

Shared Services – lessons from Britain

A Report for the
Public Service Association, Australia

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Strategy Unit**

(Continuing the work of the Centre for Public Services)

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The **European Services Strategy Unit** is committed to social justice, through the provision of good quality public services by democratically accountable public bodies, implementing best practice management, employment, equal opportunity and sustainable development policies. The Unit continues the work of the Centre for Public Services which began in 1973.

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List of abbreviations

CBI	Confederation of British Industry
CSR	Corporate Social Responsibility
DBFO	Design, Build, Finance and Operate
DCLG	Department for Communities and Local Government
DfES	Department for Education and Skills
DH	Department of Health
DSO	Direct Service Organisation
DWP	Department for Work and Pensions
EIB	European Investment Bank
EU	European Union
GATS	General Agreement for Trade in Services
ICT	Information and Communications Technology
JVC	Joint Venture Company
LEA	Local Education Authority
LSP	Local Strategic Partnership
MBC	Metropolitan Borough Council
NAO	National Audit Office
NHS	National Health Service
NHSBSA	National Health Service Business Services Authority
OBC	Outline Business Case
OGC	Office of Government Commerce
OJEU	Official Journal of the European Union
PCT	Primary Care Trust
PFI	Private Finance Initiative
PPP	Public Private Partnership
PSC	Public Sector Comparator
PwC	PricewaterhouseCoopers
RCE	Regional Centre of Excellence
SPV	Special Purpose Vehicle
SSC	Shared Services Centre
SSP	Strategic Service-delivery Partnership
TUPE	Transfer of Undertakings (Protection of Employment) Regulations 1981
VFM	Value For Money

Executive summary

The British government believes the future is shared services:

“by 2016 the majority of the transactional elements of Corporate Services in the public sector will be delivered through a handful of professional shared service organisations. Some of these organisations will remain inside the public sector, but many will be outsourced” (Cabinet Office, 2006).

However, the current policies and debates about shared services raise a number of important issues:

- The concentration on corporate and transactional services which often leads to an understatement of existing collaboration on a wide range of services and functions.
- The focus on achieving efficiency savings but there is a weak evidence base – savings of 20% of the cost of services transferred to shared services provision but little evidence available on the overall cost of service provision.
- Almost universal absence of concern about the impact of shared services strategies on regional economies and employment.
- The threat of offshoring is not addressed despite this featuring in management consultants claims of the benefits of shared services.
- Different contexts, scale and level of accountability between central government departments which can centralise functions much more readily compared to local government which is spread across 450 separate democratically accountable local authorities.
- Shared services are an integral part of the transformation agenda and neoliberalism. There is a lack of debate about the implications of imposing a central government/civil service model of shared services on local government – in particular the implications for public services.
- Centralisation and globalisation of shared services policies are advocated at the same time as ‘localism’ is being promoted.
- Much of the shared services agenda is being addressed through new joint procurement of goods and services but joint public sector purchasing organisations have successfully operated for over 30 years and this is a minor part of the shared services agenda.
- Debate is confined to relatively short-term issues whilst avoiding the longer-term policy implications.
- Private sector interest and influence is understated despite their obvious enthusiasm for another substantial expansion of public sector markets.

Shared services also bring a new set of risks such as differences and disputes between authorities, competition replacing collaboration and so on.

Shared services in the public services reform agenda

The UK Government’s model for public service reform is claimed to be a ‘self-improving system’ with four key elements - top down performance management, the introduction of greater competition and contestability in the provision of public services, upward pressure from service users through increased choice and voice

and measures to strengthen the capability and capacity of civil servants and local government to deliver improved public services (Cabinet Office, 2006).

But there are some fundamental conflicts between the reform and shared services agenda.

Firstly, the emphasis on commissioning, competition and contestability in reality means the mainstreaming of procurement for virtually all services which would severely limit the scope for collaborative, lead authority and jointly managed models of shared service delivery.

Secondly, the other horizontal pressure to increase capability and capacity is a very narrow vision of public sector capability limited to supporting market mechanisms and commissioning, competition and contestability.

Thirdly, the model excludes employment. Although the model includes 'workforce development' this is a narrow management perspective. There is no concern for the quality of employment and trade unions or staff involvement in the design and planning of public services.

Fourthly, the upward pressure is supplied by 'choice and personalisation' which means further marketisation which has already commenced in health, social care, education, probation and other services. The government believes that corporate and transactional services can be separated and 'disengaged' from public service delivery thus allowing them to be relocated elsewhere and removed from direct democratic accountability because they are 'back office'.

A progressive shared services strategy should include the following elements:

- A vision of shared services based on collaboration, consolidation, lead authority and jointly managed services projects to avoid unnecessary competition. They will focus on innovation and best practice, sharing investment costs, minimising transaction costs and enhancing service improvement strategies.
- Shared services should be developed on the basis of the benefits of collective provision and reallocation of resources to frontline service improvement rather than for crude efficiency objectives;
- The horizontal and vertical integration of services at subregional/regional levels should be a prime objective by sharing best practice and joint service delivery projects. This must extend beyond shared procurement of goods.
- Democratic accountability and transparency and to minimise the establishment of new companies and JVCs which only add new layers of management and control and diffuse accountability. These companies readily adopt commercial and business practices and organisational structures which make them more susceptible to full privatisation.
- A social justice agenda to address redistribution and mainstream it in all service provision.
- Value staff and work with them and trade unions to jointly address the management of change to safeguard the quality of services and jobs, which is also in the interests of service users and the local economy. An internal and external user perspective is essential in deciding which services can be jointly provided.
- Retention of skills and intellectual knowledge to increase the capability of the public sector to develop collaborative, lead and jointly managed projects.

- Joint investment has many benefits because a single authority may have difficulty funding or attracting the required level of national funding. It could also encourage the development of a subregional infrastructure plan to provide a network of related and supporting but more local facilities.
- It is essential that most of the savings from economies of scale and the application of new technology are transferred to frontline services and local investment.

Barriers and pitfalls

There are barriers to the development of shared services projects such as:

- Local government political space/boundary constraints
- Compatibility of technology and systems
- Employment and industrial democracy
- Lack of evidence of costs and benefits
- Democratic accountability and transparency requirements
- Organisational structures and culture
- Multi-organisation funding
- VAT for Non-Departmental Public Bodies
- Headcount rules (central government departments only)
- EU procurement regulations

New typology

A new six-part shared services typology is proposed based on the type of relationship between public sector organisations.

Table 2: **Public sector shared services typology**

Public sector shared services typology	
1	Collaboration and shared procedures between two or more public bodies
2	Corporate consolidation within a public sector organisation at regional or national level
3	Lead authority on behalf of a group of public bodies
4	Jointly managed services between a group/consortium of public bodies at subregional or regional level.
5	Strategic partnership or joint venture with the private sector
6	Outsourcing and offshoring

Source: European Services Strategy Unit, 2007

The jointly managed services model could operate at different levels ranging from a subregional consortia to one multi-service regional centre for all public bodies. However, the concept of regional multi-service centres raises a number of political and practical issues such as the degree to which services and procedures can be standardised, whether economies of scale will be eroded by serving a large client base of large, medium and small public bodies, the additional risks of IT and system failure at regional level could have very serious knock-on effects, whether a new public body is established by regional or central government or is a regional centre jointly managed by existing public bodies and its location must be based on regional economic and regeneration strategies and not simply on a political fix.

Examples of shared services

A wide range of shared services projects are examined using the public sector shared services typology as a framework and divided into back-office services (IT, HR, payroll), professional and technical services and subregional scale services such as pensions administration and waste disposal.

Costs and benefits

The potential benefits of shared services often get buried in the transformation rhetoric and confused with the process of change and organisational structures.

- Learning and sharing best practice through collaboration and lead authority roles.
- Pooling and sharing of resources and investment in new systems which may not otherwise be affordable by an individual authority.
- Achieving economies of scale and efficiencies thus reducing the cost of services (fewer locations, systems and equipment) and redirecting savings to frontline services.
- Applying new technology to simplify and standardise processes.
- Improving the quality of services by redesigning and reorganising delivery methods.
- Sharing training and development costs.
- Increasing public sector capability and flexibility to absorb peaks and troughs.
-

However, there is very little evidence of the actual savings achieved by shared services because estimates or targets are converted into facts, private sector evidence applied in the public sector, transaction costs are underestimated, some projects are offshored which inflates savings and there are wide differences in the scope and size of projects.

Employment impact

The effect of shared services agenda on employment and the nature of jobs is very significant yet rarely mentioned apart for vague references to 'workforce development'.

Jobs: Possible relocation of employment to another location (out of town or other city) which could mean longer and more costly journeys to work; loss of job (offshoring, redundancy or because of unacceptable relocation of long journey to work) and loss of public service principles and ethos.

Terms and conditions: Changes to terms and conditions - shared services could be another means of breaking down the public sector national pay system into regional and local bargaining. Other issues are the potential loss or erosion of pension rights, redundancy/early retirement, salary protection for staff redeployed into lower graded posts, equal pay claims and negotiating temporary/transitional arrangements such as the payment of travel and child care expenses for a given period.

Industrial relations: Projects may result in the loss of industrial democracy arrangements and erosion of involvement in local government, particularly if shared services are relocated to edge of town processing centres. The potential fragmentation of trade union organisation and representation is also a threat.

Working conditions: Issues include potentially conflictual relations if there is a lack of democratic accountability in joint ventures and partnerships, imposition more extensive flexible working – the 24/7 model to maximise economies of scale and use of IT and accommodation resources, deskilling of the workforce and imposing changes to working practices and removal of workplaces from local accountability.

The transfer regulations (TUPE) and the Best Value Code of Practice on Workforce Matters provide a degree of protection for jobs, terms and conditions and trade union recognition. Employment options include remaining with current employer, secondment to a joint venture company of other public body or transfer to a new employer.

Regional economies and employment

The geography of provision is likely to change. Firstly, the establishment of national shared service centres will probably mean the relocation of jobs from London and the South East to the North, Wales and Scotland. However, this could increase the likelihood of the North's own public services being privatised too. Since public employment accounts for about 30% of total employment in the three northern regions the negative knock impact within these regions could cancel out any gains from inward investment from shared service centres. This 'growth' strategy could also result in client/commissioning authorities in the South demanding the end of national pay bargaining so that they can obtain higher levels of savings from shared services centres in the North.

Secondly, this approach is likely to have a negative impact on trade union organisation and their ability to maintain public sector provision in the North.

Offshoring

The threat of offshoring shared services is a serious threat. Management consultants in Britain are promoting large efficiency savings by offshoring. Most of the companies which operate national/regional shared service centres and SSP business centres already own and operate business centres in Asia. In addition, several large transnational companies operate shared service centres in Eastern Europe. Offshoring brings additional risks and costs.

Democratic accountability and transparency

The formation of new organisations and/or existing public bodies working collectively raises many challenges for democratic accountability, governance arrangements and maintaining transparency. It is also essential that such arrangements are open to constant monitoring and regular review and scrutiny.

Shared services principles

A framework of principles should be adopted by government, public bodies and trade unions for the design of shared services projects and incorporated into options appraisal, agreements and procurement.

Scope and quality of service

- Focus on collaboration and sharing best practice in frontline as well as back-office services
- Take a long-term perspective and avoid short-term focus on efficiency and savings.
- Improve the quality of service to internal and external users.
- Full use of economies of scale to maximise benefits for reinvestment in frontline services.
- Standardisation to maximise sharing potential and avoid duplication but accommodate local flexibility and added value services.
- Enhance public service principles and values.

Democratic accountability, governance and participation

- Democratic accountability and governance with all joint boards, committees and JVCs fully accountable to partner authorities.
- Trade union involvement in the early stages of project development and in project implementation.
- Impact assessment of service and employment consequences and economic, financial and equalities issues.

Shared services process

- Rigorous evaluation of options using comprehensive appraisal criteria.
- Retention of skills and intellectual knowledge in the public sector.
- Maximise public ownership of assets (buildings, equipment).
- Transparency of process and disclosure of information and evidence base.
- Full business case and business plan to underpin project
- Assess impact of commissioning and outsourcing on scope and sustainability of shared services.
- Rigorous and comprehensive procurement process if this is required

Employment

- Employment transfers and maintenance of public sector terms and conditions including pensions for transferred and new staff.
- Develop a multi-skilled and motivated workforce and a work environment to support workforce development and continuous improvement.

Appraisal criteria

A comprehensive framework is proposed under twelve headings for the appraisal and evaluation of shared services projects: design and scope; accountability and participation; financial assessment; quality of service; local/regional economy; quality of employment; sustainable development; social justice; management and capability; organisational model; added value and corporate impact on the authority.

Longer term implications

The shared services agenda raises questions and issues about the future quality and cost of public services, the quality of jobs and the function and form of public bodies.

- Will many corporate services and transactional services effectively cease to be public services because they will be bought 'off the shelf' from private suppliers like other goods and services?
- What happens when corporate and transactional services are removed from local authorities and other public bodies and are provided centrally?
- Will the focus of shared services move to professional services, such as design, technical and legal services?
- The conflicts and contradictions in government policies are likely to become more apparent, for example, increasing centralisation and relocation of services to national centres conflicts with policies which promote localism, empowerment and increased user/staff involvement in the design and planning of service delivery.
- Mergers and acquisitions between private contractors and sector led shared service centres are likely to change the structure of this sector and result in new cost cutting pressures.
- The longer term direction and impact of shared services heavily depends on the ability of trade unions to inject a more progressive policy perspective and ensure that employment policies are central in shared service decision-making.
- What will the fusion of shared services strategies and the implementation of the commissioning, contestability and competition regime have for the future role of the local state?
- The impact on core services such as teaching and medical services is difficult to predict but the shared services agenda is likely to impose new pressures which will drive further privatisation.

Recommendations

Based on the findings of this report we make the following recommendations to government, public sector organisations and trade unions:

- 1) Public sector organisations should use the shared services typology to identify the scope for a progressive approach based on collaboration, lead and joint public sector initiatives.
- 2) The shared services principles should underpin all projects and the development of business cases.
- 3) The options appraisal criteria should be used to evaluate all projects to ensure that the full range of costs and benefits are identified and assessed.
- 4) Employment policies and the impact of the relocation of jobs must be a core policy issue in all shared services projects.
- 5) Public sector organisations should focus on collaboration and sharing best practice across all frontline and back-office services, not just corporate and transactional services.
- 6) Democratic accountability and transparency should be mainstreamed in organisational structures and working methods from the beginning of all shared services projects and all parties required to sign up to this principle.
- 7) Comprehensive and rigorous independent research into the costs and benefits of public sector shared services models should be undertaken as a

matter of urgency. This should include central, regional and local government support costs for the shared services programme.

- 8) Staff and trade unions should be engaged at the planning and design stage of shared services projects including representation on working groups and all staff kept fully informed as the project develops.
- 9) Public sector organisations should clarify the legal issues at an early stage, particularly procurement requirements.
- 10) Public sector organisations and trade unions must take account of the longer-term impact of shared services projects and simultaneous implementation of other policy and projects.
- 11) Public sector organisations should fully harness joint in-house capability and intellectual knowledge before considering engaging management consultants.
- 12) Public organisations should establish mechanisms to identify the full range of costs and to ensure savings are redirected to frontline services.
- 13) Trade unions should develop shared services strategies and ensure they have a key role in shaping the overall agenda and for employment policies to be considered a core issues in all projects.
- 14) Trade unions could draw up a shared services charter or memorandum of understanding for each shared services project based on the principles and how they expect them to be implemented.

Part 1

Introduction

Commissioned research

This research report of shared services in Britain was commissioned by the Public Services Association, South Australia via the Australian Institute for Social Research. It forms part of a study of shared services in Australia undertaken by the AISR. The study:

- Reviews the different types of shared services projects underway in Britain.
- Assesses the main lessons to date of shared services models.
- Identifies the strengths and weaknesses of these models
- Assesses the employment implications of shared services models.
- Makes recommendations on best practice.

Definition of shared services

The concept of and debate about 'shared services' is usually confined to corporate or 'back office' services – administrative and transactional services. However, this is a somewhat narrow definition and excludes the potential for sharing best practice and experience on frontline and other professional services. This study uses this broader approach to the analysis of shared services.

The private sectors prime interest is in expanding the outsourcing market of so-called back office services and the consultancy market. It is not really interested in sharing best practice between authorities because that will usually require private contractors to share good practice and experience with competing firms.

The scope of corporate and transactional services

Corporate Services (back-office) include:

- * Human Resources
- * Information and Communications Technology (ICT) which includes e-Govt.
- * Finance
- * Legal
- * Internal Audit
- * Marketing and communications
- * Facilities or Estate Management
- * Travel Services
- * Security
- * Procurement (the function, not the spend)
- * Asset Management

Transactional Services include:

- * Payroll

- * Council Tax administration
- * National Non-Domestic Rates
- * Housing Benefits administration
- * Council Tax Benefits
- * Registration of Births, Deaths and Marriages
- * Planning and Environmental enquiries
- * Other repetitive information and handling and response services applied daily within local government

Government vision of shared services

The government's vision for shared services is that:

“by 2016 the majority of the transactional elements of Corporate Services in the public sector will be delivered through a handful of professional shared service organisations. Some of these organisations will remain inside the public sector, but many will be outsourced” (Cabinet Office, 2006).

These organisations are expected to deliver “effective common (and commoditised) business processes using a limited number of systems platforms” (ibid).

By 2016 it is intended to significantly reduce the cost of corporate services in the public sector at the same time as improving the quality of public service; to minimise the number of shared service solutions (potentially but not necessarily in single locations) based on the nine sector plans; to ensure an environment of continuous improvement is maintained in shared service operations through contestability of supply and the use of metrics to ensure transparency of performance; and that “shared service organisations will progressively deliver more customer facing and nontraditional shared services.”

New shared service centres are expected to supply customer bases larger than 20,000 and nearer to 50,000 (ibid). The government claims that NHS Trusts, local authorities, police authorities, agencies and non-departmental public bodies are too small to invest in a shared services on their own account and therefore need to be “buyers” of services, not “sellers” or providers of such services. A new market of external suppliers of shared services is said to be comparable to the build up of external suppliers of IT infrastructure services in the 1980s and 90s.

“This market place is characterised by the need to provide a compelling business argument for shared servicesand requires a rigorous commercial approach to the delivery (and receipt) of services” (ibid).

Background and context to shared services in Britain

Efficiency agenda

The ‘Gershon Review’ (*Releasing Resources for the Frontline*, July 2004) recommendations were incorporated into the government's spending plans to 2007/08 in the Spending Review 2004. The aim is to identify resources that can be reinvested in the frontline or used to hold down Council Tax.

The proposals include departmental annual efficiencies of £21.5 billion by 2007/08 including £6.5bn local government savings - 40% from schools, 10% police reforms, 35% from procurement in other services and 15% rationalisation of back office functions. The efficiency savings are divided between cashable (60%) from administrative and procurement cost savings and non-cashable (40%), by increasing the productive time of front-line staff.

The Review covered the public sector and identified scope for significant efficiencies in the following areas ('workstreams'):

- procurement
- back office (i.e. corporate support services - this includes finance, human resources, payroll, ICT, legal, procurement, property, security and communications functions.
- transactional services (like revenues and benefits)
- productive time (actions that increase productivity)
- policy, funding and regulation (streamlining for both the public and private sectors including Local Area Agreements)

Efficiency targets

The £6.45bn efficiency target in local government (including schools and the police) has to be achieved over three years to 2007/08. That translates into 7.5% off the 2004/05 baseline – 2.5% year-on-year. Savings resulting from 'cuts' (withdrawal of service, lowering of quality standards) will not count.

ODPM guidance explained that efficiency gains can be achieved by the following actions:

- 1) reducing inputs (money, people, assets, etc) for the same outputs
- 2) reducing prices (procurement, labour costs, etc) for the same outputs
- 3) getting greater outputs or improved quality (extra service, productivity, etc) for the same inputs, or
- 4) getting proportionately more outputs or improved quality in return for an increase in resources.

1 and 2 above produce cashable efficiency gains, while the gains from 3 and 4 are non-cashable.

A local authority's Comprehensive Performance Assessment (CPA) will have a new emphasis on the use of resources placing emphasis on cost management, procurement practices and efficiency gains achieved. Annual Efficiency Statements have two parts - an action plan (strategy, key actions and expected efficiency gains) for the year (called a 'forward look') and a report on efficiency gains achieved in the year ('backward look').

IT/customer services/CRM

The e-government agenda, the increasing focus on improving the quality of service for the user/customer and advances in information and communications technology have increased computing power and the ability to provide one-stop-shops/customer centres accessing comprehensive user information across a wide range of public services.

Procurement agenda 2000 onwards

The Office of Government Commerce (OGC) and National Procurement Strategy for Local Government have been instrumental in ensuring that local authorities and public bodies systematically review corporate procurement policies and establish new frameworks and processes. A Sustainable Procurement Strategy launched in 2007.

Local Area Agreements have encouraged local authorities, health and other public bodies to concentrate on finding ways of better integrating services through joint funding and collaboration.

Roots in SSPs since 2000

Since 2000 some 25 Strategic Service-delivery Partnerships (SSPs) commenced which have the establishment of a regional business centre at the core of the contract. Most of these contracts have been agreed with ambitious job creation targets to be achieved by the private contractor winning additional contracts from neighbouring authorities and public bodies. HBS Business Services was the market leader by 2003 but its plans for nine regional business centres were systematically reduced to nil. HBS contracts in Bedfordshire, Lincolnshire, Middlesbrough, Bath and Milton Keynes won only small additional contracts. SSPs promote a narrow and competitive model of shared services.

Regional Centres of Excellence – procurement with efficiency added

The government established nine regional centres of excellence in 2005 which were originally designed to focus on procurement but the efficiency agenda was added as they were being set up.

Private sector interest

The private sector has been promoting and using shared service centres for their own corporate and transactional services in order to increase profitability. Support for public sector shared services projects rests on self interest:

- Increasing management, legal and financial consultancy work in shared services options appraisal and during the procurement process.
- Increasing the overall level of outsourcing and the range of services within scope.
- Increasing the size and length of contracts.
- Increasing the security or lock-in of outsourcing in the longer term because a shared services model is less likely to return to inhouse provision compared to outsourcing individual or a small combination of services by an individual authority.

There is also the motive that shared services will help to reduce the cost of government and the 'cost of doing business'.

Key issues in shared services agenda in Britain

The key issues in the shared services debate are:

- The concentration on corporate and transactional services which often leads to an understatement of existing collaboration on a wide range of services and functions.
- The focus on achieving efficiency savings but there is a weak evidence base – savings of 20% of the cost of services transferred to shared services provision but little evidence available on the overall cost of service provision.
- Almost universal absence of concern about the impact of shared services strategies on regional economies and employment.
- The threat of offshoring is not addressed despite this featuring in management consultants claims of the benefits of shared services and the policies of some current shared services providers for example, NHS and Xansa.

- Different contexts, scale and level of accountability between central government departments which can centralise functions much more readily compared to local government which is spread across 450 separate democratically accountable local authorities.
- Shared services are an integral part of the transformation agenda and neoliberalism. There is a lack of debate about the implications of imposing a central government/civil service model of shared services on local government – in particular the implications for public services. The assumption is that corporate and transactional services can be centralised and relocated away from local government, health and social care provision with no negative impact on the quality of service nor on the cost savings forecasts. There is little no debate on these issues.
- Centralisation and globalisation of shared services policies are advocated at the same time as 'localism' is being promoted.
- Much of the shared services agenda is being addressed through new joint procurement of goods and services but joint public sector purchasing organisations have successfully operated for over 30 years and this is a minor part of the shared services agenda. The focus on procuring goods and services could be interpreted as a delaying or avoidance tactic by authorities who need to be seen to be making efficiency savings to meet the Gershon targets but are reluctant or lack the confidence to embark on more meaningful shared services projects.
- Debate is confined to relatively short-term issues whilst avoiding the longer-term policy implications. These include the future of shared services, the implications for services, democratic accountability and the role of the state. The impact with Public Private Partnerships and Local Education Partnerships under the Building Schools for the Future programme are important issues.
- Private sector interest and influence is understated despite their obvious enthusiasm for another substantial expansion of public sector markets.

Risk assessment

All projects have risks and shared services are no exception. In addition to the usual project management, financial and operational risks there are also risks arising from having more than one client. They include:

- Benefits are much smaller than first assessed which has a knock on impact on budgets.
- Differences emerge between public sector bodies regarding the objectives and purpose of the project.
- The combined effect of commissioning, choice and personalisation, more Private Finance Initiative/Public Private Partnerships, Building Schools for the Future/Local Education Partnerships and the transfer of services to arms length companies, trusts and voluntary organisations significantly reduces the scope of shared services projects.
- Differences in management and cultural fit are more substantial than envisaged and causes delays.
- The required level of business process re-engineering is under-estimated causing technical problems and additional costs.

- Agreeing a suitable governance model takes much longer because of different types and levels of accountability and transparency in cross sector projects (for example local government, health, police).
- Failure to involve staff and trade unions in the planning and design of the project leads to opposition and political decisions to restrict the scope of the project.
- Disputes arise as a result of competition between authorities on the location of facilities and staff.
- Agreement on IT/software and operating systems cannot be reached because of previous investment and commitments.
- Disagreement about the role of the private sector in the shared services project.
- Disagreement on the role, use and appointment of particular management consultants in developing the shared services project.
- Planned cuts in jobs and terms and conditions lead to industrial action and mounting opposition.
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Legal problems with framework contract

In late 2006 Cambridgeshire County Council sought to establish a shared services project with NHS Shared Business Services (SBS), a Department of Health/Xansa Joint Venture. SBS was set up under a framework agreement procured under European Union rules so that any public sector organisation could use the framework agreement thus avoiding a separate tendering process. SBS agreed to establish a Local Government division with Cambridgeshire as the first client, to be closely followed by Northamptonshire County Council with whom Cambridgeshire had been negotiating. The plan was for Cambridgeshire staff and assets to transfer to SBS, including its current contract with Fujitsu.

SBS would open a centre in Cambridge although it was anticipated it might move depending on growth. Cambridgeshire were aware that SBS currently send some data processing offshore although the percentage is strictly limited in the framework contract.

Cambridgeshire had earlier rejected two other options – a joint procurement with Northamptonshire for a new shared services partner or commissioning Fujitsu to implement a shared services version of Cambridgeshire's e-business suite – because it wanted to ensure it achieved cashable savings of at least £1m by 2008/09.

By January 2007, the SBS project had to be abandoned. New EU public procurement regulations had come into force since the SBS framework contract had been established which require notices to be more specific about the contracting authorities entitled to call-off under it.

“Following the a detailed investigation into the Invitation to Negotiate (ITN) which was sent to suppliers at the time of the original procurement by the Department of Health (DOH) and a subsequent Memorandum of Information (MOI) which was also sent to suppliers, concerns arose on whether the ITN followed through the stated desire in the original OJEU Notice to allow access to the framework for all public sector entities and whether the ITN and

subsequent MOI would constrain Cambridgeshire to buying only the services contained in the original framework and therefore restrict our ability to negotiate a contract which would offer best value for the authority.

Legal advice indicated that the ITN and associated documents do not support the extension of the agreement to public bodies outside the control of the DOH. Thus the risk of challenge would be high and CCC would be unlikely to defend itself successfully against such a challenge.” (Cambridgeshire County Council, 2007)

The new plan is for Cambridgeshire and Northamptonshire to form a collaborative partnership and negotiate additional support to Northamptonshire. Fujitsu will be commissioned to move the e-business suite to a hardware platform for joint use by the two councils and to upgrade the software. The two authorities will draw up an improvement plan including sharing staff and building a business case for procuring a joint venture (ibid).

Part 2

Transformation and public service reform

Introduction

The shared services agenda does not stand in isolation but originates from and is framed by the government's transformation strategy for public services. This section examines the policy framework within which shared services projects have to be developed. It also examines the threat that shared services may accelerate the marketisation of public services. On the other hand, there are opportunities to develop a progressive shared services agenda as part of an alternative modernisation strategy for public services.

Public services reform agenda

The UK Government's model for public service reform is claimed to be a 'self-improving system' with four key elements:

- Top down performance management.
- Introduction of greater competition and contestability in the provision of public services.
- Upward pressure from service users through increased choice and voice.
- Measures to strengthen the capability and capacity of civil servants and local government to deliver improved public services (Cabinet Office, 2006).

This model is described in Figure 1 but conflicts in four fundamental ways with the shared services agenda.

Firstly, the emphasis on commissioning, competition and contestability requires the mainstreaming of procurement for virtually all services, which would severely limit the scope for collaborative, lead authority and jointly managed models of shared service delivery. These models would only be possible in a very limited number of services where it could be argued that there were no firms or organisations with the ability to provide the particular service. However, in the transformation and procurement agenda there will be pressure to 'make markets' rather than develop a public sector shared services project, unless it is outsourced.

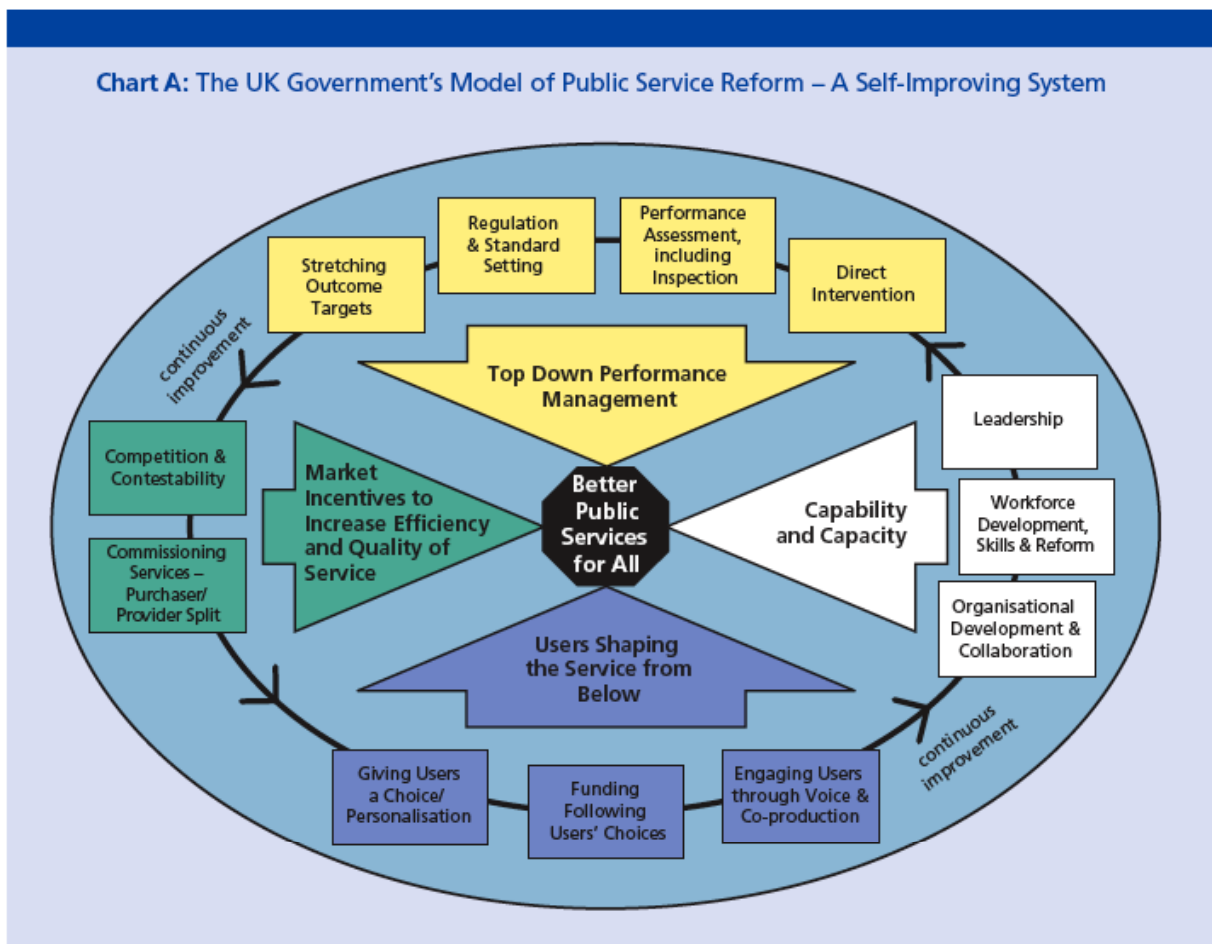
Secondly, the other horizontal pressure to increase capability and capacity is a very narrow vision of public sector capability limited to supporting market mechanisms and commissioning, competition and contestability.

Thirdly, the model excludes employment. Although the capability and capacity part of the model includes 'workforce development' this is a narrow management perspective. There is no concern for the quality of employment and trade unions or staff involvement in the design and planning of public services. This model demonstrates that statements about 'valuing staff' are vacuous. Blair's Policy Review report on public services calls for greater engagement with public service workers to promote flexibility, innovation and service improvement to 'reorientate services around the needs of citizens' (Prime Ministers Strategy Unit, 2007). Again, there is no concern for the quality employment.

Fourthly, the upward pressure is supplied by ‘choice and personalisation’ which means further marketisation which has already commenced in health, social care, education, probation and other services. The government believes that corporate and transactional services can be separated and ‘disengaged’ from public service delivery thus allowing them to be relocated elsewhere and removed from direct democratic accountability because they are ‘back office’. They believe that a very small ‘public service ethos’ is required for their delivery which ‘frees’ the public sector to focus on strategic policy and frontline delivery.

It is almost certain in the current neoliberal political climate that most national and regional shared services centres will be strategic partnerships with the private sector or completely outsourced. The choice and personalisation agenda is likely to restrict the development of innovative and integrated shared projects in other services.

Figure 1: The Government’s Model of Public Sector Reform



Source: Cabinet Office, 2006.

Shared services in the marketisation agenda

Some back office functions have a key role in frontline service delivery and the separation of front and back office functions is often simplified and exaggerated by misinformation and a lack of understanding by civil servants and private contractors of the relationship and linkages, for example, HR in social care and workforce development. Not all advice can be obtained from a HR web site. However, this attitude is symptomatic of the disregard for the quality of employment noted earlier.

Severing the relationship between corporate/transactional services and frontline core services will enable them to be delivered by other providers in other locations. This creates a new and expanding market. Once this process is complete further inroads will be made in other services, particularly professional and technical services, and running in parallel, the provision of core services.

The economics of shared services is almost certain to change (see discussion of longer term implications in Part 9) as a result of:

- Adoption of the commissioning model resulting in increased outsourcing to private contractors and voluntary organisations. This will reduce the volume of some corporate and transactional services and reduce the scope for shared services.
- The transfer of services and functions to arms length companies, trusts, joint venture companies and quangos will have the same effect because these organisations will generally have their own arrangements for corporate and transactional services.

Alternatively, the scope for shared services may increase as a result of:

- The personalisation and choice agenda could increase the scope of work for shared services projects to deliver direct payments, individual budgets and ultimately vouchers.
- Outsourced shared services projects will also extend the marketisation of public services by creating a new growth sector, either through joint ventures or direct outsourcing and offshoring.

Comprehensive Spending Review 2007

The Spending Review 2007 will be significant because it is the second Comprehensive Review which will set departmental spending plans and priorities for the 2008/09 to 2010/11 period. The government is undertaking a “fundamental review of the balance and pattern of public expenditure, taking stock of what investments and reforms have delivered to date and identifying what further steps are needed to meet the challenges and opportunities of the decade ahead” (HM Treasury, 2006).

The review will take account of the rapid increase in the old age dependency ratio, the intensification of cross-border economic competition from emerging markets such as China and India, an acceleration in the pace of innovation and technological change, continued global uncertainty and increasing pressures on natural resources and global climate change.

The review will include an examination of the key long-term trends and challenges that will shape the next decade; detailed studies of key areas where cross-cutting, innovative policy responses are required to meet these long-term challenges; an ambitious and far-reaching value for money programme to release the resources needed to address the challenges, involving both further development of the efficiency areas developed in the Gershon Review, and a set of zero-based reviews of departments’ baseline expenditure to assess its effectiveness in delivering the Government’s long-term objectives; and a more strategic approach to asset management and investment decisions (HM Treasury, 2006),

It is clear that the Comprehensive Spending Review will be far reaching coming at a time when the government’s marketisation policies are being embedded and the 2006 Budget included a commitment to a further 200 PFI/PPP projects with a capital value of £26bn by 2011. Given that the Gershon targets end in 2007/08, the promise

of “an ambitious and far-reaching value for money programme” should sound the warning bells across the public sector.

The CSR 2007 is expected to require that future financial settlements between central and local government will assume that local authorities are releasing substantial resources to frontline services by shared services projects.

Shared services and public expenditure

The shared services agenda is closely tied to:

The level and allocation of public expenditure - it could be argued that the shared services model is promoted because it potentially reduces the required level of public expenditure for some services, for example, local authorities should have the ability to fully fund and provide services and not have to rely on seeking out shared or joint delivery which may be a second best solution.

Local government reorganisation and merging of public sector bodies - this is particularly relevant in local government in Britain with proposals to create City Regions and unitary councils to replace County and District Councils. In this context, shared services projects could be a forerunner of merged authorities in the future.

The Local Government White Paper and the Lyons Review both reinforce the application of the transformation strategy in local government. The Varney Report concluded that “there must be an increased culture of shared services to release efficiencies;” It also recommended promoting innovation by “engaging more directly with the ideas of customers and front-line staff; providing small-scale demonstrations of the benefits from specific examples of shared services; and looking at alternative ways of delivering big projects.”

Comprehensive Performance Assessment will be used to ‘encourage’ the focus on the shared services agenda. Local Area Agreements are also being used to simplify funding streams and achieve better integration of services.

Transformation in Scotland

Shared services has a central role in Scotland’s Efficient government Plan and a driver to achieve the 2010 efficiency targets. The Scottish Executive published a shared services consultation paper in May 2006 which identified two main areas:

Firstly, support functions such as accounting, payroll, procurement, human resources, facilities, information and communications technology (ICT) which are delivered to customers within the organisation, rather than to the public.

Secondly, the common operational processes and systems that underpin front line services and which are duplicated across multiple organisations.

The consultation paper suggested the potential scale of savings:

“The From a Scottish perspective, it is estimated that public sector organisations spend between 5% and 15% of their operational budgets on support services. This is equivalent to an annual cash spend of between £1.2bn-£3.7bn, based on the 2006-07 Departmental Expenditure Limits of £24.6bn. If the average savings level of 20% from the three surveys highlighted above was applied to these figures, this would give a potential level of savings from shared support services of between £250m and £750m across the whole of the Scottish Public Sector, equivalent to between 1% and 3% of total operational costs. While these figures are for illustrative purposes only, they highlight the significant scope for efficiency savings to be realised within support service areas.” (Scottish Executive, 2006).

The Scottish 2015 vision of shared services would mean that public sector

organizations would receive common business support services from one or a small number of national or regional shared services centres. Many core processes in the public sector will be standardized and deployed on a national or regional basis. Local taxes and payments will be delivered by a single national organization. Shared services partnerships would also be operating in all community planning partnerships and a national public sector ICT infrastructure will underpin all these services.

The emphasis is very much on a national, cross sector, approach.

The Convention of Scottish Local Authorities (COSLA) response to the Scottish Parliament's '*Transforming Public Services*' proposals for shared services was to express commitment to "a programme which fully explores the possibility of services, both in the front and back line of public service provision, being shared between agencies" (COSLA, 2006). It wants to examine traditional shared service centres and "the development of shared systems which may allow for equal efficiency gains."

All projects will be submitted to "a rigorous project management process; an extensive knowledge management system; and will be located within programme management which allows the maximum learning to be gained from each project" (ibid).

Shared services in Wales

The Welsh Assembly is planning a "*new approach to local governance for public service delivery in the form of Local Service Boards and Local Service Agreements*" (Welsh Assembly, 2007b). It is also intends to develop a "*vibrant and effective, cross-sector model of scrutiny, blending participatory and representative democratic approaches.*"

The Assembly believes that Community Strategies and Local Strategic Partnerships (LSPs) could have been more successful if they had been given a clearer role. This led to the development of Local Service Boards (which are not new, separate organisations but they are a means of agreeing joint action by the relevant bodies) "*to develop the existing Local Strategic Partnerships to enable them to have greater impact in achieving better outcomes for citizens through more effective delivery of the Community Strategy.*"

Local Service Boards (LSBs), on a local authority area basis, will concentrate on services which need to work better together across sectors or organisational boundaries to integrate services and respond more effectively to social needs.

"The Local Service Board is the local leadership team, comprising elected, appointed, executive and non-executive members of the statutory authorities, the voluntary and private sectors, and other key stakeholders, working as equal partners and taking joint responsibility for connecting the whole network of public services in an area. The Board will agree, and ensure delivery of, a set of priority joint actions to achieve this. These actions will be expressed in a Local Service Agreement signed by the partners and the Welsh Assembly Government" (Welsh Assembly Government, 2007a). Existing Local Strategic Partnerships have been asked to bid to become a pilot Board in 2007/08.

However, there is little evidence that LSBs can be any more successful than LSPs and are likely to mirror the same democratic accountability deficits.

Four Regional Partnership Boards (Central Wales Plus, North, South East and South West) were established by the Welsh Local Government Association in 2006 to develop joint working and collaborative projects and improve efficiency. There are already examples of joint working, for example, between Ynys Mon County Council and Gwynedd Council on schools meals and library services, internal audit training,

coordination of capital projects in Pembrokeshire, and the West Glamorgan Joint childcare Legal Service (Welsh Local Government Association, 2006).

The Welsh Assembly Government is committed to implementing three-year revenue and capital allocations to improve financial planning in local government. The first three-year formula grant settlements will commence in 2008-09. The shared services strategy recognises that *“the workforce needs to be at the centre of our thinking.”*

Conflicting views – national efficiency verses local democratic control

There is a conflict between some a shared service perspective which perceives shared services being delivered from a ‘shed on the M1’ which is in stark conflict with local government which has a different local traditions and political priorities.

Job creation demands, local regeneration and economic development strategies seek to retain and increase employment so cannot easily be reconciled with a shared services agenda. Each public body wants to be the shared service provider and thus attract additional jobs by acting as a hub for neighbouring authorities. This could be partially resolved if authorities adopted the ‘lead authority’ model in which they shared responsibility by having the lead role for services shared out between them via a subregional framework agreement. It would also mean that outsourcing and offshoring could not be an option.

City Regions

The designation of major cities/urban areas as City Regions (ODPM, 2006) could provide an important stimulus to the shared services agenda. It would formally trigger local authorities and public bodies in a City region area, for example all five local authorities in Tyne and Wear, to examine the potential for further collaboration and joint provision. It would provide a rationale for shared services other than financial and efficiency (see Democratic City, forthcoming).

Future provision of ‘back office’ and transactional services

The government sponsored Public Private Partnerships Programme (4ps) has suggested a number of shared services ‘solutions’ will emerge in the future such as joint service centres which are “sub regional delivery points which deliver front and back office needs of a variety of public service bodies within the region” and the extension of e-government to drive process and culture change in the back office, developing customer focus in internal and external activities.

They also promote single functional systems, for example, one accounts system for all local government users and the reorganisation of the collection of some taxes and payment of some benefits to more local taxation systems or greater centralised delivery. Another ‘solution’ is “aggregated back-office shared service centres in each of the nine government regions, managed by central government or local government but operated by the commercial sector” (4ps, 2006).

Horizontal integration of service delivery

Shared service could hinder the integration of some services if they are separated and relocated whilst a similar approach could improve integration of others.

The ability to set local objectives, priorities and to design policies and strategies to meet local needs is constrained by the geographic-based vertical barriers and by horizontal organisational, cultural and system barriers. There are five aspects of horizontal integration:

Addressing different population and equality needs and demands.

Integration of services and functions – the integration of delivery within and between services such as education, housing, health and social care, and economic development is constrained by professional and cultural interests in addition to intra-organisational competition for resources within public bodies.

Integration across organisational boundaries – integration of service delivery usually requires coordination and joint working between public sector bodies which have different statutory functions and responsibilities, boundaries and funding regimes.

Integration between public, private and voluntary sectors and providers.

Integration of investment and funding - Vertical integration – neighbourhood, city, region, national, European and global level

The benefits of vertical and horizontal integration of service delivery include improved quality of service and effectiveness, better targeting and more efficient use of resources, a reduction in inequalities and social exclusion, better coordination of frontline services, increased user satisfaction and improved job satisfaction.

In order to obtain the benefits from vertical and horizontal integration of public service delivery it is necessary to:

- Minimise the separation of the policy making process from the service delivery process.
- Ensure continuity of democratic accountability and transparency of public organisations responsible for service provision.
- Consolidate community participation and consultation procedures.
- Merge and consolidate area based initiatives to maximise impact.
- Examine ways in which contractual obligations can be drawn up to maximise vertical and horizontal integration in the commissioning and procurement process to prevent new barriers emerging from increasing the diversity of service providers. Simply increasing the range of services in contracts to mirror previous provision will not be an effective solution.
- Address the ingrained professional and cultural barriers to service integration which will only partly be challenged by shared targets and pooled budgets in LAAs and in shared services projects.

But most of these requirements conflict with the government's transformation plan for public service reform and with the current rather narrow shared services agenda.

A progressive shared services strategy

A progressive shared services strategy should be an important part of an alternative modernisation strategy.

Public bodies should negotiate a collaborative and joint approach adopting a proactive innovative strategy based on public service principles and collaboration rather than predatory competition. A shared services strategy based on best practice in-house provision could be important in providing an alternative to commissioning and outsourcing to private sector operated shared services centres.

A progressive shared services strategy should include the following elements:

- A vision of shared services based on collaboration, consolidation, lead authority and jointly managed services projects to avoid unnecessary competition. They will focus on innovation and best practice, sharing

investment costs, minimising transaction costs and enhancing service improvement strategies.

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- Shared services should be developed on the basis of the benefits of collective provision and reallocation of resources to frontline service improvement rather than for crude efficiency objectives and shared services dogma.

A prime objective should be to improve both the horizontal and vertical integration of services at sub-regional/regional levels by sharing best practice and joint service delivery projects which must be more than shared procurement of supplies.

- Democratic accountability and transparency and to minimise the establishment of new companies and JVCs which only add new layers of management and control and diffuse accountability. These companies readily adopt commercial and business practices and organisational structures which make them more susceptible to full privatisation.
- A social justice agenda to address redistribution and mainstream it in all service provision.
- Value staff and work with them and trade unions to jointly address the management of change to safeguard the quality of services and jobs in the interests of service users and the local economy. A internal and external user perspective is essential in deciding which services can be jointly provided.
-
- Retention of skills and intellectual knowledge to increase the capability of the public sector to develop collaborative, lead and jointly managed projects.
- Joint investment has many benefits because a single authority may have difficulty funding or attracting the required level of national funding. It could also encourage the development of a sub-regional infrastructure plan to provide a network of related and supporting but more local facilities.
- It is essential that most of the savings from economies of scale and the application of new technology are transferred to frontline services and local investment.

Barriers and pitfalls

The government's Shared Services Advisory group suggests a number of barriers to shared services such as the lack of alignment on vision and purpose, acceptance, organisational culture, functional/departmental boundaries, insufficient change skills, middle management, unrealistic timescales, IT delays, people issues and unclear roles and descriptions.

It is likely that these are problems rather than barriers which are likely to be encountered at some stage in most shared services projects. The barriers to shared services are more fundamental.

Local government political space/boundary constraints: There is widespread reluctance, particularly in local government, to accept the provision of services from outside of the authority boundary. This is rooted in the principle of democratic accountability and economic development and regeneration policies. Each authority

faces political pressure to maximise public and private economic benefits within the locality.

Compatibility of technology and systems: Some potential partners may have recently invested in different IT systems and software and may be reluctant to have to fund further investment.

Employment and industrial democracy: Concern for the quality of employment does not rank very highly in the shared services agenda, particularly in the private sector which is often eager to exploit labour differentials between regions and countries.

Lack of evidence of costs and benefits: A wide range of savings claims and forecasts are made for shared services but many lack an independently verified evidence base. Savings from full outsourcing and offshoring examples are widely used to justify shared services.

Democratic accountability and transparency requirements: Elected Members are often concerned about losing a degree of control over the provision on services, particularly if these are likely to be delivered in another authority.

Organisational structures and culture: There are often differences in the way that local authorities and public bodies organise services within directorates and departments. The recent history of a service may also have a bearing on its organisational culture and its willingness or reluctance to adopt a shared services strategy.

Multi-organisation funding: The early stages of shared services projects are often funded by participating authorities through existing budgets. Some authorities are flexible than others and there are often local differences in the financial state of the authority, all of which may lead to a reluctance to fund a shared services project.

VAT for NDPBs: Some Non-Departmental Public Bodies may become liable for VAT which had not been applicable in the past and thus increasing the cost of the service by up to 17.5%.

Headcount rules (central government departments only): Central government governments have headcount restrictions which prevent them increasing staffing levels, for example by taking on shared services work from other departments or public bodies. In a classic market response, a headcount trading system has recently been established.

EU procurement regulations: The EU procurement regulations impose constraints on the way that existing and new contracts can be extended to other public bodies if they have not been involved at the start of the procurement process. This limits their ability to join shared services projects and the ability of existing projects to attract additional partners.

Part 3

Models of public sector shared services in Britain

Introduction

This section explains why a public sector typology of shared services models is needed, describes a new six-part typology, and then describes the range of options which might be included, the organisational structures, partnership models and examines the drivers underpinning the collaboration and shared services agenda.

Need for a framework

The shared services agenda lacks clarity for a number of reasons.

Firstly, reality is often overwhelmed by the rhetoric of the transformation and modernisation agenda. This includes imposition of neoliberalism in public management through commissioning, contestability and competition and 'mixed economy' of provision.

Secondly, private companies have been operating shared services centres for some time as part of their outsourcing operations. They consequently perceive the public sector shared services agenda as affording further business opportunities. But this imposes a very narrow concept of shared services.

Thirdly, the lack of definition of shared services with models defined by organisational structures, public-private sector relationships, the type of service or by the scope of the relationship between public sector organisations.

Fourthly, the shared services agenda is often limited to corporate and transactional services, which is only one part of the potential for collaborative and shared delivery of public services.

Finally, the shared services concept also gets confused with the procurement agenda and initiatives to achieve savings by joint purchasing. Regional and national public sector purchasing organisations for bulk buying have existed for 30 years or more. Joint procurement initiatives for goods and services have been excluded from the shared services typology although some shared services models will be required to use a procurement process to select a contractor.

Typology of shared services models

Various typologies of shared services have been developed but they lack clarity and reflect the different interpretation of shared services between central and local government and other public bodies. For example, the Department for Communities and Local Government identified eight models for shared services in local government (DCLG, 2006). However, the two collaboration models are very similar and joint service delivery between local authorities and between different types of public body are virtually the same. The redefinition of a lead authority role which is now described as a 'franchise' is not welcome or helpful. The two commercial trading models are only differentiated by one being in the public sector and the other in the private sector.

A six-part Cabinet Office typology of shared services ranges from a unitary model (a single organisation consolidating and centralising a service) to lead department, joint initiatives, strategic partnership, joint venture and outsourcing.

The Public Private Partnerships Programme (4ps) guidance focuses on corporate and transactional services and suggests five models ranging from inhouse, insourcing, service outsourcing, partnership with the private sector and public-public partnerships. However, the inhouse and public-public partnership are virtually the same with the latter including more than one public body. The insourcing option also inhouse provision but using external expertise as and when required – but this is also the reality of all inhouse options. Furthermore, the term ‘insourcing’ is widely used in this sector to describe the return of outsourced services to inhouse provision. ‘Service outsourcing’ and ‘partnering with the private sector’ are virtually the same with the location and scope of the contract being the only difference.

New typology

A new six-part typology is proposed based on the type of relationship between public sector organisations. The organisational model used and whether the work is provided in-house or is outsourced are considered secondary to this relationship. Some collaborative, lead and joint shared services projects may draw on technical expertise and equipment from the private sector but this is a secondary matter.

- 1) **Collaboration and shared procedures** – this is already widespread in local government, for example, a survey of current collaboration and shared services in Yorkshire and Humber revealed 157 existing collaborations between 22 local authorities (Yorkshire and Humber CoE, 2006). They included joint work in childrens’ services, reciprocal arrangements, jointly agreed procedures, sharing best practice, consortium for purchasing books and audio-visual materials. Collaboration often involves several local authorities and other public bodies working together.
- 2) **Corporate consolidation** – an organization, such as a central government department, centralizes its financial, IT, HR and payroll into regional or national centre(s).
- 3) **Lead authority** with provision by one authority on behalf of a group of authorities (pensions and waste). This approach is usually based on the provision of in-house services, although in the case of pensions will also include outsourcing of portfolio management to financial institutions.
- 4) **Jointly managed services** - A group of authorities/public bodies establish a jointly managed services project (provision may be by one authority or shared out amongst them). They may use the same infrastructure/software and common standards and may continue to provide the services themselves in the short term. This could be at subregional or regional level.
- 5) **Strategic partnership or joint venture with the private sector** – Several regional NHS shared services centres have been established. Some newer SSPs may be able to join/negotiate deals before the contract starts, for example Somerset and Taunton Deane Council and Avon & Somerset Police. This model will centralise delivery. These are similar to private sector shared service centres which operate in Eastern Europe and elsewhere.
- 6) **Outsourcing or offshoring** – services are transferred to a private company which could involve continued delivery of a public sector location or services are transferred to the private companies premises elsewhere in Britain or they are fully or partly offshored to Eastern Europe or Asia.

Table 2: **Public sector shared services typology**

Public sector shared services typology	
1	Collaboration and shared procedures between two or more public bodies
2	Corporate consolidation within a public sector organisation at regional or national level
3	Lead authority on behalf of a group of public bodies
4	Jointly managed services between a group/consortium of public bodies at subregional or regional level.
5	Strategic partnership or joint venture with the private sector
6	Outsourcing and offshoring

Source: European Services Strategy Unit, 2007

The jointly managed services model could operate at different levels ranging from a subregional consortia to one multi-service regional centre for all public bodies. However, the concept of regional multi-service centres raises a number of political and practical issues such as:

- The degree to which services and procedures can, and should, be standardised within a group of similar organisations providing the same services and across different public services such as health, education, social care, transport and other public services, must not be overstated.
- A centre serving a large number of public sector organisations could achieve economies of scale but these may be reduced or eroded by the different demands of a large client base consisting of large, medium and small public bodies providing different types of services.
- There must be much more evidence of the financial *and* operational advantages of different types of shared services models before embarking on a regionalised model.
- This model brings additional risks – IT and system failure at regional level could have very serious knock-on effects, for example the non-collection of taxes or non-payment of benefits or wages at a regional level could have profound consequences. More sophisticated back-up systems will be required but this brings additional costs.
- How regional multi-service centres are to be governed between a large number of public sector organisations with different levels of democratic accountability also raises key issues. Is a new public body being established by regional or central government or is it jointly managed by existing public bodies?
- The location of a multi-service centre must also be based on regional economic and regeneration strategies and not simply on a political fix.

Another form of shared service is developing as a result of contract management of a portfolio of PPP/PFI projects. The creation of a secondary market in which investment trusts such as SMIF/Trillium/Land Securities are beginning to provide services to a number of PPP/PFI projects in a sub-region (Whitfield, 2007). This a variation of the corporate consolidation model.

The traditional private sector shared services model is a centre, often located in Eastern Europe or south east Asia, in which administrative and transactional services for a number of clients are operated from one location.

Types of services

There are three types of services where economies of scale can be achieved:

- Back office such as financial and HR services and payroll and other transactional services. Centralising production into one centre and/or adopting one universal system across several authorities will achieve economies of scale in procurement, hardware/software, service provision, maintenance of the system and training costs.
- Subregional services such as waste disposal which require provision and large scale investment at subregional or regional level.
- Services which can be combined on a geographic basis to achieve economies of scale the benefits of which outweigh the cost of longer travel/down time and so on.

Types of organisational structures for collaboration, partnerships and shared services

Collaborative agreement: Loose, non-contractual, collaborative arrangements to share experiences or learning and combine responses to legislative or regulatory change or formalised agreements including informal development of inter-authority Service Level Agreements. Local authorities can delegate the performance of certain of their functions to committees and joint committees under Section 101 of the Local Government Act 1972. Section 101 also allows the delegation of the performance of certain functions to other local authorities as well as organisations designated as "public bodies."

Lead authority arrangement: An authority can supply all or part of a service on behalf of other local authorities and may take on ownership and management of the resources required for the service.

Public-public partnership agreement or Joint Venture Company: Powers to trade in certain circumstances and for certain services have been available to Excellent, Good and Fair authorities since July 2004.

Strategic Service-delivery Partnership – a local authority enters a long-term multi-service contract, between 10 and 15 years, with a private contractor governed by a Partnership Board consisting of a handful of council representatives (the Council leader, lead member for finance, chief executive) and a few senior company representatives (chief executive, director, head of HR).

Oursourcing and offshoring – all public bodies have the power to contract out the delivery of goods and services and development/construction activities.

Procuring or commissioning work jointly.

The health and social care sector and local authorities commonly develop partnership arrangements under Section 31 of the Health Act 1999, to pool resources and discharge functions collectively. The Local Authorities (Goods and Services) Act 1970 can be used to provide certain services between authorities, including the supply of goods or materials, the provision of administrative, professional or technical services, use of vehicles, plant or apparatus (and any person employed in connection with such vehicle, plant or apparatus) and the carrying out of works or maintenance services.

Local authorities can:

1. Undertake joint procurement in which two or more local authorities advertise for, evaluate, select and negotiate a contract with a preferred bidder but enter into separate contracts with a single contractor. This could include consultancy expertise and/or the supply of equipment in addition to service delivery.
2. Joint procurement as above but a joint working relationship extends throughout the

contract period. This may be via individual contracts or collectively through a special purpose vehicle.

Local authorities and public bodies are legally constrained in their ability to extend existing contracts to cover additional authorities. This will depend on the particular circumstances of each case. It is now common practice for a procuring authority to get all potential shared services authorities to ensure that the OJEU Notice commencing the procurement process is drafted to encompass the possible range of trading partners.

Partnership models

The Welland Partnership between five local authorities considered the following arrangements when examining the options for sharing delivery of different groups of services. It illustrates the options open to local authorities:

Option 1: Collaboration on specific and/or specialist services: Each authority would continue service delivery but would develop joint procedures, pooled training and staff development budgets and joint recruitment.

Option 2: Joint Welland service procurement model: Partners would jointly procure a service from a third party either through a series of contracts or one contract for all partners that manages and delivers all aspects of the service across the region.

Option 3: Outsourcing of services between partners: One or more partners formally outsource certain aspects of their service(s), or the whole service(s), to one or more of the other Welland partners via service level agreements or contracts.

Option 4: Lead Authority model: One authority would provide the service on behalf of the whole partnership using pooled budgets. Staff would transfer to the host authority.

Option 5: Less than 5 partners develop a shared services model: Authorities would develop a shared services approach to service delivery, management, accommodation and staffing either through inhouse lead authority or third party provision.

Option 6: Full, joint Welland service model: All of the partners form a Joint Venture Company or Special Purpose Vehicle to deliver services across the region. (Welland Partnership, 2005)

Yorkshire and Humber survey

The Yorkshire and Humber Centre of Excellence survey of collaboration and shared services in 2006 covered 12 main service areas. The figures in brackets refer to the percentage of the 22 local authorities which expressed an interest in considering possible collaboration opportunities:

Table 3: Yorkshire and Humber Shared Services Survey

Service	%	Service	%
Corporate Services	32	Children's Services	73
Strategic Services	45	Support and Advice for Adults	33
Culture, Leisure and Sport	n/a	Environment	64
Democracy and Community	n/a	Infrastructure	27
Economy and Business	n/a	Property	64
Revenues and benefits	27	Customer Services	86

Source: Yorkshire and Humber Centre of Excellence, 2006.

CBI definition of shared services

The Confederation of British Industry (CBI) suggested that the services suitable for shared services are those that can be characterised as:

- Transactional and process driven
- Common processes that can be standardised
- High volume
- Geographically independent
- Requiring specialist personnel
- Highly capital intensive
- Demand from a single organisation being below critical mass.

However, this is a limited perspective which focuses on back office functions and 'customer care' access.

Other models could include:

- Shared systems and investment but with local delivery. A City Region, created by merging or increasing cooperation between several neighbouring local authorities collective agreements for shared and lead service provision as an alternative to SSP model.
- Proactive pooling and sharing resources for services and facilities that may otherwise not be affordable and preventing wasteful expenditure on competition – sports and leisure facilities are a good example.
- Innovation – share expertise, risks and benefits, pooling of skills and knowledge to develop a service, product or facility.
- What is a progressive shared services agenda in an alternative reform strategy?

Drivers for increased collaboration and shared services

Efficiency and cost savings in budgets and reinvestment in frontline services.

The government is and will continue to use the rate support grant settlement and other financial controls to increase the pressure and need for wider collaboration.

Transformation and public service reform agenda - Commissioning ideology – local authorities and public bodies to focus on commissioning and reduce role in provision therefore shared services and joint provision is another method of achieving this in a more politically acceptable way particularly if this is a public-public project.

Local government reorganisation - the push for unitary status by some County Councils, coupled with resistance from many District Councils, could be used to press for a shared services approach both as a means of resisting unitary status and as a benefit of mergers of unitary government.

Economies of scale – technological change means that a single provider is less viable and services more readily delivered on a shared basis.

Reduction of transaction costs by joint procurement and engagement of consultants.

Spreading the financial burden of investment over a number of local authorities and/or public bodies.

Shared provision via PPP and secondary market – a different perspective – as investment trusts own many PPP projects they seek to achieve economies of scale and sweat the assets by having common FM provision across a range of projects in a geographical area.

Table 4: **Scope of shared services**

Shared service model	Back office – IT, HR, payroll, administration, revenues and benefits	Professional & technical services – property management, architects	Subregional scale services – waste, economic development
Collaboration			
Corporate consolidation			
Lead authority			
Jointly managed services			
Strategic partnership or joint venture with private sector			
Outsourcing and offshoring			

Part 4

Examples of shared services

Introduction

There are an increasing number of shared services projects in Britain. This section has a brief description of the range of projects using the public sector shared services typology described in Part 3.

The shared services projects identified in this section are examples and there are several more projects at different stages of development. The examples were chosen to illustrate the range of projects and their inclusion in this report does not necessarily represent approval or success. The case study evidence is very thin and is mainly published the Centres of Excellence and management consultants. There is a dearth of indepth independent research.

The categorisation of shared services projects is based on their current position, which of course may change. For example, some of the revenues and benefits projects currently in the in-house category may change if the project outsources the service.

Table 5: **Examples of public sector shared services projects**

Shared service model	Back office – IT, HR, payroll	Professional & technical services – property management, architects	Subregional scale services – pensions, waste and other services
Collaboration	* Northumberland & Durham Partnership. * Ashford-Maidstone BCs. * East Surrey Improvement Partnership.	* Blackburn & Hyndburn Councils.	
Corporate consolidation	* Surry County Council Shared Services Centre. * National Health Service/Xansa. * Prison Service		
Lead authority		* Stirling & Clackmannanshire Councils.	* Pensions – South Tyneside MBC on behalf of Tyne and Wear Councils and public sector bodies. * Westminster City Council-led Partnership in Parking.
Jointly managed services	* St Edmundsbury BC & Suffolk CC Public Service Village. * Worcestershire Districts Revenues & Benefits Shared Services. * Teesdale & Wear Valley Revenues &	* North East Scotland Joint Public Sector Group	* Joint Newcastle & North Tyneside PFI Street Lighting. Joint Newcastle & North Tyneside NHS LIFT project. * Tayside Contracts, Scotland. * Staffordshire Joint

	Benefits Shared Services. * North East Scotland Joint Public Sector Group. * Anglia Support Partnership. * Derwent Shared Services. * Buckinghamshire NHS Shared Services		Waste Management Board (10 local authorities)
Strategic partnership or joint venture with private sector	* National Health Service/Xansa. * Prison Service SBC. * Dept of Work & Pensions SBC * Strategic Service-delivery Partnerships (SSPs) in 25 local authorities.	* Strategic Service Delivery Partnerships in Rochdale and Oldham.	.
Outsourcing and offshoring			

Source: European Services Strategy Unit, 2007.

Collaboration

Blackburn-Hyndburn collaboration

Blackburn and Hyndburn Councils forged joint working across a number of services despite one being a unitary authority and the latter a district council and with different political control – one Labour and the other Conservative (IDeA, 2006).

Joint working started in 2004 because Hyndburn had difficulty recruiting senior managers for the Council's role in the East Lancashire Housing Market Renewal Area. Blackburn provided Hyndburn with part-time access to three senior officers for six months. This led to further collaboration including:

- Collocation of economic development teams in Blackburn and joint working on a large strategic industrial site.
- A successful joint £20m transport bid to improve bus services between the two areas.
- Joint funding of a noise nuisance post.
- A successful joint bid for a new CCTV system collocated at the police headquarters.
- Adoption of the same performance management system.
- Hyndburn to undertake legal work for one of Blackburn's housing market renewal areas.

Northumberland-Durham Partnership

Northumberland and Durham County Councils are sharing Oracle E-Business Suite software to make back office administration, such as procurement and financial management, more efficient. Northumberland County Council hosts the application for Durham and has been using Oracle E-Business Suite since 2004 and benefiting from £1m savings a year. Durham County Council expects to save around £900,000 a year on its back office support operation once the project is fully implemented. It will also save Durham some of the capital costs of buying-in the same software system from scratch. It is hoped to explore other ways of jointly providing services.

Ashford-Maidstone Partnership

Ashford BC and Maidstone BC in Kent are committed to an 'interim collaborative working strategy' on revenues and benefits following a feasibility study into a public-private partnership which examined a number of services in 2006.

East Surrey Improvement Partnership (ESIP)

The chief executives of Mole Valley DC, Reigate and Banstead BC and Tandridge DC recognised the potential to work together as a cluster "to provide a working partnership model that preserved the identity of the local authorities within an ethos of collaborative working" (South East CE, 2006).

The chief executives met with a lead officer group (one from each authority) and a ESIP Partnership Board was formed in 2005 consisting of the Leaders and another elected member from each authority.

The services were scoped and a Collaboration Strategy agreed in June 2006. In September 2006 the Board approved five projects for immediate start, a further six projects to be programmed to form the first phase of implementation covering the areas of IT High Speed data link, IT infrastructure & communications, Customer Services, Finance, Revenues & Benefits, Leisure Services, HR Policies & Procedures, HR Operational Management, Procurement, Housing Non HRA services and Community Safety. Further projects being identified in a phase two schedule. The project is supported by the South East Centre of Excellence.

The project has created a platform to deliver collaborative projects across three authorities together with a project management structure to ensure clarity of responsibilities and expectations of outcomes in the councils. Staff briefings, newsletters and availability of all working papers via the intranet in all three councils together with a dedicated ESIP web site were a key part of a communications and transparency strategy.

Corporate consolidation

Surrey County Council Shared Services Centre

The County Council opened the Centre in 2004 with about 230 staff. It provides a wide range of transactional services including purchase ordering and invoice processing, payroll, training administration, recruitment and financial property transactions. The consolidation of purchasing is expected to lead to lower costs.

The Prison Service shared services centre is a good example of sector corporate consolidation by a public body. The new centre in Newport, Wales, is intended to provide all corporate and transactional services to publicly managed prisons in England and Wales. However, it is a partnership with EDS and thus is also classified as in the strategic partnership or joint venture category of shared services projects.

Lead authority

Pensions/waste sector lead authority examples are common and have long track record.

South Tyneside MBC for Tyne and Wear Local Government Pension Scheme

This is one of many lead authority projects for pensions administration in Britain. South Tyneside administers the Local Government Pension Scheme (LGPS) on behalf of the five local authorities in the Tyne and Wear subregion – Newcastle, Gateshead, North Tyneside, South Tyneside and Sunderland – plus a range of other local public sector and arms length organisations.

Partnerships in Parking

The 'Partnerships in Parking' initiative is led by Westminster City Council and includes Islington, Kensington and Chelsea, Camden, Lambeth and the City of London which are pooling their resources to trial the next generation of parking pay and display machines. Trials started in June 2006 across the Central London area covered by the Partnership (Efficiency No 8, 2006).

Jointly managed services

Welland Partnership

The Welland Partnership was established in 2000 (www.welland-partnership.com) by five local authorities - East Northamptonshire Council, Harborough District Council, Melton Borough Council, Rutland County Council and South Kesteven District Council in the East Midlands.

- Single Regeneration Budget (SRB6) funding for rural crime initiatives and skills training.
- Pathfinder funding to create 11 community portals as 'Welland on Line' building on the leading edge approach to citizen based portal strategy developed in Rutland with www.rutnet.co.uk. The project also included the provision of an online planning services facility for viewing, submitting and tracking planning applications and for accepting cash payments. Completion on time in 2002.
- Sub-regional Strategic Partnership (SSP) status with the East Midlands Development Agency.
- Additional Integrated Electronic Government cash because of its Partnership status.
- Government funding for a Welland Contact Centre Initiative.
- Shared services
 - Procurement – joint procurement unit formed hosted by Melton BC – individual authorities purchase goods and services under terms available to the delegated lead authority.
 - Internal audit – consortium shared services model hosted by Rutland BC.
 - Revenues and Benefits – collaborative approach continuing with current systems.
 - Legal services – consortium shared services model being developed.

Principles of the Partnership

The Welland Partnership agreed the following principles:

- a commitment to share best practice and benchmarking information.
- a commitment to work collaboratively on influencing relevant decision-makers and key players.
- a commitment to develop jointly the sub-regional strategies.
- a concentration on outcomes as opposed to the processes which deliver them.
- a commitment to establishing a partnership group, comprising elected

members, who will meet at least quarterly and will report formally to their respective authorities on progress and issues.

- a determination to work with the business community to investigate and develop ways of achieving economic prosperity across the partnership area (Welland Partnership, 2005 and Cabinet Office, 2006)

Bury St Edmunds 'Public Service Village Partnership'

St Edmundsbury Borough Council and Suffolk County Council have developed a 'Public Service Village Partnership' in which the two councils will have a new building which will jointly serve as a headquarters for the Borough Council and as a area office for the County Council. The site is next to a leisure centre and college (part of the University Campus Suffolk project). A planning application for the project was submitted in January 2007 and some 600 staff are expected to be working from the building by late 2008. The project is intended to improve user access and create a one stop service, increase efficiency and procurement savings and reduce central administrative costs. Suffolk Police, West Suffolk College, West Suffolk primary care Trust and Suffolk Magistrates Courts are also involved in the partnership.

Worcestershire Districts Revenues and Benefits Shared Services

Six district councils in Worcestershire are exploring the possibility of a revenues and benefits shared services arrangement. They commissioned consultants to prepare an outline business case and in 2006 decided to prepare a full business case on the basis that significant benefits could be obtained without there being any deterioration in service standards. (Efficiency No 5, 2006)

Teesdale and Wear Valley District Councils Housing Benefits Shared Service Partnership

Teesdale District Council and Wear Valley District Council are developing a joint Housing Benefits Service which has been funded by the DWP Performance Standards Fund. It aims to improve services to customers, reduce bureaucracy, and lower the cost of delivering Housing Benefits Services. The arrangement will also provide a platform for future shared delivery of other services across both Councils.

The Shared Service Partnership commenced on 2nd January 2007 and provides a single telephone number to access information about Housing Benefit claims and assessments. Claimants can access the Benefits Service at service points in Barnard Castle and Crook and a dedicated claims processing centre, based in Crook, will handle benefit claims for both Councils.

Anglia Revenues Partnership

Forest Heath District Council and Breckland Council formed the Anglia Revenues Partnership (www.angliarevenues.gov.uk) in August 2003 to create a public-public partnership shared services centre to deliver revenues and benefits, council tax, business rates and fraud prevention to the 175,000 population of the two rural councils. The two councils signed a partnership agreement following best value reviews of their respective services. Forest Heath needed to modernize its IT system and Breckland, having already replaced its IT system, wanted to make service improvements.

The Councils agreed a number of joint outcomes through collaboration:

- Excellence in service delivery.
- Customer satisfaction with services provided.
- Significant cost advantages for both councils.

- Continuous improvement in the service, satisfaction and cost outcomes.
- Promotion of electronic service delivery.
- Economies of scale promoting a robust and flexible service, capable of absorbing change.

The shared services programme of change was delivered within two years. Both authorities have said they are achieving top quartile performance, along with significant savings. The partnership operates from shared accommodation with shared management, has a common software system, and has standardized forms and leaflets.

Lessons learned

- Collaboration demonstrates real progress towards the modernising agenda.
- Choosing collaboration with another authority as opposed to a commercial provider requires a similar approach and level of effort but enables change to begin earlier because of the lack of procurement process.
- Councils need to be forward thinking, joined up and open in their approach.
- Staff need to be engaged early in the process.
- Standardising processes and systems is a necessary platform for a joint approach.

(4ps, 2005)

Staffordshire Connect

Staffordshire County Council is the lead authority and accountable body for Staffordshire Connect. The other local authorities are: Cannock Chase District Council, East Staffordshire Borough Council, Lichfield District Council, Newcastle-under-Lyme Borough Council, South Staffordshire District Council, Stafford Borough Council, Staffordshire Moorlands District Council, Stoke-on-Trent City Council and Tamworth Borough Council.

The Staffordshire Connects partnership set out to:

- achieve a vision of seamless service delivery which guaranteed the customer a consistent, high-quality experience, irrespective of location.
- exploit access channels for which public need had been demonstrated.
- get an accurate picture of Staffordshire's customers, to facilitate shared service delivery and promote a consistent customer experience.
- enable service advisers to resolve a 80 per cent of requests at first point of contact, to make the front office more efficient.
- secure economies of scale from the joint procurement, maintenance and development of common systems.
- positioning the partnership for future funding bids by demonstrating successful joint working.
- to optimise return on investment by developing once and using many times.
- exploit partnership successes as a catalyst for further collaboration, including spin-offs.

Joint PFI/PPP projects

Newcastle City Council and North Tyneside Council have two jointly managed PPP/Private Finance Initiative projects. Both the Street Lighting project and the NHS Local Improvement Finance Trust (LIFT) project to renew doctor's surgeries and health centres were jointly procured.

Tayside Contracts

Tayside Contracts is the local authority contracting organisation providing catering, cleaning, roads, maintenance, vehicle maintenance and winter maintenance to Dundee City, Angus and Perth and Kinross Councils. Operating for a decade, turnover increased to £52.6m in 2004/05. It has over 2,500 staff and recently won a £20m thirty-year cleaning contract to clean eight new schools to be built under a Public Private Partnership in Dundee.

Tayside Contracts is governed by a Joint Committee consisting of 5, 6 and 7 elected members from Angus, Dundee City Council and Perth & Kinross Councils respectively. The Covenership of the Joint Committee is rotated on a yearly basis on 1 April each year in which there are no ordinary elections of Councillors to the constituent Council.

Staffordshire Joint Waste Management Board

The Board manages the Staffordshire Waste Partnership, formed in 2003, which consists of the County Council, a unitary authority and eight district councils. It has developed an integrated waste management strategy for the whole of Staffordshire with targets for recycling, re-use and disposal. A Leader and Chief Executive's Group and an Officers Group are responsible for managing and implementing the strategy.

Many other County Councils have established similar waste management partnerships.

North East Scotland Joint Public Sector Group

The North East Scotland Joint Public Sector Group (NESJPSG) was formed in 2000 and comprises the chief executives of Aberdeen City Council, Aberdeenshire and Moray Councils, NHS Grampian, Scottish Enterprise Grampian, Grampian Police and Grampian Fire and Rescue Service. It has four groups – datashare, ICT, property and finance. The terms of reference allow other organisations to join, for example the datashare network includes Communities Scotland, Aberdeen Harbour Board, Job Centre Plus and Aberdeen Council of Voluntary Organisations. See Appendix 1 for the NESJPSG Memorandum of Understanding.

The NEJPSG property group drew up an agreement in 2005 for the disposal of surplus property to ensure surplus public sector assets are retained within public ownership where a need exists, ensure public sector bodies obtain value for money when disposing of, or acquiring public sector assets, and to provide an opportunity for public sector bodies to acquire property assets without delaying the disposal process. It included a process of notifying other members of the group so that they could consider whether they needed to express an interest in acquiring the land or property. The group is currently developing a joint property strategy.

The ICT Network (incorporating the Grampian Public Partnership) is a strategic forum for the joint development of new and existing ICT systems and infrastructure "by creating an environment of inter-working for the open exchange of ideas, user needs and research ensuring the long-term viability of ICT within the Public Sector and to maintain a clear understanding of developments in user and citizen needs and technology opportunities." (NESJPG, 2000). This Group also included Aberdeen College, Aberdeen University and Robert Gordon University.

The Datashare group is developing a North East Scotland GIS strategy and considering establishing a single team to support public sector agencies.

Derwent Shared Services

Derwent Shared Services is a multi-skilled organisation providing services for more than 100 organisations. Derwent Shared Services employs over 300 staff at several locations, mainly at Laurie House in Derby City Centre. (www.derwentsharedservices.nhs.uk)

Anglia Support Partnership (NHS)

This is another subregional NHS shared services project which provides information management and technology, financial services, human resources, employment, organisational development, estates and other services to a group of health organisations. The current partner organisations are Cambridge City and South Cambridgeshire Primary Care Trusts, Cambridgeshire and Peterborough Mental Health Partnership NHS Trust, East Cambridgeshire and Fenland Primary Care Trust, Huntingdonshire Primary Care Trust, Greater Peterborough Primary Care Partnership (PCP) and West Norfolk Primary Care Trust.

The project provides services to major hospitals such as the Addenbrooke's NHS Trust and Papworth Hospital NHS Trust and the Norfolk, Suffolk and Cambridgeshire Strategic Health Authority.

Buckinghamshire Shared Services –

NHS Trusts in Oxfordshire and Bucks, 230 staff, £9m annual turnover, Saves 15% (Capgemini, 2006).

Glasgow City Council shared services project

A £750m shared services project has been established by Glasgow City Council and Greater Glasgow Health Board. The project is the core of a £1bn scheme to bring a total of five public sector bodies together for closer working. The council and the health board will pool budgets and 5,000 staff under five community health and care partnerships.

Strategic partnerships or joint ventures with the private sector

NHS Business Services with Xansa

The NHS Business Services/Xansa Partnership currently provide finance, accounting and payroll services to about 100 NHS organisations, including PCTs, Ambulance Trusts, Mental Health Trusts, Foundation Trusts and non-departmental public bodies. It operates from Shared Service Centres in Leeds, Bristol and Hampshire. It provides:

- Purchase to pay - online purchase ordering through online approvals and receipting, of goods and services by NHS organisations through to invoice processing and payment of suppliers.
- Order to cash - from orders for goods and services by third parties or between NHS organisations, through to payment and debtor management.
- Accounting to reporting - book-keeping and financial management reports for NHS organisations.
- Treasury and cash management.
- VAT - assistance with the production of VAT returns.
- Payroll – monthly and weekly salaries and wages.

Prison Service Shared Business services centre, South Wales

The Prison Service Shared Service Centre in Newport, Wales became operational in May 2006 with over 170 staff to support Prison establishments in England and Wales. It is a partnership with EDS. The centre will eventually employ around 500 people. It will provide finance, procurement, HR and payroll services to the 128 prisons in England and Wales which previously provided these services separately at each prison.

The Shared Service Centre is a major part of Prison Service Phoenix modernisation programme which is expected to deliver savings of £32m a year as a result of lower transaction costs, fewer staff and improved efficiency.

Department for Work and Pensions

The shared services projects is focused on building a network of about 77 Benefit Delivery Centres that will centralise benefit processing functions, previously delivered in around 650 offices, by 2008. This will complete the Jobcentre Plus modernisation programme.

The Human Resources Modernisation Programme will include "HR Business Partners taking on a more strategic role" and the rationalisation of the network of HR Service Centres to two sites.

Regional Business Centres in Strategic Service-delivery Partnerships

The first tranche of Strategic Service Delivery Partnerships starting in 2000 included the establishment of Regional Business Centres which were planned to win work from neighbouring local authorities and thus create new jobs in the host authority. The market leader at that time, HBS Business Services, had a plan to establish nine regional centres in Britain but this quickly evaporated. SSPs have won limited additional work to date and the regional business centre concept has been discredited although many projects has ambitious job creation targets.

However, some SSPs did commence with more than one authority involved – for example Selby DC joined the East Riding Council SSP and Mid Suffolk BC joined the Suffolk County Council SSP. SSPs currently in procurement by Southampton City Council and Somerset County Council each have a District Council as a potential partner although neither have agreed to participate to date.

Two SSPs have been terminated and a third substantially reduced but none had succeeded in providing services for other public bodies. Had they done so, this would have made the contract termination process much more complex.

North Yorkshire IT project problems

In 2003 nine North Yorkshire councils, including City of York Council and North Yorkshire County Council, received funding from central government of £1.05m over two years for a ICT partnership to improve Access to Services. The funding programme was aimed at supporting councils in delivering all their services electronically by 2005.

In March 2003, Agilisys, was selected as the preferred bidder. However, by the end of 2003 four local authorities, Craven, Harrogate, Scarborough and Selby withdrew from the partnership. The project was designed to be incremental and divided into three parts. Part 1 included jointly run IT systems to deliver electronic government. These included a transactional website, Customer Relationship Management system (CRM), and telephone systems.

Part 2 involved the contractor taking responsibility for implementing service improvements and re-engineering council services followed by the third stage in

which the contractor would manage back office and support services, property, IT and accommodation in a SSP. The five remaining local authorities were reluctant to move to the second and third stages of the project.

The future of Strategic Service-delivery Partnerships

A Strategic Service-delivery Partnership outsources IT and corporate services (revenue and benefits, human resources, payroll and more recently professional services, such as construction and highways) in a long-term multi-service contract with a private contractor. Staff may be seconded or transferred to the private contractor. SSPs have had a partial shared services perspective to the extent that each authority/contractor establishes a customer centre or regional business centre with plans to win additional work from neighbouring local authorities and public bodies to offset the inevitable loss of jobs in the host authority. However, the regional business centre strategy has failed except in a few exceptional cases and the shared service strategy is unlikely to change this situation for the following reasons:

- The regional business centre model is a competitive rather than a collaborative model in which the host authority seeks to establish a commanding position to try to 'win' contracts from its neighbours. There is therefore a one-way flow of service provision and jobs.
- It excludes local authorities from developing a public sector shared services option to retain in-house provision.
- There is little scope for negotiations over systems other authorities and public bodies are forced to adopt the host authority/contractor systems.
- There is little real involvement in the design and planning, let alone the procurement process. More recent projects such as Somerset County Council, is a traditional SSP rebranded and marketed as a shared service project by the County Council and the Regional Centre of Excellence. It has a list of authorities which have expressed an interest and 'signed up' for the Official Journal of the European Union notice to satisfy procurement regulations but are peripheral to the design of the project. The County Council is located in Taunton and Taunton Deane District Council is the only 'partner' to date. Southampton City Council is another local authority currently in the procurement process and only has the small neighbouring Havant District Council as an interested 'partner'.
- No flexibility over the location of a shared service centre because this is determined by the host authority.
- Loss of local jobs when work is transferred to the host authority which could have a negative impact on a local authority's economic development and regeneration strategies.

The SSP model may limit the ability and flexibility of neighbouring local authorities and public bodies to enter collaborative and lead authority arrangements with other public sector organisations. North Yorkshire IT project problems

In 2003 nine North Yorkshire councils, including City of York Council and North Yorkshire County Council, received funding from central government of £1.05m over two years for a ICT partnership to improve Access to Services. The funding programme was aimed at supporting councils in delivering all their services electronically by 2005. Procurement process led to appointment of Agilisys.

Project collapsed – further details to follow.

Other shared services projects

- Wakefield MBC – Norfolk CC property services
- Essex CC provision of occupational health to District Councils
- Bedford DC payroll to Mid Beds and Uttlesford District Councils
- Darlington – Stockton Partnership
- Children's Services (Manchester)
- Adult Social Care (Worcestershire)
- Lincolnshire Shared Services Partnership
- ConsortiumAudit – Northampton, Corby, Kettering and Wellingborough District Councils
- Warwickshire Direct

Shared services in other European countries

It has not been possible to examine the degree of shared services in other European countries. In Hungary the government promotes joint service supply organisations created by local authorities via the 1997 Act on Municipal Associations and Inter-Municipal Cooperation. It provides a 1% top-up to central government grant as an incentive.

Further research is required on the extent of shared services, the mechanisms by which they are promoted and operate and lessons learnt from their experience.

Part 5

Costs and benefits

Introduction

This section identifies the potential advantages of shared services. It examines the potential cost savings and provides a health warning about using these figures. Efficiency savings and improved delivery of service to meet user needs are the two central claimed advantages of shared services. It also examines the potential impact on different groups of participants.

Potential benefits shared services

The potential advantages of shared services often get buried in the transformation rhetoric and confused with the process of change and organisational structures which should be a means to an end rather than being a core objective.

- Learning and sharing best practice through collaboration and lead authority roles.
- Pooling and sharing of resources and investment in new systems which may not otherwise be affordable by an individual authority.
- Achieving economies of scale and efficiencies thus reducing the cost of services (fewer locations, systems and equipment) and redirecting savings to frontline services.
- Applying new technology to simplify and standardise processes.
- Improving the quality of services by redesigning and reorganising delivery methods.
- Sharing training and development costs.
- Increasing public sector capability and flexibility to absorb peaks and troughs.

Savings estimates and forecasts – health warning

The savings figures claimed for shared services must be used with extreme care. This situation is very comparable to the claims made for savings from outsourcing. The evidence in Britain showed conclusively that the 20%-25% claims made by the Conservative government in the 1990s and repeated by the OECD and other organisations were subsequently shown to be a myth (Whitfield, 2001 and ESSU, 2006) and averaged about 5%.

- **Estimates or targets are converted into facts** for example Scotland's National Strategy for Shared Services (Scottish Executive, 2006) includes a table with 'reported benefits' for the HM Prison Service shared services centre of £32m when in fact this is only a target and the centre only began operating in the same month as the Scottish report was published!
- **Private sector evidence applied in the public sector:** The savings achieved by transnational corporations consolidating corporate services into new shared service centres are often used to demonstrate the benefits of shared services in the public sector. But a private sector situation is not comparable with a group of local authorities or other public sector bodies establishing a public services project because there are fundamental differences in service objectives, corporate priorities, democratic accountability and the operating principles and values.
- **Transaction costs under-estimated:** All change programmes incur transaction costs from the planning and design stage to the procurement process and to managing and monitoring a project. Many projects are subsidised by grants and support from government and Regional Centres of Excellence. Shared services projects will often

involve fundamental changes in the use of assets and accommodation which may be written off, alternative uses found or sold. Some costs may not be eliminated but transferred to another budget or another organisation. There may also be indirect costs as a result of shared services projects. All these costs must be identified and quantified before making savings claims.

- **Offshoring inflates savings:** Most of the private sector evidence is based on transnational companies offshoring shared services to Eastern Europe, India, China or the Philipines. Hence large differences in employment costs confuse the evidence about the genuine level of efficiencies achieved by sharing services as opposed to moving them to exploit differences in labour costs.
- **Lack of clarity about scope of services:** There are likely to be different levels of costs and savings depending on the type and range of services included in a shared services project.
- **Size of project:** Economies of scale will vary between national shared services projects such as a government department centralising all its corporate services in one centre and a much smaller group of public bodies establishing a subregional project.
- **Lack of verifiable independent evidence:** Many of the claims made for shared services come from shared services operators and their host organisations. There is a dearth of independent evidence which can demonstrate that the figures are based on a full and comprehensive cost benefit analysis.
- **Rounding up** of figures for the purposes of propaganda and spin can lead to further distortion of the facts, for example a 17% saving is converted into a 20% saving for case studies and promotional material to exhort the advantages of shared services.

Table 6 summarises the savings reportedly achieved from public sector and private sector shared services projects. To our knowledge none of these figures have been independently verified and must therefore be used with caution.

The Buckinghamshire and Anglia figures of 15% and 18% respectively are reported by regional NHS shared services projects and a 20% saving is reported from the national NHS/Xansa project. We could find no sources for the 20% claimed by the Cabinet Office. The AT Kearney figures of 14% and 18% are based on private sector experience

Table 6: Savings estimates and forecasts for shared services

Organisation/study	Financial Savings Forecast
Public sector	
Buckinghamshire Shared Services – NHS	15%
Anglia Support Partnership (E-Gov, May 2006)	18%
Cabinet Office	20%
NHS/Xansa Shared Services Centre (Shared Services Bulletin No 4, 2006)	20%
PricewaterhouseCoopers (public sector, 2006)	20% - 30%
KPMG offshoring option (for NHS Business Services Prescription Pricing Division, 2006)	40% - 50%
Private sector	
ATKearney – global (private sector, 2004)	14%
ATKearney – European (private sector, 2004) Job reduction of 12% in Europe	18%

Sources:

Impact on particular groups

Service users: It is important to separate internal and external users of corporate and transactional services because they are completely different users with different interests. Whilst internal users may anticipate service improvements, external users, for example housing benefit claimants, may have concerns about access and the standard of service. The separation of policy and provision has yet to be tested in many services and could result in future service delivery problems.

The potential benefits of service improvement are tempered by the potential loss of involvement in the design and planning of services. In theory, there should be no change where involvement is already happening in practice. However, authorities which have little user involvement will be more reluctant to engage them in future and may use the standardisation of systems and services to justify this situation.

Council taxpayers: The same points apply as service users. The vast majority of shared services projects appear to be based on achieving efficiency targets and/or redirecting financial savings to frontline services rather than any reduction in council tax.

Elected members: The ability to achieve efficiency targets and/or redirect savings to frontline services are the prime benefits. Many elected members are likely to be concerned about the potential loss of local jobs where services are relocated although a minority may also consider the transfer of employment responsibilities as a positive move. Many elected members will be concerned about the potential loss of direct control of services which are relocated outside of the local authority.

Staff and trade unions: The potential impact on staff and trade unions is discussed in Part 6.

Business benefits

Consultants and private contractors: The shared services agenda is expanding the market for management consultants although this could lead to a reduction in smaller one-off contracts for individual authorities. The main business beneficiaries are managed services companies such as Capita, BT, EDS, Fujitsu, Serco and Xansa which have business centres in Britain and overseas, particularly in India. Shared services could provide a significant expansion of these business centres putting the companies in a advantageous position to win even more work through the expansion of outsourcing arising from commissioning, competition and contestability policies in New Labour's public services reform plans.

Part 6

Employment models and impacts

Introduction

Reference to the lack of concern about employment policies and the impact on jobs was made in Part 1. This section examines the potential effect of shared services on jobs and trade union representation.

The lack of concern about the employment implications of shared services projects is reflected in the dearth of information about the employment impact of projects. Most case studies simply do not report the impact on employment, not even providing basic information about the number of jobs involved.

Impact on jobs

The effect of shared services agenda on employment and the nature of jobs is rarely recognised except for vague references to 'workforce development', which whilst important, does not address the myriad of potential issues confronting staff and trade unions.

Jobs

- Possible relocation of employment to another location (out of town or other city) which could mean longer and more costly journeys to work.
- Redeployment and retraining
- Loss of job (offshoring, redundancy or because of unacceptable relocation of long journey to work).
- Loss of public service principles and ethos (being forced to work for a private contractor after staff joined the public sector for specific reasons regarding principles and values, or in a commercialised public sector shared services project).

Terms and conditions

- Changes to terms and conditions. Shared services could be another means of breaking down the public sector national pay system into regional and local bargaining. For example, it would enable London and South East based public sector organisations to relocate services in the North and avoid the London pay weighting.
- Loss or erosion of pension rights.
- Redundancy/early retirement.
- Salary protection for staff redeployed into lower graded posts.
- Equal pay claims.
- Negotiating temporary/transitional arrangements such as the payment of travel expenses for a given period: child care allowances to take account of longer journey to work and a new location may not have child care provision.

Industrial relations

- Loss of industrial democracy arrangements and erosion of involvement in local government, particularly if shared services are relocated to edge of town processing centres.

- Isolation from working with a range of staff in a public institution and being transferred to a call centre type environment.
- Fragmentation of trade union organisation and representation – loss of cohesiveness and collectiveness with restrictions placed on branch representation.

Working conditions

- Potentially conflictual relations if there is a lack of democratic accountability in joint ventures and partnerships which could be exploited by some senior managers to impose changes in working practices and terms and conditions.
- Concern that the shared services agenda provides an opportunity to impose more extensive flexible working – the 24/7 model to maximise economies of scale and use of IT and accommodation resources – which would be more difficult to achieve in existing, and more unionised and organised, public sector workplaces. This would include major changes in working patterns and the imposition of shifts and rotas as employers seek to integrate public sector work with existing operations for a diversity of clients.
- Deskillling the workforce and imposing changes to working practices.
- Removal from local accountability – consequence of commissioning but exact opposite of localism although the government and business will probably argue that shared services are essentially about back office functions which have no local bearing or influence and could be provided anywhere!

UK employment legislation and differences with Australia

The relocation of jobs as a result of shared services, for example the transfer of staff from five local authorities into a shared services project or the secondment or transfer of staff from a public body to a private contractor are covered by European Union legislation. Staff must be transferred with protection of terms and conditions and trade union recognition rights. There are no comparable transfer and employment rights in Australia.

The transfer of undertaking regulations (TUPE – which implement the European Union 1977 Acquired Rights Directive in Britain) and the Best Value Code of Practice on Workforce Matters are important regulations which afford a degree of protection for jobs, terms and conditions in Britain.

The Best Value Code of Practice on Workforce Matters now applies across the public sector. The Code requires that contractors (and sub-contractors) employ new staff working alongside transferred staff on “fair and reasonable terms and conditions which are overall no less favourable than those of transferred employees.” Contractors must consult with trade unions to agree the terms and conditions for new starters. The Code must be included in the contract between the public sector and the contractor.

Pensions are not directly covered by TUPE but the Local Government Act 2003 made the Cabinet Office Statement of Practice Staff Transfers in the Public Sector and its Annexe, A Fair Deal for Staff Pensions, legally binding. Staff have the right to either the Local Government Pension Scheme (LGPS) or a “broadly comparable pension” scheme approved by the Government’s Actuary Department (GAD). Contractors are required to offer new staff the option to join the Local Government Pension Scheme (LGPS), a good quality pension scheme – either a contracted out final salary based defined benefit scheme or a defined contribution scheme or the employer must match employee contributions up to 6% in a defined contribution scheme or a stakeholder pension scheme.

Employment models

Outsourcing or transfer effectively means that a public body transfers risks to staff. TUPE transfers and the Best Value Code of Practice on Workforce Matters do not provide any

guarantees. There is considerable change occurring in the pensions sector with private sector employers replacing final salary with money purchase schemes and a growing number of under-funded pension schemes.

There are basically four employment models:

- 1) In-house and remain with current employer.
- 2) Secondment to a joint venture company or public body.
- 3) Transfer to a new employer under the TUPE regulations.
- 4) A 'choice' model promoted by some private contractors which is a mix of secondment and transfer.

The European Services Strategy Unit has devised an Employment Risk Matrix which assesses the degree of changes in four categories of risk:

- Risk of changes to terms and conditions of service.
- Pensions arrangements (not covered by TUPE regulations).
- Risk of changes to staff consultation and representation.
- Risk of problems with secondment agreement.

(See www.european-services-strategy.org.uk/outsourcing-library)

The Employment Risk Matrix shows that 100% of the risks for the secondment model are in the none/low risk category compared to only 20% in the transfer model and 16% in the 'choice' model (ESSU, 2006). The transfer model has 40% of the risk for employees in both the high and medium risk categories.

The overall effect of the 'choice' model will depend on the proportion of staff that second and transfer and how this changes over the length of a contract. Private contractors expect the proportion of secondments to reduce considerably or to zero as the contract proceeds. This would mean that the in later part of a contract the risk profile in the 'choice' model would change and become similar to the transfer risk profile.

Number of jobs affected

The number of jobs potentially within the shared services remit is very significant. For example, there are 471,727 Full Time Equivalent (FTE) staff employed in support functions in schools, higher and further education and childrens' services alone – see Table 7. These services have a total annual expenditure of nearly £63 billion.

Table 7:

Public sector organisation	Number of Frontline Staff (FTE)	Number of Support Staff (FTE)	Total Expenditure (inc LA and Other) £billion
Schools	435,400	287,100	27.6
Higher Education	108,726	134,405	14.7
Further Education	106,656	38,291	6.4
Children's Services	45,635	11,931	6.5
Other Local Authority and Other Provision	N/A	N/A	7.5
Totals	696,417	471,727	62.7

Source:

Work organisation and changes to working practices

There are two aspects to changes in working practices. Such changes may be progressive where they result from sharing best practice and a collaborative approach in which trade

unions have been involved. A redeployment and retraining strategy should be a key part of this strategy.

However, the government, management consultants and private contractors usually consider that shared services projects are an opportunity to redesign and reorganise working practices and service delivery. This could lead to a lack of trade union and staff involvement in the planning and design of new systems and methods of service delivery and the imposition of new working practices without full consultation with all the relevant trade unions.

Trade union organisation and representation

A number of scenarios and issues could arise in shared services projects.

- Staff from several public sector bodies are transferred to one host authority, where as a result of historic differences in the implementation of local agreements, there are differences in terms and conditions.
- Negotiating differences in representation and recognition agreements – where different unions are represented with different levels of density – sole union agreement or continuation of existing representation.
- A private contractor will usually demand that trade union representatives must be directly employed by the contractor and may refuse to recognise local branch representatives who are employed by the host authority.
- It is important to recognise differences between trade union organisation, representation and practices between different parts of the public sector – health, local government, civil service, police, fire and rescue, transport – both within and between trade unions.

Regional economies and employment

The geography of provision is likely to change in three ways. Firstly, the establishment of national shared service centres will probably mean the relocation of jobs from London and the South East to the North, Wales and Scotland. This pattern is already evident – see Table 7. Some Northern interests may view this as a welcome opportunity for ‘growth’ and to create additional jobs. However, locating shared service centres in the North undertaking work for the South could increase the likelihood of the North’s own public services being privatised too. Since public employment accounts for about 30% of total employment in the three northern regions the negative knock impact within these regions could cancel out any gains from inward investment from shared service centres.

Furthermore, this ‘growth’ strategy could also result in client/commissioning authorities in the South demanding the end of national pay bargaining so that they can obtain higher levels of savings from shared services centres in the North. Lower accommodation costs, easier/lower recruitment costs and the avoidance of the London weighting are unlikely to diminish the pressure for more efficiency savings. Local authorities and trade unions are likely to be put under considerable pressure that accepting local market pay rates is the price for ‘additional’ or replacement jobs. This could be initially confined to ‘special arrangements’ for shared services centres but will inevitably apply across the board.

So the creation of a ‘contract economy’ in the North would help to drive down wages for a significant proportion of the existing population who are public employees. This is not a zero sum game but a negative game for employment.

Secondly, this approach is likely to have a negative impact on trade union organisation and their ability to maintain public sector provision in the North.

Thirdly, shared services projects in local government and other public bodies are likely to result in relocation within each region, with groups of authorities establishing shared services

projects on a subregional basis. There is likely to be no additional loss of employment to the region other than that anticipated by the project itself.

Table 7: **Geographic location of shared services provision**

Shared Centre	Service	Region
Prison Service		Newport (Wales)
DfT		Swansea (Wales)
DEFRA		York (Yorkshire & Humber)
Medical Research Centres		Swindon (South West)
NHS/Xansa		Leeds (Yorkshire & Humber), Bristol (South West) and Hampshire (South East)

ESSU, 2007

SSP locations

Of the 25 Strategic Service-delivery Partnerships currently operating, just over half are located in the north of England - seven are in the North West, five in Yorkshire and Humber and one in the North East. The remainder are spread across the other regions with three in the South East, and two in the West Midlands and the South West with one in London, East Midlands, and Eastern England. Wales and Scotland each have one centre.

Most SSPs have ambitious job creation targets, for example 1,300 in Rochdale, however, all but one SSP has failed to meet the job creation targets to date and most look likely never to achieve them. Implementing new technology usually means a loss of jobs so to create additional jobs means that SSPs have to win substantial additional contracts from other local authorities and public bodies. Only Blackburn achieved the job creation target of 500 new jobs in the borough over five years (2001-6) but this was achieved by the private contractor, Capita, transferring jobs from Bristol having won a ten-year TV licence contract.

Offshoring and global sourcing

The threat of offshoring shared services is very serious for a number of reasons.

Firstly, most of the companies which operate national/regional shared service centres and SSP business centres already own and operate business centres in Asia, particularly India. Siemens is currently negotiating to increase the number of jobs outsourced to India and Capita plans to increase offshoring to India from 3% to 10% of its workforce.

Secondly, several large transnational companies operate shared service centres in Eastern Europe. The attraction of relocating in Europe and accessing low wage economies is the main benefits being promoted by the companies and governments alike. Competition with Asia is likely to intensify as other Asian countries model their strategies on India, for example, the Philippine government and trade bodies recently announced a national programme to try to capture a larger share of the offshoring market.

Thirdly, management consultants in Britain are promoting large efficiency savings by offshoring. For example, options appraisal for the Prescription Pricing Division of NHS Business Services (which processes over 700 prescriptions annually) carried out by KPMG proposed offshoring 700 jobs. This plan was rejected, at least temporarily, by the government. The options appraisal did not assess the additional risks of offshoring. It presented the risks only in relation to an outsourcing option which were compared to those of the in-house optimisation model. Yet the PPD/KPMG report recommended an outsource/offshore model.

The risks of offshoring, in addition to those of outsourcing, are substantial:

- concern over confidentiality and security.
- quality of service.
- loss of continuity of service during and after transition as a new workforce is employed.
- loss of business knowledge from the workforce.
- viability of providers.
- hidden costs.
- contractual disputes and difficulties and increased costs of contract management.
- loss of organisational competencies.
- fraud monitoring is more complex.
- difficulty in ensuring compliance with NHS corporate policies.
- difficulty of establishing high levels of dialogue with service users as a result of cultural difference and skills.
- the risk of stakeholder backlash.

Additional costs of offshoring

The case for offshoring is usually centred on a comparison of wage rates between Britain and India or China but this is simplistic and masks the full costs. In addition to the costs of procurement, the cost of transition which could include training, investment in software/hardware and testing systems; the cost of making some staff redundant in Britain; the cultural cost – differences in productivity, staff turnover and language difficulties; and the cost managing an offshore contract including invoicing and auditing should be taken into account.

Part 7

Democratic accountability, governance and transparency

Introduction

The formation of new organizations and/or existing public bodies working collectively raises many challenges for democratic accountability, governance arrangements and maintaining transparency. It is also essential that such arrangements are open to constant monitoring and regular review and scrutiny. This section examines:

- Accountability and governance of new national shared services centres
- Accountability and governance of local and subregional shared services projects
- Governance of partnerships
- Governance of outsourced projects

Different arrangements will be required to ensure democratic accountability in collaborative, consolidation, lead authority, jointly managed, strategic partnerships and outsourced shared services projects.

The governance of shared services projects are expected to manage a number of principles:

Ownership: governance covers development and deployment to ensure integrated approach.

Due diligence: Understand individual authority and collective requirements, barriers and maximize benefits and recognise/resolve policy and ownership issues.

Inclusion: all 'stakeholders needs are taken into account' with users views driving the development and deployment of shared services.

Communication: 'business drivers are reflected in the programme communications' to minimize stakeholder confusion.

Challenge: Regular and direct challenge to provide management assurance of all processes.

Compliance: Organisation meets time, quality and cost targets and 'challenges the programme to mitigate any variances'.

Benefits: the governance structure must ensure that 'the outcomes are tracked' and the benefits realized.

(Shared Services Guidelines No 7, 2006)

Accountability and governance of new national shared services centres

The governance of information assets and shared services was considered by the Varney Report which concluded "that decisions are driven by the business requirements of the users, whether public bodies, businesses or consumers and these requirements should be strongly reflected in the decision making body, which should be accountable to a Cabinet Committee" rather than shared between different bodies as at present (Varney, 2007).

Accountability and governance of local and subregional shared services projects

The Welland Partnership (see Part 4) has a governance and project structure headed by the Welland Executive Panel which comprises the chief executives from the five participating local authorities and three nominated Elected Members from each council. The chief executives hold monthly Project Board meetings. In addition, Service Improvement Planning Groups for Procurement, Benefits, Legal and Internal Audit comprise a representative from each council with a lead role shared between the authorities. The project has an office at Harborough District Council with a project manager, administrative and research support. Management consultants have been used at different stages of the process.

The North East Scotland Joint Public Sector Group comprises the chief executives from the participating authorities with an annual rotating chair. The meetings are also attended by nominated senior managers (see Appendix 1 for the NESJPSG Memorandum of Understanding).

Governance of partnerships

Joint Venture Companies such as those established in SSPs, are usually governed by a Strategic Partnership Board consisting of the leader of the council, the lead member for finance and the chief executive plus three or four representatives from the private company – chief executive, director, and senior managers. This Board reports to the cabinet or executive in the public body and the board of the private contractor. A second tier operational board is usually established consisting of managers who are responsible for implementing the project.

SSPs have largely been secretive with very low level of transparency. Repeating this model for shared services will further reduce democratic accountability.

Governance of outsourced projects

The Confederation of British Industry (CBI) argues that accountability can be achieved through contract governance.

“Transferring operations to an external partner provides a contractual framework for high levels of accountability and customer responsiveness around delivery. This can be achieved through targets, which are specifically focused on outcomes, and Service level Agreements as well as incentives and penalties to promote high performance. Such levels of accountability and transparency are not often found with in-house operations” (CBI, 2006).

This myopic view of accountability is a direct consequence of pursuing outsourcing as the ‘solution’ for the delivery public services. Firstly, contractual frameworks do not lead to ‘high levels of accountability’ because local governance is much more than merely administering contracts. They conveniently ignore ‘democratic’ accountability which is more than merely reporting to commissioners or contract managers.

Secondly, targets, incentives and penalties are a normal part of most contracts and are useful tools but they do not guarantee good quality performance as a large percentage of outsourced public sector contracts already demonstrate. So it is a myth that these mechanisms assure quality or any degree of accountability.

Thirdly, procurement and outsourcing means the widespread use of ‘commercial confidentiality’ which private companies and consultants use extensively. Transparency is substantially reduced which limits accountability and harms the public interest. In addition, scrutiny is made more difficult. To claim that the level of accountability and transparency in the private sector is greater than public sector in-house services is nonsense.

Many projects are collaborative and lead authority roles and there is no need or advantage for private sector involvement.

Part 8

Principles and framework to assess proposals and impacts

Introduction

This chapter is divided into two parts. The first examines the principles on which shared services projects should be developed and operated. It provides a framework for use by government, public bodies and trade unions. The second part examines the criteria which should be considered in the options appraisal process.

Need for principles

There is always the threat of loss or erosion of public service principles in shared services centres when they are located outside of existing public institutions and when new governance arrangements may reduce direct democratic accountability. It is also vital to ensure that a shared services centre is not simply regarded as another type of call centre.

The principles cover:

- Quality of service and relationship with frontline services
- Democratic accountability and governance
- Shared service process
- Employment

Some of the shared services guidance calls for managing the relationship between public sector organisations and shared services facilities on a commercial basis and establishing a commercial approach to 'buying' shared services solutions. Whilst a rigorous approach will be necessary, adopting a commercial approach will create a number of problems, not least creating a division between the public sector body and the shared services operation.

The principles should be incorporated into all the shared services project documentation ranging from Partnership Agreements, the identification of options, options appraisal and any subsequent procurement documentation, particularly the Invitation To Tender or Negotiate.

Table 8: Proposed principles for shared services

Principles for shared services	
	Scope and quality of service
1	Focus on collaboration and sharing best practice in frontline as well as back-office services.
2	Take a long-term perspective and avoid short-term focus on efficiency and savings.
3	Improve the quality of service to internal and external users.
4	Full use of economies of scale to maximise benefits for reinvestment in frontline services.
5	Standardisation to maximise sharing potential and avoid duplication but accommodate local flexibility and added value services.
6	Enhance public service principles and values.
	Democratic accountability, governance and participation
7	Democratic accountability and governance with all joint boards, committees and JVCs fully accountable to partner authorities.
8	Trade union involvement in the early stages of project development and in project implementation.
9	Impact assessment of service and employment consequences and economic, financial and equalities issues.
	Shared services process
10	Rigorous evaluation of options using comprehensive appraisal criteria
11	Retention of skills and intellectual knowledge in the public sector.
12	Maximise public ownership of assets (buildings, equipment).
13	Transparency of process and disclosure of information and evidence base
14	Full business case and business plan to underpin project.
15	Assess impact of commissioning and outsourcing on scope and sustainability of shared services.
16	Rigorous and comprehensive procurement process if this is required.
	Employment
17	Employment transfers and maintenance of public sector terms and conditions including pensions for transferred and new staff.
18	In-house/secondment option a priority. Transfers on a TUPE Plus basis including pensions for transferred and new staff.

Source: European Services Strategy Unit, 2007.

Options appraisal criteria

A number of shared services guidance documents provide decision-making criteria, for example the 4ps (2006) and DCLG (2006). The 4ps guide lists several criteria in four categories – structure, financial, employment and legal but these are very limited criteria. However, this guidance is flawed because it is not comprehensive, does not put sufficient emphasis on sustainable development and employment and excludes issues such as the local/regional economy impact and equalities/social justice.

A more comprehensive framework is described in Table 9 using twelve headings:

1. Design and scope
2. Accountability, governance and participation
3. Financial assessment

4. Quality of service
5. Local/regional economy and community well being
6. Quality of employment
7. Sustainable development
8. Social justice
9. Management and capability
10. Organisational arrangements
11. Added value
12. Corporate impact on the authority

Options Appraisal Criteria	
1. Design and scope	2. Accountability, governance and participation
<ul style="list-style-type: none"> • Public service principles and ethos. • Strategic and project objectives. • Vision and aspiration for services and infrastructure. • Understanding of current needs, problems, opportunities and market mechanisms. • Ability to fulfil client functions, responsibilities and accountability. • User views and aspirations. • Ability to meet future needs, changes in levels of demand, demographic and technological change. • Effect of creating/extending market mechanisms. • Potential response from market and need for regulatory change. • Scope for taking advantage of synergies. • Compatibility of systems and processes. • Design/technical quality assessment. • Shared services opportunities. • Communications strategy 	<ul style="list-style-type: none"> • Maintaining and enhancing democratic accountability, governance and role of elected members. • Accountability and governance of partnerships, alliances and joint venture companies. • Implications of increased role of private companies or third sector organisations in governance. • Management accountability. • Scope for internal/external user and community involvement in planning, policy and provision. • Contribution to neighbourhood management, delivery and participation. • Accountability of user, community and other representation. • Staff and trade union involvement and industrial relations framework. • Transparency and disclosure to political, management, employees and public interest. • Scope for review and scrutiny.
3. Financial assessment	4. Quality of service
<ul style="list-style-type: none"> • Ability to access and deploy resources. • Whole life costs including transaction costs – commissioning, procurement and contract management. • Investment strategy and source of funding. • Medium and long term affordability. • Best Value and value for money. • Pooling of budgets and scope for sharing costs. • Asset management proposals including impact on accommodation needs and costs. • Ability to identify, apportion and manage demand, design, economic, operational, residual value and other risks. • Use and allocation of projected savings. • Medium/long term financial impact of sale of assets. 	<ul style="list-style-type: none"> • Scope for improved integration of services. • Ability to achieve service quality, standards and responsiveness. • Ability to achieve continuous service improvement and innovation. • Ability to cope with changes in service volumes and delivery. • Operational flexibility and ability to cope with policy changes. • Scope for innovation in design and delivery. • Equity of accessibility and connectivity. • Improving crime prevention and increasing security. • Meeting internal/external user needs and requirements. • Ability to maintain service quality and continuity during transition.
5. Local/regional economy and community well being	6. Quality of employment
<ul style="list-style-type: none"> • Scope for increased collaboration and shared services. • Job creation opportunities and overall growth or decline in employment. • Increasing level of education and skills in workforce and labour market. • Provide accessible secure jobs for local unemployed people and other disadvantaged groups. • Local economy impact. • Developing role of public sector in the 	<ul style="list-style-type: none"> • Impact of employment models. • Ability and resources to fulfil TUPE, TUPE Plus and Code of Practice obligations. • Implications of TUPE avoidance strategies – spot purchasing, changing method of service production. • Sharing/pooling of staff arrangements. • Quality/security of terms and conditions. • Quality/security of pensions for existing and new staff. • Ability to recruit/retain staff and avoidance of

<p>economy and in particular sectors.</p> <ul style="list-style-type: none"> • Community well being and cohesion. • Contribution to regeneration and economic development strategies. • Increase capacity for innovation and research and development. • Avoidance of offshoring. 	<p>two-tier workforce.</p> <ul style="list-style-type: none"> • Trade union representation and facilities. • Workplace and community training, learning and development. • Access/provision to childcare and family friendly policies. • Changes to working practices and redeployment. • Impact on health and safety in the workplace and community.
<p>7. Sustainable development</p>	<p>8. Social justice</p>
<ul style="list-style-type: none"> • High quality affordable and sustainable housing. • Impact on developing local/regional production and supply chains. • Sustainability of construction methods and buildings. • Access to parks, open space & recreational activities. • Increase access to facilities and participation in arts, local culture and heritage. • Improved community safety & reduced accidents. • Environmental impact and quality including air quality, landscape, noise, climate change, biodiversity, minimising, recycling and reusing waste, and efficient use of energy and water. 	<ul style="list-style-type: none"> • Proposals for reducing/eliminating inequalities – race, gender, disability, age, sexual orientation, religion and belief. • Progress in reducing inequalities in health and social care, education, housing and transport. • Distributional analysis of costs and benefits and opportunities – by income, gender, ethnic group, age, disability and by area, city and region. • Redistribution and improvement in life chances. • Workplace equalities and diversity. • Elimination of discrimination. • Contribution to building community capacity, power, and participation of minority groups.
<p>9. Management and capability</p>	<p>10. Organisational arrangements</p>
<ul style="list-style-type: none"> • Retention of key skills and intellectual knowledge. • Capability to secure and manage objectives. • Ability to manage cultural change. • Ability to operate within regulatory frameworks. • Transferability of change to rest of authority. • Contribution to neighbourhood management initiatives. • Ability to manage project to conclusion. • Exit strategies, implications and costs. 	<ul style="list-style-type: none"> • Legal powers to act. • Organisational structures and delivery options. • Scope for collaboration and consortia arrangements. • Organisational flexibility to respond to changing circumstances. • Impact of establishing new organisations on existing structures and processes. • Impact of transfer of services and functions to/from public bodies.
<p>11. Added Value</p>	<p>12. Corporate impact on the authority</p>
<ul style="list-style-type: none"> • Proposals over and above the core requirements of the project. • Additional community benefits from procurement process (local labour, training, facilities via Section 106 agreement). • Public value? 	<ul style="list-style-type: none"> • Impact on corporate policies and priorities. • Effect on integration/coordination of services. • Degree of organisational change required. • Impact on viability of in-house provision. • Employment knock-on effects in other directorates. • Assessment of effects on provision of similar services to other Authority and external users. • Assessment of effects on central services. • Assessment of any wider costs impact. • Risks with service model.

Source: European Services Strategy Unit, 2007

Part 9

Longer-term implications

Introduction

At a time when there is very strong pressure on public bodies from government and the private sector to adopt shared services strategies, it is essential that the wider and longer-term consequences of this policy are fully examined despite a dearth of evidence. This section raises a number of questions and issues which affect the future quality and cost of public services, the quality of jobs and the function and form of public bodies.

Some key issues

- Will many corporate services and transactional services effectively cease to be public services because they will be bought 'off the shelf' from private suppliers like other goods and services? National and regional shared services centres are likely to be prime targets for subsequent efficiency programmes and targets. They will also present the private sector with new opportunities to extend market penetration in these services.
- What happens if corporate and transactional services are removed from local authorities and other public bodies and provided centrally – will this be liberating and enable them to concentrate on delivering frontline services or does it mark just another stage in the further centralisation and privatisation of services?
- Will the focus of shared services move to professional services, such as design, technical and legal services? Whilst these services have a stronger 'local delivery' component than some corporate services, it might be argued that they can be delivered from regional or subregional centres. Most of the larger private companies already operate from regional centres and some new Strategic Service-delivery Partnerships such as Oldham and Rochdale include both professional and corporate services.
- The conflicts and contradictions in government policies are likely to become more apparent, for example, increasing centralisation and relocation of services to national centres conflicts with policies which promote localism, empowerment and increased user/staff involvement in the design and planning of service delivery. Another example is the potentially conflicting interests between private sector-led Local Education Partnerships which will want to maximise the local provision of education and children's services and the pressure on local authorities to maximise use of national shared services centres.
- There may be conflicting impacts between government policy for all public sector organisations to adopt the commissioning, contestability and competition model on the one hand and the shared services model on the other hand. Continued outsourcing of public services will reduce the HR, payroll and legal workload of shared services centres. The transfer of functions to arms length companies and trusts could also reduce the market for shared services as these organisations often select their own private provider.
- Mergers and acquisitions between private contractors and sector led shared service centres are likely to change the structure of this sector and result in new cost cutting

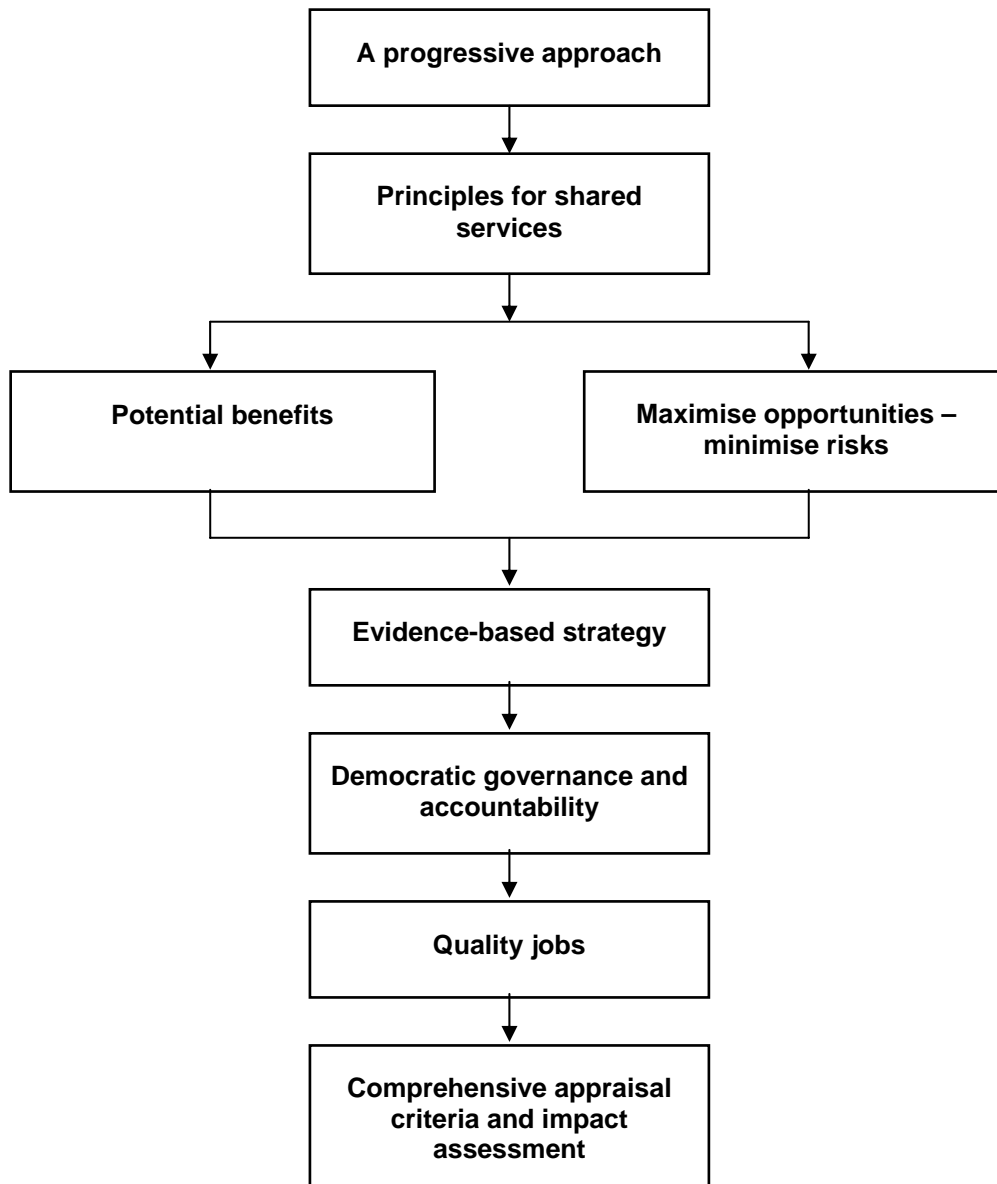
pressures. This raises key issues about the consequences of outsourcing, the degree of public sector control over service delivery and future ownership of the shared services infrastructure. The current sectoral approach to shared services provision in Britain will inevitably lead to the consolidation and merging of centres as companies search for further cost cutting measures and productivity increases to maximise profits.

- The longer term direction and impact of shared services heavily depends on the ability of trade unions to inject a more progressive policy perspective and ensure that employment policies are central in shared service decision-making. If this is not achieved it could have profound implications for trade union influence and industrial relations in a period of potential rapid decline in public sector employment (see Part 6 for a detailed discussion of the longer impact on employment).
- What will the fusion of shared services strategies and the implementation of the commissioning, contestability and competition regime have for the future role of the local state? What functions will remain if PPP/PFI, Local Education Partnerships (via Building Schools for the Future projects), school trusts, City Development Companies and transfers to other arms length companies and trusts continue to be implemented? This raises questions about what will be regarded as 'public services'. Local authorities could be reduced to shell organisations providing fewer and fewer services with less and less to share.
- The impact on core services such as teaching and medical services is difficult to predict. The teaching function is already encircled by the marketisation and privatisation of support and related services and the shared services agenda is likely to impose new pressures which will drive further privatisation (Whitfield, 2006).
- What new forms of marketisation are likely to emerge? Further commodification of public services is likely to be generated by political values as much as by new technology.
- Will the shared services strategy make the Strategic Service-delivery Partnership model obsolete? SSPs undermine key shared services principles and the regional business centre model has largely failed (see Part 4 for a fuller discussion of shared services and SSPs).
- Is the City Region concept a means of extending the shared services agenda on a significant sub-regional scale, particularly for local government and health, through joint production/delivery, achieving sustainable development targets and retaining in-house provision. Or is it a vehicle to drive outsourcing in all the main urban areas?

Part 10

Shared Services Strategic Framework

The shared services Strategic Framework has eight key elements:



Further details can be found in Shared Services Strategic Framework Briefing Paper.

Part 11

Recommendations

Based on the findings of this report we make the following recommendations to government, public sector organisations and trade unions:

- 1) Public sector organisations should use the shared services typology to identify the scope for a progressive approach based on collaboration, lead and joint public sector initiatives.
- 2) The shared services principles should underpin all projects and the development of business cases.
- 3) The options appraisal criteria should be used to evaluate all projects to ensure that the full range of costs and benefits are identified and assessed.
- 4) Employment policies and the impact of the relocation of jobs must be a core policy issue in all shared services projects.
- 5) Public sector organisations should focus on collaboration and sharing best practice across all frontline and back-office services, not just corporate and transactional services.
- 6) Democratic accountability and transparency should be mainstreamed in organisational structures and working methods from the beginning of all shared services projects and all parties required to sign up to this principle.
- 7) Comprehensive and rigorous independent research into the costs and benefits of public sector shared services models should be undertaken as a matter of urgency. This should include central, regional and local government support costs for the shared services programme.
- 8) Staff and trade unions should be engaged at the planning and design stage of shared services projects including representation on working groups and all staff kept fully informed as the project develops.
- 9) Public sector organisations should clarify the legal issues at an early stage, particularly procurement requirements.
- 10) Public sector organisations and trade unions must take account of the longer-term impact of shared services projects and simultaneous implementation of other policy and projects.
- 11) Public sector organisations should fully harness joint in-house capability and intellectual knowledge before considering engaging management consultants.
- 12) Public organisations should establish mechanisms to identify the full range of costs and to ensure savings are redirected to frontline services.
- 13) Trade unions should develop shared services strategies and ensure they have a key role in shaping the overall agenda and for employment policies to be considered a core issues in all projects.
- 14) Trade unions could draw up a shared services charter or memorandum of understanding for each shared services project based on the principles and how they expect them to be implemented.

Appendix 1

NORTH EAST SCOTLAND JOINT PUBLIC SECTOR GROUP

The following memorandum of understanding is an agreement for a group of public sector bodies wanting to development more collaborative ways of working and joint projects.

Vision

To set the strategic direction of a fully integrated public sector in the North East that will:

- deliver the highest quality front line services to both rural and urban communities,
- respond to the needs of citizens, customers and wider stakeholders
- provide the most efficient governance of public sector economy in the North East through:
 - innovation in *power* and resource sharing arrangements between the public services
 - integrated arrangements for back office services at a local and national level.
- fully exploit the strategic use of information systems and communication technology and realise its capacity to transform within the public sector
- set the standard for high quality public sector governance from national to community level in partnership with public, private and voluntary sector partners.

Purpose

The purpose of the Group is:

- to translate this vision into shared strategic direction for the development of the public sector in the North East. This will deliver the synergy between public service organisations required for integrated, efficient and joint responses to the needs of our citizens and customers;
- to agree strategic priorities for public sector development, and strategic priorities, for the North East;
- to agree the specific contribution of each public sector service in meeting these priorities;
- to agree the outcomes required;
- to set performance measurement and management arrangements to demonstrate continuous improvement and efficiency is being achieved.

Remit of the Group

- To deliver the shared vision.
- To identify the strategic direction and determine the continuous improvement and efficiency priorities in the following areas of best value - finance and resource management and deployment; personnel and organisational development; procurement and joint contracts; information systems, data sharing and ICT; public sector property and asset management and the management and development of the public sector economy.

- To maintain an overview of and review the actions taken, to deliver on the strategic priorities initiating in the areas of the economy, housing development, transportation, infrastructure, waste, land use, closing the incomes gap and improving health.
- To provide joint leadership of the public sector and ensure the development of high quality public sector leadership and management.
- To develop joint performance monitoring across the public sector to demonstrate the joint performance of the public sector.
- To embed Community Planning and partnership working within each of the public service organisations.
- To raise awareness and highlight the interdependence of the public service organisations in the delivery of the highest quality services.
- To agree and review the relevant reporting arrangements between the members of the group to the relevant boards and councils.
- To develop the necessary arrangements to engage elected members and community planning partnerships.
- To hold joint funds, to employ or second personnel to undertake administrative and programme management work on behalf of NEJPSG.

Membership

The membership will consist of:

the Chief Executives of Moray, Aberdeenshire and Aberdeen City Councils

the Chief Executive Officer of NHS Grampian

the Chief Constable of Grampian Police

the Chief Fire Officer of Grampian Fire and Rescue Service

the Chief Executive of Scottish Enterprise Grampian

These are the named agencies to which the duty of Community Planning and Best Value applies within the Local Government Scotland Act (2003). The meetings will be chaired and administered by an annually rotating chair from this grouping. Other members may be invited to participate dependent on the strategic priorities set and the business agenda of the NEJPSG.

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