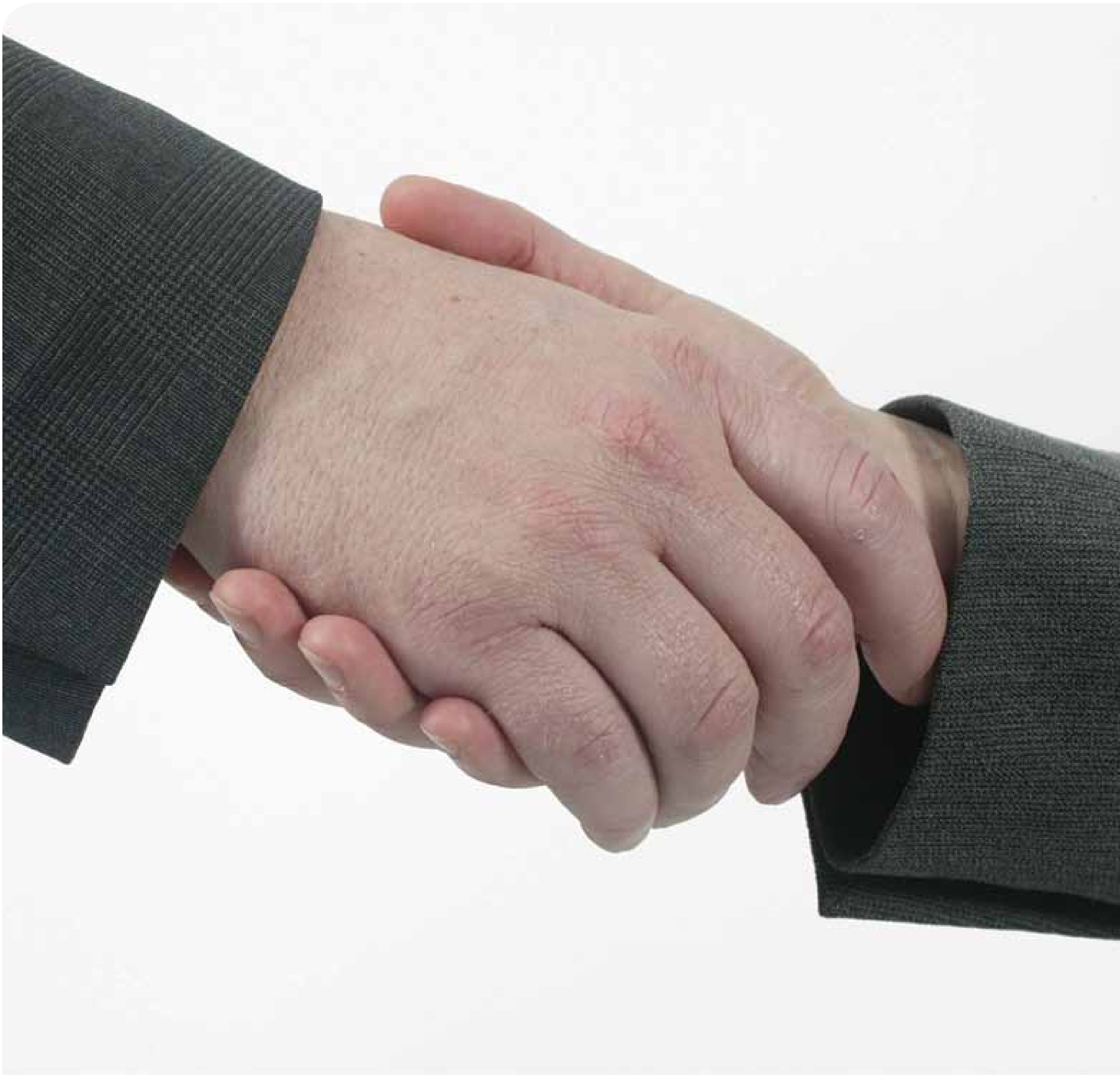
Improvement

Services shared: costs spared?

An analysis of the financial and non-financial benefits of local authority shared services



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Executive summary

Local government is facing a harsh financial climate. This is likely to be maintained under the next Spending Review, with councils potentially facing further cuts in their government grants, on top of the 28 per cent reduction received in the current spending review. The pressure to provide services at anything like the current standards is immense. More and more councils are sharing services, mainly back office ones, to improve efficiency and effectiveness and to save money.

The Local Government Association (LGA) understands the importance of shared services for councils. Over the last five years the conservative estimate is that more than 220 councils have been involved in shared services (http://www.local.gov.uk/better-for-less-po-map). Now is a good time to review the financial and non-financial benefits that have actually been delivered through the shared service approach. The LGA commissioned Drummond MacFarlane to carry out this review in order to help organisations plan future shared services and to track the benefits accruing from existing partnerships.

Drummond MacFarlane carried out research on five shared service arrangements:

- Cambridgeshire and Northamptonshire county councils – LGSS: established in 2010
- Devon and Somerset Fire and Rescue Authority (FRA): established in 2007
- Herefordshire Council, Herefordshire Primary Care Trust and Wye Valley NHS Trust – Hoople Ltd: established in 2011
- all the councils in Lincolnshire – Procurement Lincolnshire: established in 2008
- Vale of White Horse and South Oxfordshire district councils: started process in 2008.

Individual reports on each of these case studies are included as Appendices 2 to 6.

This report focuses on the key themes that emerged from the research, specifically the nature and scale of the benefits delivered in practice by shared service arrangements. The report also outlines an evaluation tool that has been developed to help identify financial and non-financial share service benefits and to monitor delivery progress (see Appendix 1).

The key findings are:

1. Clear financial benefits can be made from sharing services. Savings are achieved through consolidating organisation structures, integrating information technology, reducing accommodation, and improving procurement.
2. Early savings are made by reducing staff – removing duplication and management posts.
3. These initial benefits are typically delivered rapidly with strong top-down leadership.
4. As shared services mature and evolve they are able to benefit from wider business transformation – such as better use of IT and assets, improved processes and cultural change programmes.
5. The set up and integration costs for merging services are modest with less than a two year payback period for all the shared service arrangements .
6. Baseline financial and performance information is essential to make the case for change and track the benefits of shared service arrangements in terms of efficiencies and service improvements. This was a difficulty with all the five shared service arrangements researched and made it hard to make performance comparisons.
7. Despite this, it appears that the shared service arrangements have succeeded in providing the same or better levels of performance at less cost.
8. Good performance against organisations' key performance indicators are complemented by good staff indicators – such as high staff morale, low staff sickness and low turnover rates.
9. Rapid implementation of shared service arrangements helps build momentum for change.
10. Expanding established shared services to provide services for other public sector partners in a locality is a useful way to generate income and ensure efficiencies through greater economies of scale.

There are clear financial benefits to be delivered from sharing services. In the early stages the savings are mainly from staff reductions as duplication is removed and structures merged. For example, LGSS achieved savings of £3.79 million from its total budget of £83 million in its first full year of operation by consolidating management positions and making other economies of scale efficiencies. The Vale of White Horse and South Oxfordshire achieved staff savings of £3.9 million from its starting budget of £19.9 million in the first two years of sharing services.

Savings have also been achieved through integrating IT systems, rationalising buildings and accommodation and improving procurement practice. For example, LGSS delivered savings of £1.8 million by renegotiating the contract with its IT supplier and in 2012/13 expects to make savings of £3 million from the re-procurement of the Cambridgeshire IT network and £936,000 from reduced property costs. Procurement Lincolnshire has made direct savings from improved procurement of £9 million in its first three years of operation, from a total procurement budget of £194 million per year prior to its inception.

The set up and integration costs for each shared service arrangement were modest, with all succeeding in delivering a payback period of less than two years. The investment costs ranged from 18 per cent to 59 per cent of the savings in the first two years and were typically comprised of redundancy, implementation team, rebranding costs and IT expenditure.

Encouragingly, financial savings are not being achieved at the expense of service standards. Although it was difficult to identify clear key performance indicators (KPIs) that enabled performance to be compared with the pre-existing base case, there was no evidence of any material decline in customer or staff satisfaction levels in any of the case studies. However, the development of more robust and relevant KPIs is important for many of the shared service arrangements, not least because it will help them communicate their success to stakeholders, members and potential third party customers.

A further potential direct benefit for shared services is that they can facilitate growth by enabling organisations to win third party business. This was a prime motivator from the outset for both LGSS and Hoople. These shared services have a strong strategic intent to use their specialist skills and assets to provide services for a range of other organisations to generate income. Currently around 15 per cent (£12 million) of LGSS' costs of £83 million relate to external income and the delivery of third party services including to the authority pension funds.

Devon and Somerset Fire and Rescue Authority (FRA) has established a commercial arm and in its first year of trading (2010/11) it has delivered a £1 million turnover. This income has mainly been from specialised training of staff from other fire and rescue services and private sector organisations. The other shared service arrangements are now also looking at growth opportunities, although it is unlikely that third party income will become substantial budgetary components in the next few years.

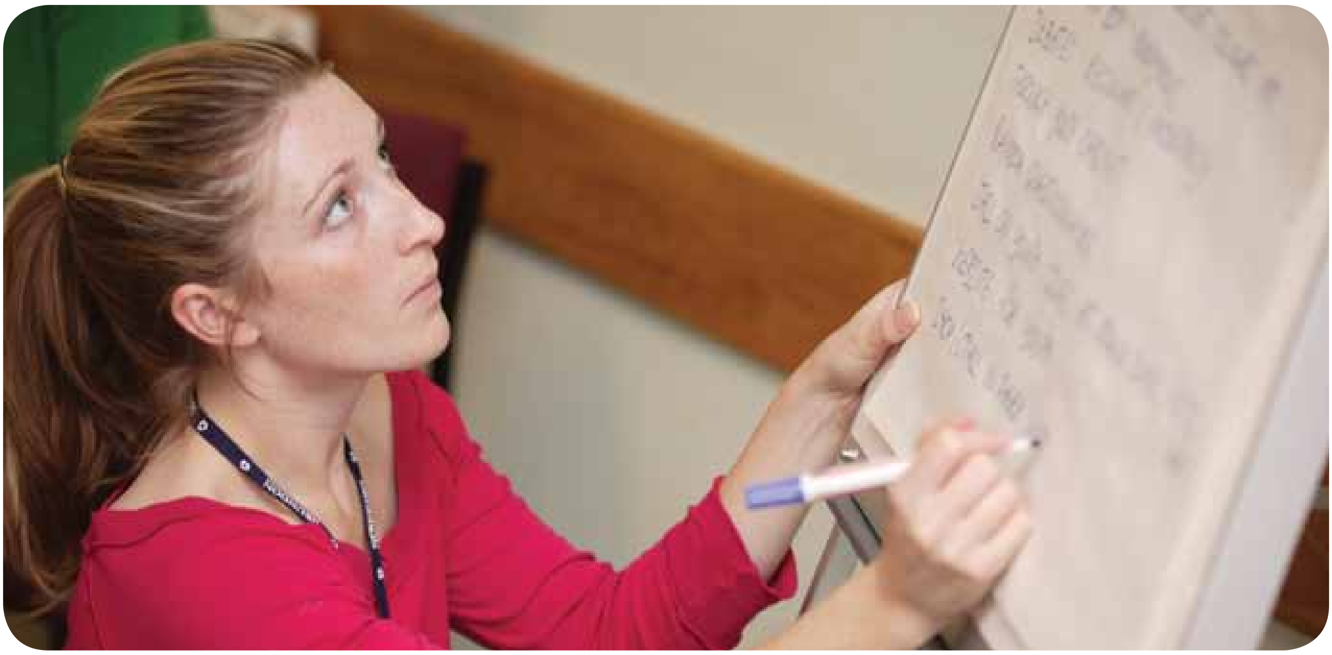
Despite the success that has been delivered, there are real challenges and constraints to sharing services. Organisations have different cultures, structures and processes which have to be integrated if the new organisations are to be effective. At the national level competing policy priorities, particularly between different types of public organisations in local government and the NHS, have not helped integration at a local level. For example, with Hoople, one of the partner organisations – the Primary Care Trust (PCT) – is being abolished. A great deal of effort is needed at the local level to overcome these obstacles.

Key lessons for the success of shared services are:

- strong leadership
- visible commitment from senior managers and councillors
- good project management
- effective consultation with the trade unions and staff representatives
- good communications with staff.

Baseline performance and financial information is essential if stakeholders and potential customers are to be able to see how well shared services are performing. Improvements are required in developing appropriate KPIs and in tracking forecast benefits to ensure they are being realised in practice – or if they are not that prompt remedial actions can be implemented. This is particularly important if shared services want to attract income from providing services to third parties. Quality of service is as important as the financial costs.

The use of shared services has historically tended to focus on back office services. Savings in these areas have been used to help support front line services. There are far fewer examples of established front line shared services, but this is changing. For example, in Herefordshire where the Wye Valley NHS Trust is the first provider of acute community services and adult social care in England. In addition LGSS' service includes front-line social care financial assessment. Creating more shared services in this type of area is likely to be the next stage of development for councils and their partners.



Introduction

Local government is under acute financial pressure. Councils are reviewing their services and performance to ensure they are achieving the best possible value for money. They are reducing staffing levels and seeking alternative delivery models to help protect front-line services. This financial pressure is likely to be maintained for several more years with expectations already rising of further funding reductions in the next Spending Review period.

Against this context, one of the areas councils have focussed on is sharing services. In theory, efficiencies can be made by sharing or even merging services, leading to reduced overhead costs, removal of duplication and achieving economies of scale. At the same time, it is anticipated that standards of service can be at least maintained and in some instances, enhanced. Any savings delivered by councils in primarily back-office functions can be used to protect front-line resources. This report reviews the extent to which these forecast benefits have been delivered in practice.

Sharing services has become increasingly popular over the last 5 years. The conservative estimate is that more than 220 councils have been involved in shared services (http://www.local.gov.uk/better-for-less-po-map), making it an appropriate time to assess the results of the investment in this approach.

For the purposes of this review, Drummond Macfarlane was asked by the LGA to address the following questions:

- What efficiencies have been achieved to date, and what was the primary source(s) of these savings?
- What were the set up costs and timescales of the shared service and where did these come from?
- What impact has the shared service had in terms of improving customer satisfaction and outcomes?
- How did the outcomes of the shared service vary from the agreed business case (or equivalent) agreed at the outset?
- What is the potential for future savings? How might these be delivered?

Drummond MacFarlane was also asked to develop an evaluation tool that would help councils track the financial and non-financial benefits resulting from a shared service arrangement. The tool can be used by councils to help establish the viability of a new arrangement or to help track the delivery of intended benefits of an established arrangement. More information on the tool is included as Appendix 1 and the tool can be accessed from: http://tinyurl.com/cb28xam

To address the questions, we researched five shared service arrangements. Our analysis was based on documentation provided by the organisations, supplemented by a wide range of interviews with senior executives.

A broad definition of shared services was used to select the case studies for the research. They covered different types of organisations, services and governance models. Some had been running for a number of years. Others were recent creations. They are at different stages in their development as shared services and provide useful lessons for other councils. The five were:

- **Cambridgeshire and Northamptonshire County Councils** – LGSS: This was established in 2010 and covers over a dozen services including back-office and professional services and some front-line services, such as social care financial assessments. LGSS is governed by a Joint Agreement, so that all staff remain employees of their respective county council. It has a strong intent to provide services to third parties under a 'by the public sector for the public sector' banner and has already begun providing services to two other councils.
- **Devon and Somerset Fire and Rescue Authority**: Established in 2007 with the Somerset Fire Service being extricated from Somerset County Council in order to combine with Devon Fire and Rescue Service. To accelerate the integration, the consolidation process included a commitment for no compulsory redundancies, with staff savings instead being delivered via natural wastage and a voluntary programme.
- **Herefordshire Council, Herefordshire Primary Care Trust and Wye Valley NHS Trust – Hoople Ltd**: Established in 2011, this is an example of a shared service arrangement that incorporates parts of the NHS and therefore requires the integration of national procedures with local plans. As with LGSS, it has a strong strategic intent to win third party business, but has been established from the outset as a limited company rather than being governed by a Joint Management Agreement.
- **Procurement Lincolnshire**: Established in 2008, Procurement Lincolnshire is a single function shared service for the local authorities in the county – a county council, six district councils and a borough council. It provides strategic procurement advice for its partners. The County Council hosts the shared service. The other councils have delegated their procurement functions to the county council.
- **Vale of White Horse and South Oxfordshire district councils**: The process started in 2007 with a shared chief executive. These two district councils now share officers down to the third tier and deliver most of their services jointly across both councils.

The report covers the financial and non-financial benefits evidence and the future potential for shared services. There is also an appendix that explains the evaluation tool and how it can be used. Whilst this summary report refers to examples and evidence from the five shared service arrangements we analysed, individual case study reports have also been produced. These are included as Appendices 2 to 6.

Drummond MacFarlane and the LGA would like to thank all the authorities involved in the research and in the development of the evaluation tool for their support. We hope our findings are a useful contribution to the debate about shared services taking place across local government and provide practical assistance to those embarking on new shared services initiatives or tracking the benefits of existing schemes.

Financial benefits

Direct consolidation financial benefits

The immediate financial benefits from sharing services tend to be delivered by consolidating activities, particularly management structures. Table 1 below summarises the savings delivered by each of the case study organisations in their first two years of operation. The early savings are primarily made from reductions in overall staffing levels. For example, in its first year of operation LGSS made ongoing savings of £3.79 million, largely through the consolidation of management positions and economies of scale through the integration of services and procurement efficiencies. This level of savings represented 4.6 per cent of LGSS's total costs in its first year of operation.

The Vale of White Horse and South Oxfordshire also saw substantial staff savings in the first two years of sharing services. Staff savings of £5.69 million were achieved from an overall staffing budget of £19.9 million. Like LGSS, this was mainly through consolidation of senior and middle management posts from the two organisations.

Table 1 Summary of financial benefits from case studies

	Start date	**Baseline cost (£m)**	**Total of year 1 and 2 savings**		**One-off set up costs**	**Cumulative savings *1 to March 2012**
			Staff	**Other**		
Devon and Somerset FRA	April 2007	£67.2 million	£734,000	£637,000	£966,000	£5.14 million
Hoople Ltd	April 2011	£11.5 million	£620,000	£0	£800,000	£620,000*2
LGSS	April 2010	£83.0 million	£1.06 million	£2.73 million	£3.32 million	£3.79 million *3
Procurement Lincolnshire	July 2008	£0.6 million staff costs £194 million procurement spend	£0	£5.14 million	£148,000	£10.4 million
Vale of White Horse/South Ox	2007	£19.9 million	£2.83 million	£2.12 million	£1.9 million	£10.13 million *4

*1 Cumulative savings since the start of the shared service.
*2 Year 1 savings for Hoople (2011/12).
*3 Year 1 savings for LGSS (2011/12).
*4 Savings are for period 2009/10 to 2010/11.

The other main areas of direct financial benefit from sharing services are IT, procurement and office accommodation. In relation to IT, LGSS negotiated with software suppliers on the basis that the suppliers should view it as one organisation rather than two councils, with commensurate implications for the cost of licences and development costs. Overall this approach resulted in an annual IT saving of approximately £1.78 million per annum. Further savings of £3 million per annum are forecast to come from information and communications technology through the re-procurement of the Cambridgeshire ICT network.

Improved procurement often provides a direct financial benefit from sharing services. Part of the reason for this is the stronger negotiating position arising from the increased scale of the operation and being able to employ specialist staff. There are also improvements in procurement processes that deliver efficiency savings, with for example one contract negotiation process across the shared service whereas previously there would have been multiple processes. Between 2008 and 2011 Procurement Lincolnshire saved over £9 million through improved procurement and nearly £1.5 million in improved procurement processes, such as moving to e-tendering and simplifying the tendering processes across the eight councils.

Office accommodation savings of £936,000 are forecast by LGSS in 2012/13 as falling staff numbers and improved space utilisation reduce the estate footprint, resulting in lower property occupation costs (rental, utilities, service charge and rates).

A combination of accommodation and IT savings of £604,000 were made when Devon and Somerset FRA consolidated two control rooms into one.

Income from providing third party services is a direct financial benefit from sharing services. This is an integral part of the business case for some shared services. For example LGSS generated around £12 million in fees from other public sector organisations in 2011/12.

Wider business transformation

As shared services mature and evolve they are able to benefit from wider business transformation. This tends to be from better use of IT, improved processes (such as the use of lean management techniques) and cultural change programmes or a combination of these. All the case study organisations are undertaking major transformation programmes to support efficiency and effectiveness improvements across their shared services. This is where the medium to long term savings are likely to be realised, with shared approaches benefiting from reduced costs in running these programmes once, rather than as several individual organisations/services.

A comprehensive process transformation programme has been taking place in the Vale of White Horse and South Oxfordshire to underpin the merger of the two councils. The 'Fit for the Future' programme has been designed to:

- focus on the delivery of the corporate plan
- focus on what customers want and need
- remove functions and tasks not essential to the customer or the organisation
- remove waste from systems and processes
- develop innovative approaches
- improve performance management and productivity
- create more motivated, purposeful and competitive teams.

It is estimated the transformation programme has saved £1,166,000 to March 2012 and is projected to continue to save £558,000 a year.

This transformation programme is typical of the approaches adopted by all the shared services. They are focussed on developing organisations that are sustainable and continue to improve, so the sharing of services is not seen as 'the end-point'. It is unlikely the level of staff savings achieved by the shared arrangement across the two district councils (£5.69 million delivered to March 2012) would have been achieved without this programme running in parallel with the shared arrangements.

However, one common challenge is that progress on integrating IT has often been slow. In view of the different systems, their size and complexity this is not surprising. For example, Hoople Ltd started from a position of three organisations from two different sectors each with separate IT systems. The emphasis for the first year has therefore been on improving IT support across the organisation and implementing an Agresso system that will provide one financial system. As a result, helpdesk response times have significantly improved in the first year of operation. All the shared service arrangements are clear on the financial benefits they can achieve through more effective use of integrated IT.

The third aspect of the wider business transformation programmes is cultural change. For example, 'MakeOne' the aptly named transformation programme at Hoople Ltd which is streamlining the management structure, improving systems and processes, and aligning staff terms and conditions. One of the ways of influencing cultural change is through the branding of the organisation. Although this can be as simple as having a logo for the new organisation, corporate colour, name badges, and one email address, it is a real challenge to build new identity, culture and belief systems. This requires reinforcement through training and development. For example, LGSS is carrying out development programmes for senior managers, Hoople Ltd is focussing on cost recovery and income generation with all staff and Procurement Lincolnshire has focussed on supporting staff in their professional training.

Learning points:
For shared services to get off the ground strong leadership, commitment from senior management and good project management are essential. All the shared services have had a high level of political and senior management support to be successful.

Consultation with the trade unions and staff representatives are important and take place, but within tight time constraints. A key lesson from the case studies is that when the decision is made to go ahead it is better for the organisations and staff involved to move quickly. This helps to build the momentum for changes required when creating a new organisation and can help to relieve individual anxiety.

Another key lesson is the need for baseline financial and service information. This is an essential part of the preparation for setting up a shared service and developing a robust business case. It also allows management and stakeholders to track whether the anticipated benefits are being achieved and to take remedial action as required. Unfortunately, this was not a straightforward exercise for some of the organisations, largely because of the difficulties of consolidating information from different bodies and often across multiple services.

Nevertheless this is an area that warrants further attention for future shared service arrangements.

Set up costs

The set up and integration costs for sharing services are modest. All of the shared services have payback periods of less than two years. The costs typically cover redundancy, implementation team, rebranding and IT. An example of this is the set up costs for Devon and Somerset FRA which were £966,500 between 2007/08 and 2011/12. This needs to be seen against total savings of £5,144,500 over the same period. Giving a net saving of £4,178,000 to the FRA, with the one-off costs equating to around 57 per cent of the first two years savings.

The Devon and Somerset FRA experience is in line with the set-up costs at Hoople Ltd (59 per cent). Set up costs as a percentage of the savings from the first two years of operation for the other shared services were lower at 35 per cent for LGSS, 18 per cent for Procurement Lincolnshire and 16 per cent for Vale of White Horse and South Oxfordshire. The lower percentage for Procurement Lincolnshire is primarily because the savings achieved relate to the procurement spend rather than the cost of providing the service.

For the Vale of White Horse and South Oxfordshire the lower percentage is influenced by the success of the Fit for the Future programme.

Table 2 shows the set up costs and payback in the first two years of operation for all the shared service arrangements.

Table 2 Set up costs and savings in first two years

	Devon and Somerset FRA	Hoople Ltd	LGSS	Procurement Lincolnshire	Vale of White Horse/ South Oxfordshire
Cumulative savings for Years 1 and 2	£1,371,000	£2,039,000	£9,470,000	£5,137,000	£4,950,000*1
Set up costs	£778,000	£1,200,000	£3,320,000	£930,000*2	£806,000
Net savings	£593,000	£839,000	£6,150,000	£4,989,000	£4,144,000
Set up costs as per cent of savings in first two years	57 per cent	59 per cent	35 per cent	18 per cent	16 per cent

*1 Savings are for period 2009/10 to 2010/11.
*2 Includes increase in staffing costs for the two years.

Non-financial benefits

Service performance and key performance indicators

Although in many of the case studies it was hard to access extensive performance data, where evidence was available the savings identified in the previous section have been achieved at the same time as maintaining or improving service performance. While all the shared service arrangements used key performance indicators, these tended to include a great deal of narrative and description and there was limited use of quantitative indicators measuring year on year performance. It was consequently difficult to track service performance over time, although the positive feedback from the interviews was consistent with the data provided.

KPI data for Devon and Somerset FRA showed that protection and prevention services have both improved year on year since the merger in 2007. The integration of the two organisations has allowed the FRA to allocate more resources to prevention which has resulted in significant performance improvements: for example, deaths from fires have reduced by 33 per cent and the overall number of fires was 37 per cent lower between 2007/08 and 2010/11.

Similarly, in the Vale of White Horse and South Oxfordshire the performance of services is being maintained or, in the case of customer service and waste, improved.

For example, 69 per cent of waste in South Oxfordshire was recycled or composted in 2010/11 compared to 64 per cent in 2009/10. This places them amongst the best councils in the Country. Due to the shared approach, performance in the Vale of White Horse improved significantly, from 36 per cent in 2009/10 to 52 per cent in 2010/11. This compares favourably with an average recycling rate for all district councils of 42 per cent in 2010/11. Similar improvements occurred in the speed of benefits claims processing, with the Vale of White Horse rising from a lower quartile performance of 33 days, in quarter 2 of 2009, to a position in quarter 3 of 2011, where it is taking 12 days, close to the district average of 11 days.

Baseline performance information is as essential as baseline financial information. Shared service arrangement stakeholders, members and potential customers have to be able to see how the arrangement has improved the level and standards of service delivery to customers. This is particularly important if shared services want to attract income from providing services to third parties. They have to be able to show the quality of service they are providing as well as the financial cost.

Shared services need to ensure that a rigorous focus is maintained on benefits realisation – from when the shared service arrangement is conceived, through the business case development and set up to the delivery of services. This is an area that needs to be improved in all the shared service arrangements that we studied to ensure that the real benefits being delivered can be effectively evidenced and communicated. The evaluation tool at http://tinyurl.com/cb28xam can help councils to do this.

Cultural and employee impact

Shared services are being established at a time of great uncertainty for many staff and are often accompanied by job losses as organisations consolidate activities and management structures. Budget pressures are affecting not only financial security, but also working environments and career progression. These can all have a negative impact on staff and their attitudes towards shared services.

All of the shared service arrangements that we analysed recognise this challenge and are investing in staff, in terms of team building and training and development. In addition, several are highlighting the benefits of successful third party trading on longer-term employment prospects. This approach is helping to build the resilience of the services and to improve the experience for customers. For example, Hoople has been careful to involve staff in the design of services, setting clear performance standards and improving two way communications. No staff survey has yet been undertaken to assess the overall impact, but Hoople is confident that these initiatives are building staff appreciation of and engagement in the shared service arrangement.

Similarly, investment in developing the culture of the organisation has had clear benefits in Lincolnshire. Since setting up Procurement Lincolnshire staff morale has increased, staff sickness has fallen from five days sick per full time employee (FTE) per year in 2008/09 to three days in 2010/11, compared to a Lincolnshire County Council target of nine days, and staff turnover rates are low at around 7 per cent. The latest staff engagement rate of 78 per cent is also positive, comparing well with the national benchmark of 66 per cent and the county council average of 68 per cent. These staff indicators are supported by good performance against Procurement Lincolnshire's other key performance indicators.

Very impressive staff satisfaction results have also been achieved at Devon and Somerset FRA. Staff survey results between 2008 and 2010 show a near doubling in satisfaction of the authority as an employer of choice from 33 per cent to 64 per cent. These satisfaction levels are supported by substantial improvements in performance (see page **x**).

Shared services can provide greater career development and employment opportunities for staff because of their increased size, the new style of operating and their increased resilience. As the services remain within the public sector they have been largely supported by the trade unions, in particular when unions are involved early in the development of the shared services as happened with Devon and Somerset FRA.

Part of the reason for the setting up of shared services is to protect front line services. All of the councils are receiving income or achieving savings from the shared services that can be used to reduce the impact on front line services. The improvements in performance at Devon and Somerset FRA (see page 9) are examples of where the resources have been re-invested in front line services.

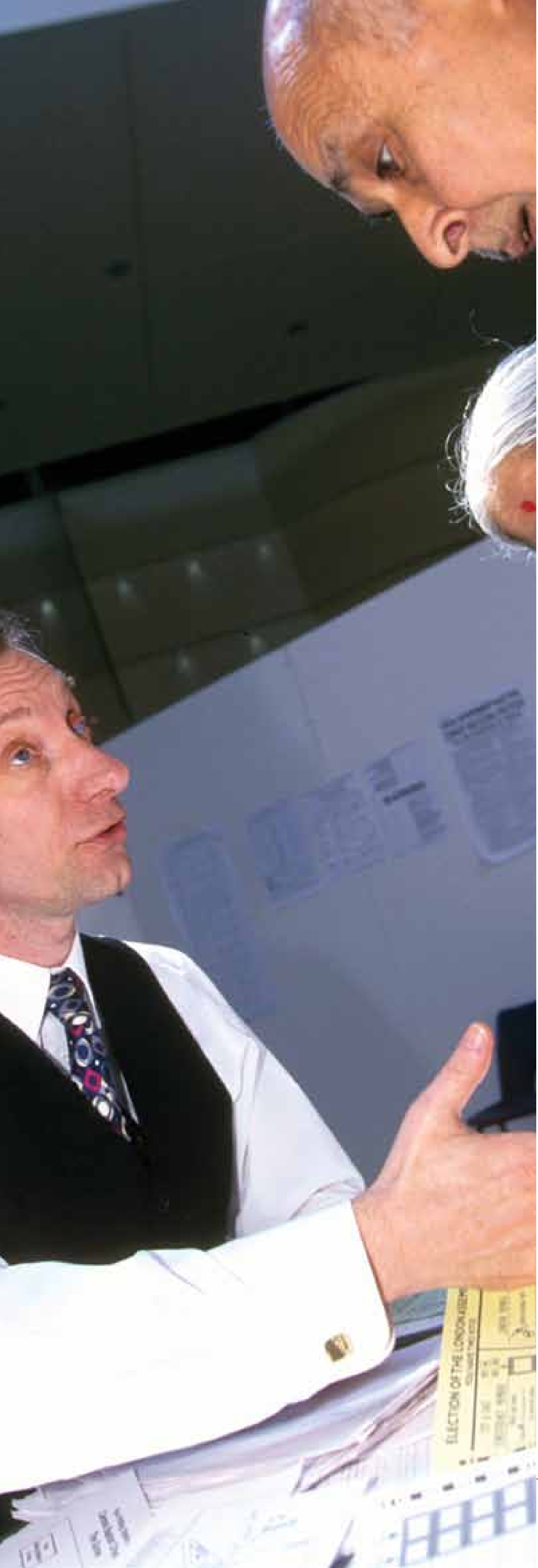
Challenges and constraints

There are however, real challenges and constraints to sharing services. Organisations have different cultures, structures and processes. For a shared service to operate effectively as one organisation these have to be changed in ways that support the new organisation. The transformation programmes we have referred to in the previous section focus on the changes required to build the new organisations.

The challenges are greater the more organisations are involved in the merger. There is a need to negotiate the objectives and governance of the new entity, how it will operate and how it will be funded. In the case of Procurement Lincolnshire final agreement on the shared service took five months longer than had originally been planned before the final formal approval was received from the eight participating councils.

Competing national policy priorities have made sharing services more challenging at a local level. For example, Hoople Ltd was established alongside a radically changing NHS, with significant implications for its future funding model. In particular the national arrangements to centralise services into larger clusters cut across the plans for local arrangements in Herefordshire.

Establishing Hoople Ltd required clarity of purpose, determination and lobbying at a national level due to the innovative cross sector nature of the proposed arrangement. This included whether or not staff would be allowed to stay within their original local government or NHS pension schemes (they were) and whether or not the partners had the authority to establish a Joint Venture Company. Much lobbying of Government was needed, advocating a locally tailored approach to public services, the importance of back office integration to support front line services and the need to retain public sector jobs in the county.



Leadership

Mergers and partnerships are typically delivered with strong top-down leadership. It is important the leaders of the partner organisations show their commitment to the merged services. An example of this is the approach implemented by Vale of White Horse and South Oxfordshire. A staged approach was adopted and the councils started by creating shared Finance Teams. This was followed by substantial savings at senior management level, showing the councils' commitment to the approach. This was followed by reducing the number of managers down to the fourth tier. At this stage the merger of the district councils was accelerated and joint teams are now being created across the councils in almost all service areas.

It is also through leadership that the momentum for change and the continued improvements necessary for the shared service to succeed are maintained. In Herefordshire the partner organisations recognised the need for their visions to be aligned in order for Hoople Ltd to have a clear business model to allow it to plan effectively in the medium to long term. Hoople Ltd has the advantage of being part of a wider programme of partnership and shared services among the public sector in Herefordshire. As a result there is a strong alignment of strategic visions and commitment to trying different business models.

Future potential

Councils have achieved a great deal through setting up and operating shared services in the last five years. By the end of 2011 conservative estimates showed that 160 shared service arrangements were in place involving 220 councils saving a total of £165 million, clear evidence that the majority of councils are already sharing services. The pressures of post Comprehensive Spending Review 2014 funding challenges means that in the future councils will look to expand their shared service arrangements to generate much-needed income and generate further economies of scale.

Shared services provide opportunities for continued efficiencies and growth. For example, future savings have been budgeted for by the Vale of White Horse and South Oxfordshire as a result of new shared contracts and procurements taking advantage of their combined buying power. These include:

- shared grounds maintenance contract saving an estimated £1,560,000 over the contract (2012-2020)
- shared geographical database system saving a net £487,400 over the contract (2012-2020)
- renegotiated Vale of White Horse Council's leisure contract saving £265,000 over remaining term (2010 - 2014).

Shared services can grow by providing services to third parties. Income from third parties is an integral part of the business plans for some shared services, such as LGSS and Hoople Ltd. Both these shared service arrangements aim to use their specialist skills and assets to provide services to a range of other organisations. Interestingly they have chosen different ways of doing this. LGSS is governed by a Joint Agreement. This was the fastest way of establishing a shared service as staff are employed by their existing county council rather than be employed by LGSS. In contrast, Hoople Ltd has been set up as a limited company and employs all of its own staff.

In terms of future innovations to continue to generate efficiencies and income Devon and Somerset FRA has set up a separate trading arm and is currently investing in new training facilities. For example, a £3 millon commercial training centre at Exeter Airport for major emergency training and a 15 million tower for high buildings and wind turbine rope training at the Fire Service Headquarters. These will provide significant opportunities to gain income from commercial customers as well as up-skilling the authority's own workforce for specific emergency operations.

To strengthen the Fire and Rescue Authority's approach to third party provision of services they have agreed a joint venture with Falck – a Scandinavian company providing fire, rescue and emergency medical services and training worldwide. This collaboration raises the profile of the authority nationally and internationally and has the potential to open a wider global market for its commercial operations.

Income generated by the authority from commercial activity is being used to expand the scope and extent of commercial operations. With the additional capacity and expertise provided by the Falck partnership the authority can expand its commercial business.

The extent to which commercial income will support core fire service activity, such as community safety or protection work, is an emerging strategy. The authority has a range of contractual and resourcing models to ensure that commercial activity does not impinge on its ability to respond to emergencies.

The business models reflect what is best for these three shared services given their specific circumstances. The models were chosen after a robust analysis of the strategic options open to the organisations. These models are likely to evolve over time as the situations change. On a smaller scale this is what has happened with Procurement Lincolnshire where the business model is kept under constant review and changes made to ensure the shared service continues to identify efficiencies.

Shared services can be used to build an income stream which can be distributed to front-line services or to limit price increases. Currently 15 per cent of LGSS' costs of £83 million relate to the delivery of third party services. This proportion is expected to grow significantly, but there are no formal targets as each opportunity is assessed on its own merits and subject to rigorous business case evaluation. This is important not just for the effective management of the business, but also as it enables councillors to confirm that growth opportunities are at "no detriment" to the residents of Cambridgeshire and Northamptonshire. After all, there are no ring-fencing provisions, so ultimately any losses resulting from a 'failed third party contract' would be borne by the council tax payer.

The approach adopted by LGSS reflects the importance of risk management when setting up shared services. The business models, such as joint arrangements, limited companies and Teckal companies, are all ways of balancing the risk of the ventures with the growth strategy and desired governance arrangements. This is an important aspect of any consideration by councillors in setting up shared services.

Shared services could be more attractive to some councils than outsourcing. One of the reasons for this is that the council can retain more control over the shared service than an outsourced service. If an outsourced service fails the council has to find a different way of providing the service – either by taking the service back in house – if this is possible – or finding a different provider. Either option is likely to be expensive. Through the level of control and influence a council has over a shared service it can be argued this option provides a level of resilience an outsourced service does not.

The use of shared services to date has tended to focus on back office services. As this report shows the savings identified have been considerable. Large savings can also be made in the front line service areas. There are far fewer examples of established front line shared services – although the wider shared service agenda in Herefordshire has an example of this with Wye Valley NHS Trust becoming the first provider of acute community services and adult social care in England. LGSS also provides a frontline benefits assessment service. Creating more shared services in this type of area is likely to be the next stage of development for councils and their partners.

Appendices

All report appendices can be found at http://tinyurl.com/cjrt93e

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