a procurement consortium or similar arrangement
Integration (Shared Service)	Integration of stock procurement functions, including selection, servicing and processing of stock prior to delivery to individual libraries

Considering the business case when applied to the public sector, the potential savings are equally significant. Independent analysis of the savings opportunities in developing shared services arrangements across the public sector for HR and



Finance functions alone, suggests that the public sector could save up to £9bn per year if it equalled 'best in class' performance in the private sector. The same analysis suggests, taking account of investment requirements and migration costs, that if the public sector were to implement shared service solutions in HR and Finance functions, in a manner consistent with 'best in class' private sector arrangements, that this could yield £40bn in savings over a ten year period.<sup>4</sup>

- 19 Detailed analysis focused on just one local government service, undertaken by PwC for the Museums, Libraries and Archives Council to develop a new model of public libraries stock procurement, suggests that a collaborative approach to stock procurement by the 149 library authorities in England could achieve savings of 35% compared to existing arrangements, or around £13m per year against a current cost base of around £35m per year. This is in addition to the potential for additional purchase discounts of almost £10m in savings in current book expenditure<sup>5</sup>

## Identifying services for inclusion in shared services arrangements

- 20 Given the potential range of benefits set out above, there are few natural limits to the potential scope of services for inclusion in a shared services arrangement. To try to define this 'top down' and in abstraction runs against the grain of local determination of the types of improvements local authorities are seeking and in what services, and whether the shared services option represents the most effective model for the delivery of these services. The breadth of services for which innovative local authorities and their partners have developed shared services delivery models reinforces this point, for example:

- corporate support services, such as the joint internal audit service developed by a group of North Yorkshire Councils
- customer contact and transaction services, such as the partnership between Suffolk County, Mid-Suffolk District Council and BT<sup>6</sup>
- revenues and benefits, for example the Anglia Revenues Partnership established between a number of District Councils in East Anglia
- an innovative multi-agency arrangement between Stoke City Council and its partners to set up a single service organisation to provide housing, health, police, council and voluntary sector services to a housing estate with complex and overlapping needs.<sup>7</sup>

4 Based upon data suggesting that total public sector spend on HR and Finance functions is around 2.5% of total spend, compared to a 'best in class' private sector average of 0.75%. Research set out in *Shared Services in the Public Sector*, IT World Ltd, 2006.

5 *Better stock, better libraries: transforming library stock procurement*, PricewaterhouseCoopers, 2006

6 *New ways to Modernise*, New Local Government Network, 2005.

7 *Developing Shared Services in Local Government*, PricewaterhouseCoopers, 2005.





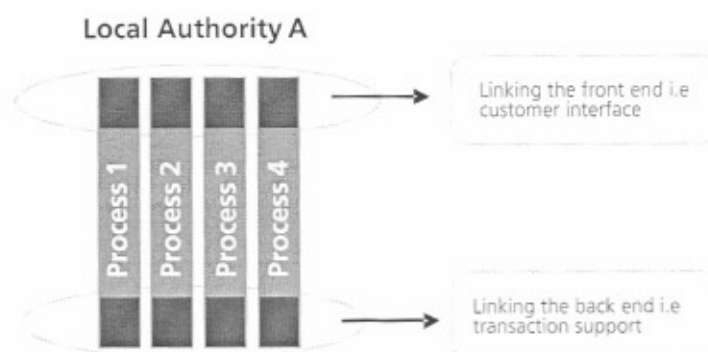
- 21 Nonetheless, discussions at the roundtable meetings held during the project suggest some broad principles, which indicate the kinds of service characteristics that lend themselves to shared services delivery models, and where there may be significant potential benefits of the sort identified above, either in terms of cost/efficiency or customer-centric improvements. These include:
- transactional support services where there are likely to be minimal variations in the nature of the service required, or where these can be captured and managed through contractual or quasi-contractual agreements, such as corporate support functions like ICT, payroll, aspects of HR, and finance
  - services subject to a high degree of national standardisation and where local discretion in delivery is therefore minimal, such as revenues and benefits
  - services with a regulatory component (and therefore subject to nationally, regionally or locally-determined delivery/assessment standards) such as trading standards, environmental health or building control
  - services with a strong 'locational' emphasis, where positive synergies can be generated by targeting key services on geographical areas with complex and overlapping needs, such as social care, health care, housing, and/or community safety focused on a 'problem' ward or housing estate.
- 22 The key point here is that much of the debate around shared services is often focused on realising cost reduction and scale economies through aggregating transactional services across groups of local authorities, with ICT transformation a frequent enabler of this sort of change. Discussions at a number of the roundtable meetings held as part of the project, indicated that thinking about the potential benefits and scope of shared services in a wider sense, albeit a challenging one, opens up a new set of possibilities for the future development of shared services that have received less attention until recently.

## Developing models for shared services delivery

- 23 One of the challenges identified at the roundtable meetings in relation to developing shared services delivery, is an absence of delivery models that provide a starting point for thinking about how shared service delivery can be organised, and the benefits and risks of different options. This is another area where 'top down' specification can only go so far, given the importance of locally-brokered aspirations for shared services arrangements between local authorities. Nonetheless, it may be helpful to set out in overview some 'templates' for types of shared services arrangements, alongside some indications of what these might look like for specific local government services. Three possible 'scenarios' are set out below.



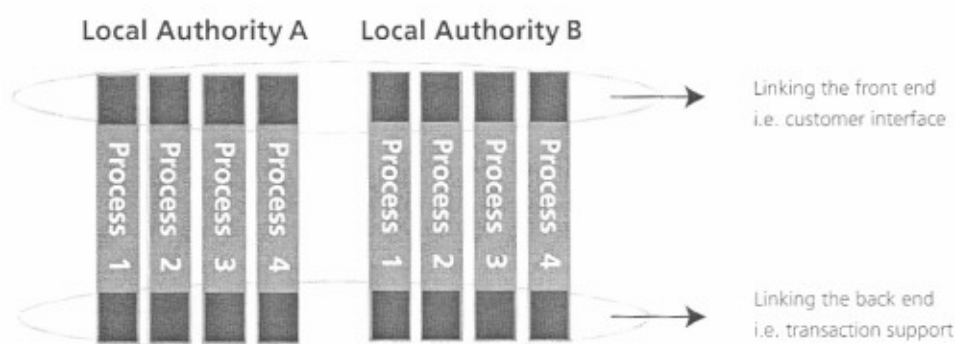
## SCENARIO 1: INTEGRATION OF FUNCTIONS WITHIN A SINGLE LOCAL AUTHORITY



### What might this scenario look like in specific local government services?

Corporate Services	<i>[For example...]</i> Establishment of a contact centre to handle inbound enquires and outbound advice
Regulatory Services	<i>[For example...]</i> Establishment of integrated enforcement function for matters not requiring the exercise of professional discretion (e.g. parking fines/fixed penalty notices)

## SCENARIO 2: INTEGRATION OF FRONT OR BACK OFFICE PROCESSES ACROSS LOCAL AUTHORITIES

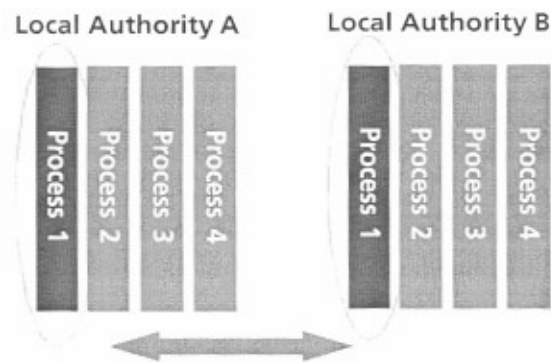


### What might this scenario look like in specific local government services?

Corporate Services	<i>[For example...]</i> Contact centre providing a single point of initial customer contact for two or more local authorities
Regulatory Services	<i>[For example...]</i> Establish a single planning service across two local authorities though still retain separate member planning committees
Library Services	<i>[For example...]</i> Integrated "front" and/or back office library services across two (or more) local authority areas

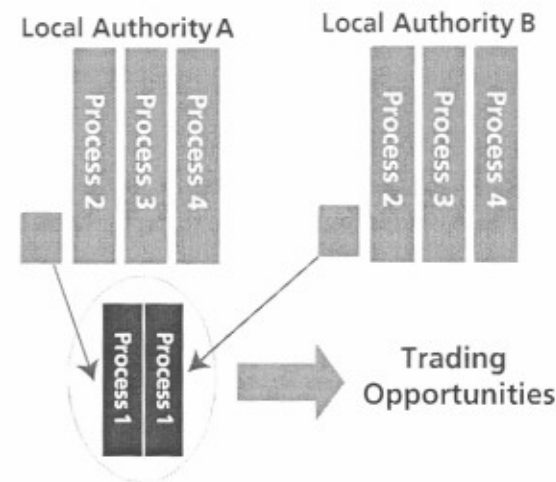


SCENARIO 3: INTEGRATION OF END-TO-END DELIVERY PROCESSES/FUNCTIONS ACROSS LOCAL AUTHORITIES



What might this scenario look like in specific local government services?	
Corporate Services	[For example...] Integrated provision of customer service centre(s) and transaction processing of revenues and benefits service across two (or more) local authorities, but separate accountability and governance
Regulatory Services	[For example...] Joint management and delivery of inspection, enforcement, and associated support functions across two (or more) local authorities, but separate accountability and governance
Library Services	[For example...] Integrated provision of end-to-end stock management and book procurement across two (or more) local authorities.

SCENARIO 4: INTEGRATION OF END-TO-END DELIVERY PROCESSES AND FUNCTIONS ACROSS LOCAL AUTHORITIES INTO ENTIRELY DISCRETE ORGANISATION





What might this scenario look like in specific local government services?	
Corporate Services	<i>[For example...]</i> Joint Venture Company established with a private sector partner to delivery end-to-end R&B service to 'parent' authorities and other local authorities.
Regulatory Services	<i>[For example...]</i> Establishment of arms-length building control services provider, delivering services to 'parent authorities' through contract or SLA, and trading with other authorities to provide these services
Library Services	<i>[For example...]</i> Establishment of arms-length libraries service entity, providing services to 'parent authorities and trading with other authorities to provide stock management, user transactions, literacy support programmes and other customer services.

## Competition & market issues

- 24 Despite the potential benefits of shared services in both service transformation and efficiency improvements, there are also some potential market risks that need consideration. These issues have been considered recently by both OGC and the Office of Fair Trading.<sup>8</sup>
- 25 The heart of the trade-off is that a substantial element (though not all) of the efficiency benefits derived from shared services arrangements involving a substantial element of outsourcing to suppliers, often result from contractual aggregation, for example to secure economies of scale in both service delivery and in procurement/commissioning. In addition, 'bundling up' elements of large ICT-driven transformation programmes into single contracts, for example, can be an effective way of transferring the risks associated with such contracts away from commissioners and towards suppliers. However, there are competition and other market risks associated with this kind of aggregation, including:
  - 'locking out' competent suppliers for a number of years, and creating risks of reduced competition and the emergence of oligopolies or monopolies
  - difficulties for small and medium-sized (private or third sector) enterprises in competing effectively for larger contracts, with their associated bidding costs and delivery scale
  - tying public sector commissioners into large contracts and the additional commercial risks associated with this.<sup>9</sup>

<sup>8</sup> *Increasing Competition and Improving Long Term Capacity Planning in the Government Market Place*, OGC Report to the Chancellor of the Exchequer, 2003; *Assessing the Impact of Public Sector Procurement on Competition*, Office of Fair Trading, 2004.

<sup>9</sup> *Increasing Competition and Improving Long-term capacity in the Government Market-Place*, OGC, 2003.





- 26 Less well-documented, but relevant to this issue, are the potential benefits to competition that can result from contract aggregation, in particular the reduced risks of collusion by suppliers given the reduced frequency of competitions for larger single contracts. Another potential benefit is that market entry barriers, such as the investment requirements by suppliers to develop new ICT/business transformation solutions may be lowered where an aggregated contract offers high and stable volumes of demand over time, and thus offsets such investment requirements.<sup>10</sup>
- 27 This is a well-rehearsed trade-off, to which there are no easy answers. However, there are examples of emerging practice across the public sector designed to manage this balance. These include:
- establishing national framework agreements such as *Procure21* in the NHS for construction contracts, which identify a larger number of prime contractors (Principal Supply Chain Partners), which can be drawn upon in different NHS regions, thus securing some benefits of contract aggregation whilst maintaining competition; and
  - specifications for large contracts with prime contractors, for example in relation to streetscene contracts, which incentivise the use of SMEs and encourage prime contractors to absorb the risks associated with 'downstream' supply chain management.

## Challenges and opportunities in expanding shared services arrangements in practice

- 28 Despite the compelling 'in principle' case for the expansion of shared services delivery models in local government, there are relatively few successful examples of such delivery models in practice. There are a number of reasons for this, some of which have been well-documented elsewhere, and some of which were identified by roundtable participants, including:
- political and governance considerations
  - impact of job relocation on the local economy
  - significant set-up costs
  - perceived performance and reputational risks
  - organisational resistance to change
  - capacity issues such as ICT and accommodation
  - the maturity of the partnership

<sup>10</sup> *The impact of public procurement on competition*, Office of Fair Trading, 2004.



- perceptions amongst commissioning local authorities that current private supply side capacity is not always geared up to deliver the kind of transformation that is required for the benefits of shared services to be realised.<sup>11</sup>
- 29 The fundamentally political nature of local authorities can act as a barrier to the establishment of shared services arrangements. The key issues tend to be concerns about perceived loss of democratic control, for example over delivery standards in relation to customer service for which members feel locally accountable, or more general concerns over the 'local' identity of a service being eroded through provision of that service by an 'arms length' organisation. High levels of trust, and careful implementation planning, is also required to ensure that the benefits and risks of developing a shared service arrangement are shared between partners in a transparent way. For example, where a shared services centre is set up in one authority to service a number of authorities, that the benefits to the local economy enjoyed by the former as a result of the centre's physical location, are shared by all partners.
  - 30 The governance arrangements associated with setting up a discrete shared services operation, particularly of the sort envisaged by scenario 3 above, are complex, including the need to select an appropriate legal structure such as a Joint Venture Company or Limited Liability Partnership. In addition, the perceived distance between the participant authorities and the shared services delivery operation puts effective performance management arrangements at a premium, which CPA results continue to suggest are a weakness in many local authorities.<sup>12</sup>
  - 31 Shared service arrangements particularly for back-office functions are accompanied by headcount reductions through cashable efficiency savings. Though these may be compensated for if a shared service centre commercialises its offer (see scenario 4 above) that may have a positive impact on employment over the longer term.
  - 32 There are undoubtedly significant set-up costs in establishing shared services arrangements, even in relation to relatively straightforward back-office functions such as HR and finance. PwC analysis undertaken elsewhere in central government suggests that a pan-public sector, Invest to Save approach would be needed over a ten year period to recover transition/implementation costs and deliver sustainable savings in key support functions such as HR and Finance.<sup>13</sup> This of course is far longer than the electoral cycle in central or local government, or the current Spending Review periods.
  - 33 There may also be perceived performance and reputation risks associated with establishing a shared services arrangement. For example, high-performing authorities may have anxieties about working with poorer performers. Whilst perceived loss of line management control by participant authorities where

11 See for example *New Ways to Modernise*, New Local Government Network, 2005; *Developing Shared Services in Local Government*, PricewaterhouseCoopers, 2005.

12 CPA – *The Harder Test*, Audit Commission, 2005.

13 *Shared Services in the Public Sector*, IT World Ltd, 2006.



services are migrated into shared delivery settings, particularly front office services, may create anxieties about how best to maintain quality in service delivery.

- 34 The implementation of shared services arrangements involves significant organisational change, with a host of implications for the staff and delivery systems involved and consequent challenges for those responsible for implementation. These challenges include the re-engineering of relationships between front and back office services, the need to migrate and potentially formally transfer staff to the shared services entity, and other concerns such as the loss of 'local' jobs if posts are to be transferred outside the local authority area.
- 35 Closely related to these challenges are the practical issues associated with implementing shared services arrangements, in particular ICT and accommodation issues. One of the keys to shared services is integration, either physically, virtually or both. At a practical level, this is likely to require the integration of the many disparate and potentially incompatible ICT systems used by the participant authorities, as well as ensuring the effective integration of front and back office information exchange. Establishing clear and shared ICT standards across not only local government but also the wider public sector will be a key in facilitating this. If physical co-location is to take place, this creates the additional challenge of identifying and agreeing an optimal location between partners, and managing the impact on employees and the local economy if large-scale relocation is to take place.
- 36 Experience to date certainly in local government in many failed shared services arrangements have suffered through different partners being at different stages on the road to accepting the need for change, as well as their ability and capacity to deliver change.
- 37 Finally, one of the issues identified at the roundtable meetings where shared services developments were discussed related to supply market capacity in this area. Private sector providers, particularly the well-established ICT/transformation providers that have been active in the SSP market for a number of years, are often key to the establishment of shared services arrangements, not least because of the importance of ICT in enabling shared services delivery. One of the concerns expressed by local authority commissioners during this research was that whilst the ICT elements of shared services arrangements are increasingly perceived to be low risk and dependent on 'tried and trusted' technologies, it is the transformational/human elements of change that are most difficult to get right. Commissioners questioned whether there was sufficient capacity and capability amongst current operators on the supply side to respond effectively to the transformational aspects of shared services delivery.
- 38 Whilst none of these challenges are insurmountable, in combination they represent a significant obstacle to the further development of shared services delivery in local government, and will require action by policymakers, change agents, local authorities and the supply community to tackle them.



## Opportunities to expand shared services delivery in the future

- 39 Discussions at the roundtable meetings and with other stakeholders during this project identified a number of options to overcome some of the challenges identified above, and to stimulate more rapid take-up of shared services delivery options in the future.

### AT A NATIONAL/REGIONAL LEVEL...

- 40 The development of a more compelling 'business case' for the establishment of shared services was identified at a number of roundtable discussions as an important potential driver of their expansion, and an important tool in overcoming the risk aversion that is holding back some parts of local government from taking such models forward. The evidence base should outline the types of shared services models being put in place, to illustrate their diversity and to provide models of practice, but also provide evidence of the benefits of such models, including both financial savings and non-financial benefits such as improved customer service. There are also opportunities to draw on the learning from the experience of establishing shared services arrangements for corporate 'back office' functions and ICT in this area elsewhere in the public sector.
- 41 Additional incentives may also be required to increase the take-up of shared services across local government, including shared examples of effective practice and benefits realisation, as well as capacity-building support to enable further shared services development. The transition costs for local authorities associated with migration to shared services arrangements are clearly a disincentive to take-up. Greater encouragement to use Prudential Borrowing as one way to finance these arrangements on an invest to save basis, perhaps in combination with reduced borrowing costs from the Public Works Loan Board specifically for shared services applications, might be two ways in which these costs might be offset. A further opportunity might be the establishment of a 'revolving fund' to provide loans to groups of local authorities, either to fund feasibility studies or to provide working capital to kick-start shared services arrangements. The loans could be made on an Invest to Save basis, with the efficiency savings generated by the shared services delivery used to repay loans and keep the fund buoyant over time.
- 42 There may also be regeneration incentives associated with the Lyons Review on relocation through the development of central-local government shared services outside London and the South East. This would see relocation of civil services functions such as finance, HR and ICT services used as an incentive to the establishment of shared services arrangements in local government by groups of local authorities and would go some way to address the concerns about initial headcount reductions.
- 43 Finite funding for innovative 'demonstration projects' might be another option for providing start-up funding, although this latter option runs against the grain





of a wider commitment by the Department for Communities and Local Government to reduced ring-fencing of local authority expenditure and the use of specific grants. The acceleration of the rollout of Local Area Agreements, given their emphasis on the achievement of outcomes through integrated delivery across public service organisations led by local authorities, will also provide an increased incentive to the development of innovative shared services delivery options in the future, focused around cross-public sector integration and transforming service users' experience at the 'front end' of service delivery. There may be opportunities to reinforce such incentives by linking elements of the reward grant associated with LAAs to the development of collaborative service delivery arrangements.

- 44 The Department for Communities and Local Government might also consider looking at the performance management instruments available to encourage local authorities to adopt shared services models. One possible option is to include consideration of collaborative service delivery as a more explicit line of enquiry in the value for money element of CPA or its successor arrangements. The development of more robust benchmark data on the costs and outcomes achieved through shared services delivery should also provide additional incentives; in particular by benchmarking not only across local government and the wider public sector, but possibly the private sector as well, for example in comparable back office transaction functions such as HR, ICT and Finance services.
- 45 Another option might be to look afresh at the efficiency targets being set for local government. Local government is comfortably on course to meet its efficiency targets of 2.5%. One way of encouraging innovation in local government, in concert with financial incentives and the demonstration of the benefits associated with shared services, might be to consider whether to ratchet up current target of 2.5% in the future.
- 46 Finally there is an important role for some capacity to be developed that encourages consideration of the expansion of shared services delivery across local authorities at a regional level, which might be led by some combination of the Regional Centres of Excellence, the 4Ps and IDeA. Their role could be to facilitate and encourage a strategic dialogue with local authorities to identify opportunities, act as 'honest broker' in the negotiation and development of those opportunities, and advise on the practical issues associated with implementation. They might also have a role in relation to disseminating the learning in this area from the NHS and from central government. The RCEs could also provide a central point of engagement for interested private sector suppliers in this arena, to mitigate the complaint on the supply side that dealing with a fragmented market makes it harder for them to plan appropriately for likely demand and invest in service and solution design.

#### **AT A LOCAL LEVEL...**

- 47 One of the biggest challenges in establishing shared services locally are the political and governance implications of pooling resources with other local authorities, and the perceived 'letting go' of direct control and responsibility for local services. The key to this is the early establishment of robust governance



arrangements for shared services arrangements. Whilst the detail of these will need to reflect particular local circumstances, it is key to address the following issues at the planning stages:

- recognition of the respective roles and concerns of members and officers
- the development of a structure – for example a JVC, LLP, or other vehicle – that is fit for purpose and effectively manages the risks involved
- consideration of the implication of EU procurement rules
- thinking about the scope and role of other partner(s) from the private, public or voluntary/community sectors.

### **ON THE SUPPLY SIDE...**

- 48 In order to maximise the potential of shared services, suppliers need to be more willing to 'lead' the market rather than follow it, in developing innovative shared services delivery offerings that match the current and future requirements of local authority commissioners for more integrated, innovative joint service offerings. Direct engagement with the RCEs to understand local government's future requirements and the implications for service design will be one way for suppliers to better understand what has historically been a fragmented market for these services. Secondly, supply-side capacity investment in the transformational change aspects of shared services development, over and above the technology platform(s) required, will be key in future to supporting the expansion of shared services in local government.

## **Conclusions and next steps**

- 49 Shared services are already delivering real improvements in the cost, quality and user-centricity of local service delivery, and are an area where still more could be achieved. In order to maximise the potential for further development, partners on the demand and supply sides will need to continue to work together to confront the challenges, and ensure that the benefits are clearly documented and well-disseminated, in order to further reinforce the case for change.

### **NATIONAL GOVERNMENT AND POLICYMAKERS NEED TO CONSIDER:**

- how the quantifiable and qualitative benefits associated with shared services delivery across a range of services and a range of local authority contexts can be most effectively disseminated to support the case for change
- how additional incentives can be developed to encourage the take-up of shared services models within local government and with other local public services
- the further development of opportunities at a regional level for the development of shared services solutions through collaborative



engagement with participant local authorities, and how this can best be leveraged, for example through the Regional Centres of Excellence

- how the existing work being undertaken to support local capacity-building can be further augmented and developed.

#### **LOCAL GOVERNMENT NEEDS TO CONSIDER:**

- how best to further articulate the local leadership for the shared services agenda and the transformational opportunities associated with it, which is urgently needed if collaborative opportunities are to be fully embraced
- a willingness to develop and pilot commissioning and contractual arrangements that manage the commercial and market risks associated with the aggregation and integration of shared services contracts, and share risks appropriately with partners across the supply chain
- mechanisms to establish the governance arrangements required to ensure that local accountability and responsibility are safeguarded during the establishment of shared services delivery arrangements.

#### **SUPPLIERS NEED TO CONSIDER:**

- the need to take a more proactive role in developing innovative service offerings that lead the market rather than follow it
- how best to work with public sector partners to share risks and rewards within transformational shared services partnerships
- investing in increased capabilities in relation to the change/transformational aspects of shared services delivery, to match the ambition of local commissioners and procurers in this area, now and in the future.



## Acknowledgements

The following organisations participated in the specific shared services roundtables and have made very helpful contributions to the development of this paper. This paper also draws on other service-specific discussions held during this study. PricewaterhouseCoopers and Communities and Local Government are very grateful to all organisations that participated in this study for their constructive and positive contributions.

4Ps	DC Leisure
Accord plc	Department of Education & Skills
Amey	ECT Group
CAPs Solutions	Institute for Local Government Studies
Deloittes	KPMG
New Local Government Network	Liberata
Office of Government Commerce	Office Government Commerce
Vertex	Cabinet Office
Accord plc	Pinnacle PSG
Office of the Third Sector	Regional Centre for Excellence East Midlands
Amey	Regional Centre for Excellence for East of England
Business in Sports & Leisure	Regional Centre for Excellence North West
Capita	Regional Centre for Excellence South East
CBI	Social Enterprise Coalition
CIP Group Limited	SOCITM
Community Action Network	

