

**Deloitte.**

*Stop, start, save*  
Shared service delivery  
in local government



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# Foreword

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## Across local government, managers face rising customer expectations and demand for services in the context of increasing budgetary constraints.



With growing focus on the choice agenda through initiatives such as self-directed support, local government professionals risk losing influence over how to reduce significant aspects of expenditure. Any service restructuring therefore, must aim to tackle as much 'addressable' spend as possible, including across frontline and support services.

Budgetary constraints and competing priorities make it difficult to know how to proceed. Should you streamline support services to focus resources on frontline delivery, or concentrate effort on improving the processes that deliver services to the citizen? Is the correct approach one of 'investing to save' or should councils take a risk averse view in this uncertain market? Should you trial more innovative models of delivery involving the private and third sectors, focus on your core businesses, or hunker down and do nothing?

The list of questions goes on, but there are few easy answers to the big questions. A smart move for one council might be unwise for another. Understanding which way to turn requires experience, insight and a steady hand.

One point is clear: local government needs to make a step change in the way services are delivered in order to provide greater value to citizens. A range of options are available, but breaking down the barriers between local organisations is a key part of almost every solution.

In this paper we examine the role that shared services have to play in supporting this step change. Despite a history of tactical collaboration between local authorities, shared services have rarely succeeded at scale. Deloitte believes that collaborative working represents a key approach to addressing the challenges that lie ahead. Sharing can come in several forms and varies depending on the needs of an authority, its region and partner organisations. Fortunately, there are a range of practical steps you could consider to find the best solutions for your organisation. This paper describes these options and the actions necessary to meet the challenges ahead.

**Paul Clarke**

Lead Partner, Local and Regional Government

028 9053 1121

[paclarke@deloitte.co.uk](mailto:paclarke@deloitte.co.uk)

# Overview

## Introduction

The concept of shared services has existed in the private sector since the early 1990s. The term entered local government vernacular following the advent of e-Government which increased focus on cost savings in government through the use of information communications technology (ICT).

But despite early successes, such as the Welland Partnership and Worcestershire Hub, local government shared service initiatives have not always delivered the savings that the private sector has been able to achieve. This is partly because cost reduction has not always been the main objective for shared services in government, but also because progress has often been slow.

Successes in early projects used central government funding to develop new approaches. This was also true of e-Government partnership funding that was used to build successful shared front office and customer relationship management (CRM) infrastructure. At that time, councils focused primarily on consolidating internal services to deliver support to the frontline in a more joined up way. There were fewer occasions where councils looked beyond their organisational boundaries for collaborative working.

## Today's market

A consequence of the risk averse nature of local government is that eight years on, implementing shared services in many domains remains an aspiration, rather than a reality. Local government has been unable to overcome a series of barriers to implement an elementary concept of economy through aggregation. Many of the optimum areas for consolidation have no contact with citizens, such as payroll, financial administration and other transaction-driven, back-office processes. To share these areas, would have little or no impact on frontline service delivery, nor would it undermine local accountability or political autonomy. Therefore it would seem logical to press ahead with this type of amalgamation.

Despite investment in a number of feasibility studies, at present only a limited number of genuine partnerships between local authorities exist that involve the sharing of systems, business processes, management structures and accommodation. This procrastination can have a corrosive impact. In some instances, the time and expense spent building consensus across partners has eroded the benefits of sharing services that were originally identified in the business case.

There are a number of practical reasons that may explain lack of progress including an absence of expertise, the cost of the initial investment and capacity. Importantly, however, there are also behavioural and political obstacles, linked to individuals' careers or the risks of reducing headcount that have also delayed progress. The urge to protect local authority autonomy is understandably strong. This can manifest itself in a desire by elected members to maintain self-determination over frontline services (outputs) and back office support functions (inputs). For some, the concept of sharing infrastructure or management functions with another local authority is an anathema. Furthermore, the idea of relocating staff outside a political boundary is difficult to agree, as is sharing control of support services or buying them from a neighbouring authority; even at a lower cost.

While local political structures are effective and accountable mechanisms to allocate resources in accordance with local needs, they can also act against resource optimisation. Given the threat to existing levels of public funding this position may become unsustainable, and there is now a strong case for making the adoption of shared services for certain back office functions mandatory.

In the view of our clients, legislation which led to the obligatory introduction of regional or multi-local authority shared services would remove the need to build political consensus and address cultural resistance to the concept. The debate would move on from a question of whether shared services are right, to a debate on how and when they could be taken forward.

Addressing the 'how' and the 'when' is rarely straightforward. The complexities need to be understood, and at a policy level the Department for Communities and Local Government would need to consider how a mandate would work. Would it drive sharing across districts within a county? Might it conclude that sharing should be focused on geographical or functional consolidation? Could it introduce new burdens on local authorities that do not comply, and provide resources to reduce the cost of change to those who move enthusiastically?

If these questions could be addressed satisfactorily, however, a mandate would provide the much needed focus for local authorities to invest their time and intellect in discussing the implementation challenges of actually sharing services. This paper discusses these challenges and provides some guidance on which routes might be right for individual authorities.

# What should you share?

## How do you identify the right services to share?

Changing everything at once is daunting and risks destabilising an organisation or compromising business control. Furthermore, not all services may be appropriate for sharing with partner authorities. So how do you choose the right areas in the right order?

## Knowing the basics

Deciding what to share and when to implement will be different in each situation. However, there are a number of common principles that support this process. We would recommend as a minimum that you:

- Ensure clarity of vision, for both the short and long term. Transformational change takes time to deliver results. Changing direction part way through may delay outcomes and increase costs.
- Be honest about the maturity of your organisation – you may not be ready to consider sharing with other organisations if you do not yet have a fundamental understanding of what shared services can offer.
- Know your baseline position in respect of service cost and performance.
- Understand your drivers for change. You should be able to articulate these in two or three bullet points. If not, your vision is not clear and you need to reconsider.
- Measure your ability to raise the financing required for strategic investment. If you have no access to funding, this may influence the route you need to take to deliver transformational change.

## Types of services to share

Within the private sector, shared services have focused on transactional process consolidation to create shared service centres (SSCs). Within local government, however, there is a real opportunity to consider a broader suite of services, for example:

- Transaction processes such as revenues and benefits administration, payroll and human resources administration, and finance transaction processing (e.g. accounts payable and receivable).
- Professional support services such as human resources and organisation development, legal services and procurement/category management.
- Frontline services from winter gritting and waste management to customer services.

In each area, there are opportunities to exploit synergies between authorities, although these may be subject to constraints such as physical location or technology systems. Figure 1 below provides a summary of the size and type of opportunity for the different services.

Figure 1. Opportunities for cost saving through sharing

Cost area impacted	Transaction processing	Professional support	Frontline services
Management	●	●	●
Process efficiency	●	◐	◐
Asset rationalisation	●	◐	●
Working standardisation	◐	◐	◐
Greater purchasing power	●	◐	●

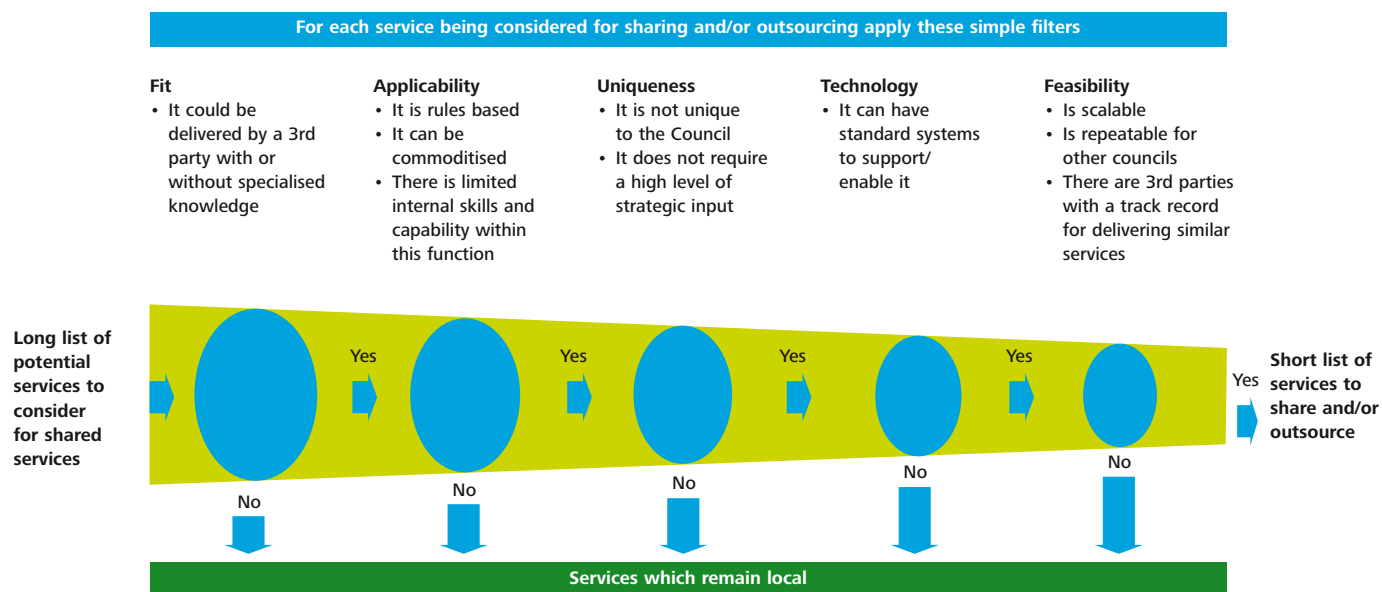
● Maximum   ◐ Significant   ◑ Medium

When considering what to share we would suggest that you and your potential partners assess your organisations from a process perspective not a functional (or team-based) one. A process-centric view will allow you to look across the council at the areas that meet agreed sharing rules and avoid the distractions of current organisational structures and roles. As the minimum, therefore, you must:

- Define your key design principles. These will be able to be applied consistently whether frontline or support processes are considered, and will inform options for further discussion.
- Agree decision-making criteria upfront. These should be based on your design principles and should be clearly defined before any process review is undertaken.

In prioritising shared service opportunities, you and your partners will need to apply filters based on defined criteria to ensure a robust approach to options appraisal. Figure 2 below illustrates one approach that could be used:

Figure 2. Deciding what to share



The process filtering approach raises the following questions:

- **Scale** – does the process consume significant resources (i.e., is the level of addressable spend sufficient to justify further investigation)?
- **Commonality** – does the process serve the same purpose, objectives and targets across organisations?
- **Baseline comparability** – are the current processes executed in the same way today, are common ICT systems used? Will the potential cost of change prohibit shared services, due to either affordability or return on investment requirements?
- **Risk** – is the process relatively low risk from a corporate perspective (such that the organisation would be happy to lose direct control of processes delivery)?

- **Locality** – does the physical location of staff to deliver the process matter? Must process delivery remain within the authority’s boundary?

- **Opportunity to reduce cost** – are the assumptions to reduce costs through sharing clear and can they be evidenced?

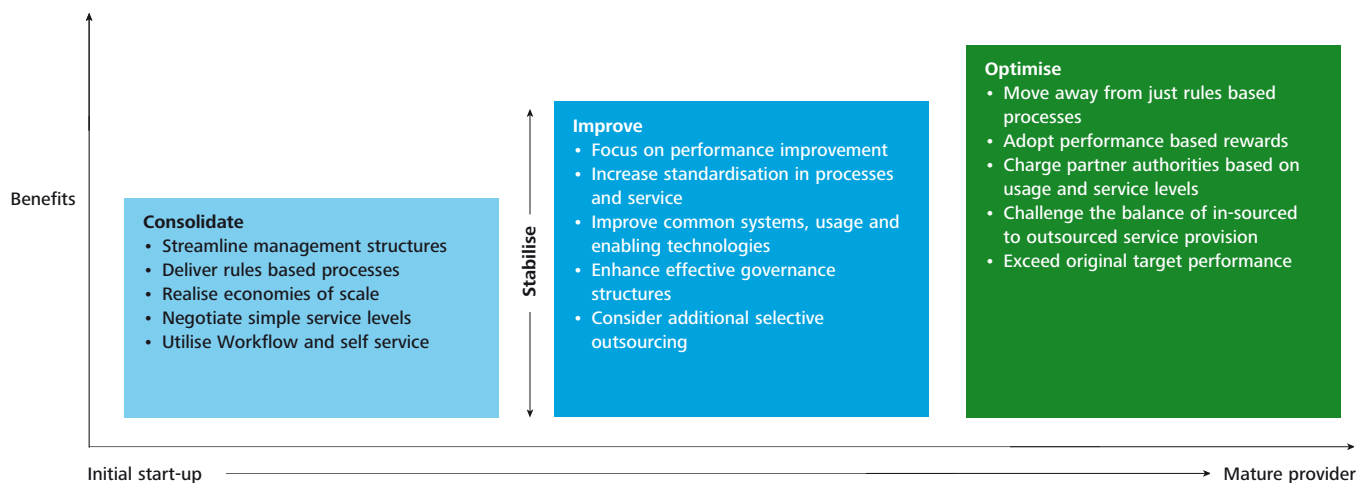
How far you are prepared to develop your initial phase of sharing will depend on your organisation’s:

- Appetite for risk.
- Organisational maturity.
- Strategic priorities.

### Implementation is just the beginning

One important point to understand is that moving to a sharing model is not a tactical quick fix; it is a journey. Over time, what and how you share will evolve. As the success and viability of the service provider (which may be a public-sector partnership organisation or a joint public-private venture) is proven, the appetite to move more processes into the shared services model may grow. To support this evolution it is critical that the governance structures within the shared service and the retained organisation include a robust change management process and strong process owners. In addition, articulation of the potential long term ambition and understanding the avenues for additional funding for future improvement needs to be identified as this could otherwise restrict the opportunity for future expansion.

Figure 3. Shared services evolution: from start-up to mature service provider



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# Who should you share with?

## Deciding what to share is the easy part

Deciding what to share is a relatively standard process that has been tried and tested across several industries. Robust methods are available to help you understand your current needs, define your vision for the future, apply intelligent benchmarking or modelling scenarios, determine the route map and estimate the resulting savings and benefits.

But deciding with whom to share is more challenging. The private sector tends either to consolidate across multiple geographies, or use business process outsourcing (BPO), often off-shore, to deliver a function's back-office transactional processes.

Early adopters of shared services in local government sought to standardise services within the council boundaries and move away from the devolved, silo based working of the 1980s and 1990s. They also consolidated processes and functions that could be delivered via an integrated service. While this approach can achieve savings, it does not necessarily embrace the vision promoted by HM Treasury through previous efficiency reviews. The modern concept of 'sharing' should involve councils joining-up services in a standardised, highly efficient way for themselves and other local public-sector organisations.

## But not everyone can be a service provider

There is a risk that some organisations will develop a 'build it and they will come' mentality where all authorities build shared service organisations with a hope of attracting additional customers, but do so outside a coordinated market framework. To determine what role your organisation should play in any collaboration there are several questions to address including:

- Do you want to be a provider or a commissioner of services?
- Do you want a government-to-government partnership approach or are you happy to look to the private sector for delivery?
- From a legal perspective, what kind of entity do you want to establish and what limitations will this place on your future strategy?

If you want to be a provider, carry out early 'soft' market testing to gain an understanding of market maturity and the attractiveness of your proposition to that market. In addition, be certain that you can deliver the services at an appropriate unit cost, typically 10% cheaper than current cost. Be honest when you answer the question – are you ready to compete with the private sector and speculate for business?

## Governance models and delivery vehicles

Deciding what governance and legal framework should be applied to deliver shared services must be determined at the start of any programme. There are a number of alternatives Councils can consider. The table on the next page summarises the legal options available together with their attributes.



Figure 4. Determining the right legal framework

Key attribute	Vehicle	Internal only (public)	Joint committee (public)	Teckal company (public)	JVCo (partnership)	Outsource (partnership)
Higher finance savings			✓	✓	✓	✓
Lower transformation costs					✓	✓
Low client side costs		✓	✓	✓		
Low procurement costs		✓	✓	✓		
Improvement realised quicker					✓	✓
More flexible		✓	✓	✓		
Long term tie-in			✓	✓	✓	✓
Council controls of pace		✓				
Clarity of direction		✓				✓
Low demand on internal mgmt					✓	✓
Can make a profit/trade					✓	

### What limits your ambition?

A number of factors can limit the ambition of local government to realise the full savings potential of moving to a shared service model. The biggest obstacles are often political:

*“Somerset County Council’s Chief Executive has accused councils in the region of institutional chauvinism for refusing to join the authority’s flagship Southwest one shared services venture.”*

**Local Government Chronicle Jan 2009**

One option to address these challenges could be to combine services, but allow locations to remain within each participating authority’s boundaries. While this could release some savings, it could also fail to address difficult decisions and sacrifice savings that could otherwise be released and redeployed to frontline citizen delivery.

As an alternative, local authorities could continue to work closely with other public-sector organisations within a particular geographical area, and exploit services provided by the private sector. This could be achieved by establishing a partnership structure that retained local jobs. For example, the London Borough of Hammersmith and Fulham is considering such an approach by joining up some services with its local Primary Care Trusts (PCTs). Elsewhere, the Buckinghamshire Pathfinder Shared Support Services Project aims to join up HR, Finance, ICT and Property Services across the County Council, three District Councils and the Fire & Rescue Service.

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# Becoming a commissioner?

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## Should you look to others to provide your services and become a commissioning authority?

Transforming support services to drive down cost is a priority for many organisations as it can free up resource to focus on frontline delivery. Advances in technology and the supply of high quality services from third party providers have made the outsourcing of IT and other key business processes an achievable reality. Outsourcing offers not only cost reduction opportunities, but also service improvement and increased flexibility, which may become more attractive to local authorities as financial pressures increase.

Local government is unique within the shared services market, as the majority of services provided are the same across England. This offers the chance to consider sharing not only support services, but also frontline services.

Social care has historically been at the forefront of contracting out service delivery and working in partnership with other government organisations to join up service delivery for the citizen. However, additional opportunities could come from more effective shared commissioning, in order to further shape the supply market, pool specialist expertise and improve care pathways. Other services that could benefit from this cross government approach includes library services, whereby libraries become more of a resource, providing a wider route to public service advice and a genuine public service one-stop-shop. Furthermore, genuine waste partnerships could see a transformation in the integration and streamlining of waste collection and disposal services, significantly reducing costs and improving customer service.

However, whether a shared service venture is public-only or involves the independent sector, the cultural change required in local government to be successful should not be underestimated at either the political or official level.

### The price of failure

When transformational programmes are successful, awards are won and Councils are revered as pathfinders for change. However, when all does not go well it can be a very public affair. Previous National Audit Office (NAO) analysis on shared services suggests that whether there is good reason or not, failures are often drawn out in the public domain. If the consequences of failure include reputational damage, as well as a loss of organisational autonomy, shared services tend to face significant political scrutiny. If you do not have Leader, member and CEO consensus that collaboration is the right solution, it is not going to work.

In challenging political situations that have conflicting priorities and a high rate of leadership turnover, it may make sense to address lower risk areas first. This may mean focusing on operational support services rather than addressing political controversies such as creating a shared waste collection and disposal service across a two-tier region.

However, where councils require a step change in service delivery to meet citizen expectations they should look to neighbouring authorities and other local organisations to consider more innovative solutions. The importance of this approach has been magnified by the growth of the personalisation agenda which may force councils to recast the management and delivery of services in partnership with health services, the independent and third sectors.

### Choosing the right provider

If you want to become a commissioner of services you should avoid making general assertions over who is best placed to deliver your services and how it should be done. Historically, some authorities have adopted one of two approaches:

- Outsource everything in one big deal.
- Choose a government-to-government solution to avoid losing savings through profit.

For some processes it is possible to achieve greater savings with lower set-up costs by using BPO techniques, but this will depend on your baseline position and internal capacity to deliver the necessary changes. We would recommend a multi-sourcing approach which promotes the use of a mix of BPO, public-public partnerships and internal delivery. Adopting this approach, with a strong 'intelligent client' and programme office functions will enable you to maximise value for money and manage risks effectively.

### How to source a third-party provider successfully

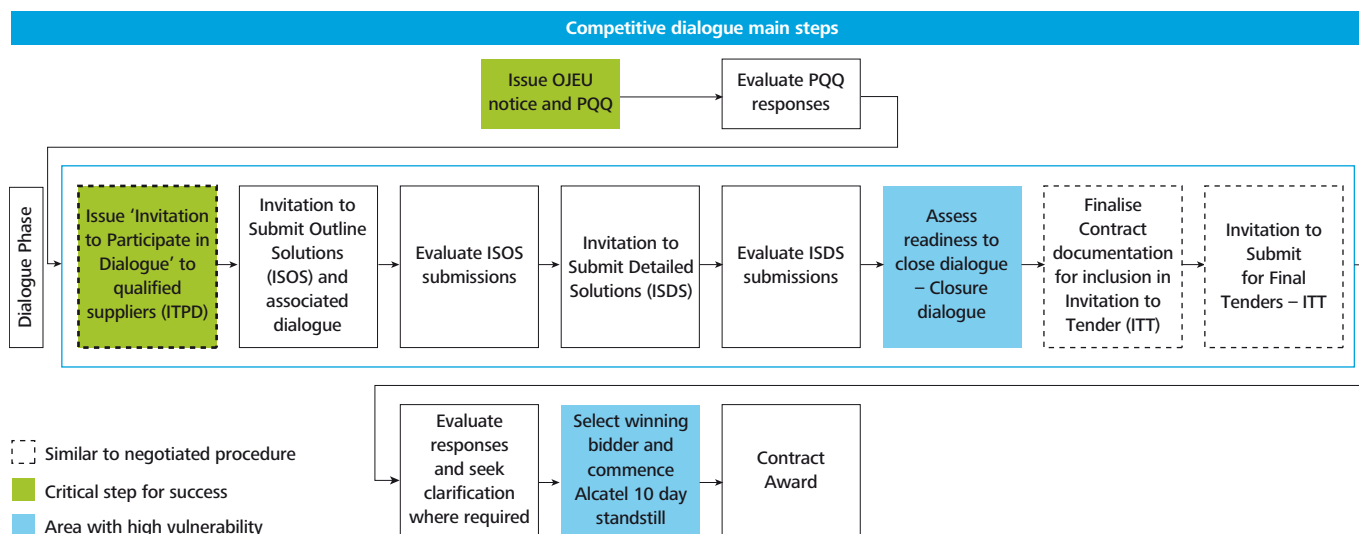
Whether you want to share support or frontline services, if the private sector is required to become a key partner in a shared joint venture, the Competitive Dialogue procurement process is often seen as the most attractive approach. However, it is complex and, at present, there are few industry examples of where this has been well executed. To use third-party providers effectively, you must have:

- An in-depth understanding of the provider market prior to issuing an (OJEU) Official Journal of the European Union notice. This ensures that the correct process is identified, the initial specification is robust and sufficiently capable suppliers respond to the notice. It is also important to have a realistic understanding of the commercial models adopted by the private sector in shared service ventures to ensure that your business case is sound.

- A project team which includes legal, finance, technical and specialist procurement subject matter experts to develop and evaluate supplier submissions.
- A full-time project manager with strong negotiation and strategic sourcing experience to facilitate the dialogue process as the service solution is developed.
- Effective communication with suppliers to alleviate fears that intellectual property rights may be compromised, and to ensure that suppliers provide their best solutions. This will allow the contracting authority to identify preferred concepts by the time of final tender.
- Access to expert external legal advice throughout the tender, especially when drafting the key tender documents (case law is constantly evolving).
- Risk levels that are fixed on the basis of a thorough understanding of a supplier's knowledge, experience and approach to public procurement tenders.
- Transparency in all process steps, from evaluations to supplier selections, to ensure they are applied fairly and clearly stated in the 'Invitation to Participate in Dialogue' document.

Figure 5 below sets out the key steps of the competitive dialogue process.

Figure 5. Competitive dialogue process



# Understand the consequence

## **Can it really be done without a mandate?**

The best examples of shared services across public-sector organisations tend to be where government has mandated change. The Government of Western Australia mandated shared services for the whole of government and it now has three shared service centres that provide finance, human resources and payroll services from three locations. The Danish Department of Finance is actively driving mandatory sharing, and the Scottish Government has mandated ICT sharing for the police. These actions all resulted in an increased pace of change and reduced the amount of time required to agree and implement shared service projects.

In England, the introduction of Comprehensive Area Assessments that require cross-organisational partnerships to improve outcomes, together with the personalisation agenda, provide a platform to build momentum for the sharing agenda. But are they enough? In the past, local government has used the term “shared services” to mean internal consolidation and, occasionally internal service design, rather than the genuine collaborations described above.

While real examples of sharing can be found, such as the emerging Buckinghamshire Pathfinder and Xentrall, providing shared finance, ICT, human resources and print services for both Stockton and Darlington, the pace of take-up nationally remains slow. However, in an environment where budgets are being squeezed and service expectations are rising, mandating change might be the only way to move the sharing agenda forward with the vigour it requires.

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## **Standardising means compromise – are you really ready?**

For shared services to operate cost effectively, the processes and the policies that drive them need to be standardised. Many organisations sign up to shared services and the principle of standardisation without understanding the consequences. Standardisation involves compromise. The more standardised a process can be, the easier it is to reduce management costs, deploy technology to automate process steps, and implement self-service to reduce process duplication, which in turn drives down unit cost. However, when bringing together multiple organisations the view is often that “standardisation is fine, if everyone uses my processes as they work fine for me”.

In reality, new standardised processes should be defined by exploiting off-the-shelf systems, with little or no customisation. The end-to-end process needs to have as little variation as possible to be effective. As a customer of shared services the quality of the outputs and service levels should be important not the systems and processes used to support these. This is counter cultural to most organisations.

Implementing shared services is not something that is ‘done once’ and then forgotten. First-generation shared services will have a standardised and stable service offering and a clear view of what needs to improve. Working with their customers, shared service providers will put plans in place to deliver an optimised service. As processes improve, and trust is established between the service provider and its customers, the scope of the service will expand for existing customers and new customers can be identified. After all, it is scale that drives down unit cost for all parties.

## **Are you ready to manage and monitor complex third-party relationships?**

We have seen public-sector organisations enter into commercial partnerships with the belief that they do not need to define all their requirements ahead of signing the contract as they will work together to ‘iron the details out’. This may be possible, but it carries a cost: contract variations will incur a charge. In addition, the in-house capabilities of a council to manage large complex third-party contracts effectively may be beyond existing capability.

Setting up an intelligent client function to manage the execution of the contract and the overall delivery of operational services properly needs a team that can:

- Manage the day-to-day relationship with the third-party supplier.
- Monitor service levels and overall financial and performance management.
- Co-ordinate resolution of delivery issues.
- Manage the contract change request process, evolving from within the customer organisation.

The governance structures that are set-up require the right balance of risk management, control and value creation. A key principle to remember is that this is a two-way agreement. The intelligent client function needs to be responsible for managing and monitoring council delivery of contractual obligations and not just policing the supplier. Only by taking this approach can these complex relationships deliver what they set out to do and evolve into trusted partnership arrangements.

### How do you choose the right time?

Should a local authority sort out its own inefficiencies first before selecting an outsource partner or should it simply commission a third party to take over the running of current operations and be responsible for the efficiency transformation? Business academics tend to favour the former option, but business leaders, with so many competing priorities, are more likely to delegate a problem to someone else.

Doing it 'right' or 'quick' depends on the risk profile of the authority and how many other initiatives are being undertaken. Using a third party to sort out its problems will give a council access to systems and capabilities it might not otherwise be able to afford. However, this approach still requires the council to be actively involved in, and retain responsibility for, the transition process and its implications. This means having a strong client-side team to manage the supplier and internal requests for additional requirements properly to avoid cost over-runs and achieve planned benefits.

In addition, you need to be honest about how effective internally led improvement initiatives have been in the past. If you have a poor track record, what will be different this time? Changing the way councils deliver services will have an impact on staff. Councils need to understand their change management and communications capabilities, and consider possible resistance to the transfer of staff to an external third party (whether a public-public, public-private or outsourcing venture).

In the private sector, there are examples of organisations outsourcing functions effectively. On balance, however, given the challenges associated with such action, we believe that local authorities should aim to fix or at least clearly understand the issues with a service prior to outsourcing it.



# Choosing the right route

The decisions councils must make to deliver services that are fit for the 21st century citizen are complex. In addition, conflicting advice and uncertainty brought about by the current economic crisis will renew the focus on managing change and the need to embrace collaborative working and shared services.

There are four questions that Deloitte believes need to be addressed to enable local authorities to start their sharing journey effectively:

- Have you clearly set out the strategic direction for the council that articulates partnership working and makes it clear what you expect to share in the short to medium term?
- Do you have alignment between political leaders and the CEO, and is this underpinned by a well-constructed business plan and funding/benefits profile to support your sharing agenda?
- Is the organisation's appetite to risk clearly understood? Does your track record on implementing change programmes suggest that becoming a provider would be the right move?
- Have you considered the changes in skills and behaviour required if you become a commissioner of services? Does your organisation understand the new mindsets and capabilities required, such as compromise, intelligent client and third-party negotiation expertise?

If you are having difficulty answering these questions or are unsure where to start, Deloitte would welcome a discussion with you.





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Designed and produced by The Creative Studio at Deloitte, London. 32128

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