



**Shared Services as a Long-term Solution
for Local Government:
Delivering on the Gershon Report**

Commissioned by Serco Solutions

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bringing service to life

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Foreword

The Gershon Efficiency Review has delivered a major challenge to central and local government to reassess the productivity with which they deliver public services - the efficiency with which inputs are combined to deliver outputs. This is not a new challenge, although the Gershon Review presents the issues with a new clarity and a new urgency.

The research presented in this brief publication looks at the way in which local government practitioners, and finance directors in particular, are approaching the delivery of the Gershon targets. It focuses on one particular kind of initiative - the sharing of services across departments and local authorities - which finance directors consider will be highly important to their pursuit of efficiency savings over the next two years.

It seeks to understand how finance directors perceive the sharing of services - the opportunities and the obstacles - with a view to making that process easier and tailoring private sector offerings to meet local authorities' needs. This is an approach which respects the professionalism of local authority executives. It recognises that they have legitimate interests and serious challenges in seeking to adopt a collaborative approach. It is only by understanding and respecting the real-world position of local government practitioners that the private sector will learn to meet their needs.

Gary L. Sturgess
Executive Director,
The Serco Institute

Executive Summary

Local authorities are well into their first year of delivering the efficiency savings identified by the Gershon Review. What little evidence is available publicly suggests that they will deliver their targets for the first year, but that the ongoing delivery of these savings will be more difficult in future years.

Serco Solutions commissioned independent research, covering 26% of all local authorities in England, to discover what finance directors think of the Gershon Review and how they propose to meet their targets.

- Local authority finance directors accept the inevitability of the Gershon reforms. For 95% of them failure to deliver is not an option. When asked to list their biggest concern about the reforms, not meeting their targets was mentioned by fewer than one in five.
- However, two in five mention cynicism and a lack of internal ownership as barriers to implementation, and one in five mention a lack of cooperation within and between councils.
- While they accept the inevitability of the reforms, 43% of respondents consider that they are distracting effort from other key initiatives, while 39% report that too much resource is being channelled into meeting the targets.
- Local authorities are relying on budget savings, streamlining of business processes through use of IT, reducing head count in the first year of Gershon. However, in the next two years, they expect to be relying much more heavily on a combination of IT and shared services to meet their targets.
- An overwhelming majority of finance directors are planning a shared services initiative in the next two years.
- Finance directors see shared services as delivering most benefit in informational and transactional services. However, there is caution around sharing human resources and payroll services and procurement functions.
- The greatest barriers lie in the high costs of negotiating collaborative arrangements and aligning different objectives.

These results suggest that, in the beginning, the advocates of shared services should concentrate on those services where the leaders of local authorities can see the greatest benefit, where they face the least loss of control over services that are important to political and professional leaders, and where the transaction costs are lowest.

This implies the need for a flexible approach, drawing on a variety of different shared services models tailored to the particular needs of the local authorities in question.

1. Introduction

One year after the publication of the Gershon Review, uncertainty remains over the impact of its recommendations. The results of the first year have yet to be published and within local government, discussion and debate is still going on as to the way in which the recommendations are to be implemented. Serco Solutions commissioned research among financial directors and senior finance professionals working in local authorities across England.

This survey was undertaken in order to gain a better understanding of attitudes towards the Gershon Review and ascertain the strategies that are being implemented to achieve the savings set out in the review. More broadly, this paper seeks to contribute to the debate about how local government can realise efficiency savings over the longer term through sophisticated partnering arrangements, with a particular focus on the shared service model.

Serco Solutions has been delivering shared services since 1993. We are committed to researching this area from a practical viewpoint because we believe the public will benefit if local authorities are able to enhance their capacity through streamlining and improving the productivity and the quality of their services. Of course, it is in our interest to assess the markets in which we operate. However Serco's experience of managing public services for government customers for over 40 years puts us in a unique position to enter the debate and share insights into the issues affecting wider stakeholders engaged in the efficiency agenda.

1.1 Methodology

The survey was conducted in mid-2005 through an external agency, Citigate, based on telephone interviews with 106 chief financial officers and senior finance professionals in 102 local authorities across England. This represents 26% of all local authorities in England.

2. Efficiency in Local Government

Enhancing the efficiency of local services is not a new challenge for local authorities. As the Gershon Review recognised, many local authorities are already delivering efficiency reforms through investment in new technology and the rationalisation of back office functions. Councils all over the country have been looking at new ways of working with a range of private and voluntary sector suppliers, with a view to improving service delivery through innovative procurement.

Sir Peter Gershon's Review of Public Sector Efficiency entitled, 'Releasing Resources to the Front Line', was published alongside the UK Government's 2004 Spending Review. It set out to address the productivity with which public services are delivered, to improve the ratio of inputs to outputs. The review found that realising efficiency potential across the whole of the public sector is essential to the delivery of improved public services.

Gershon spelled out annual efficiency gains of more than £20 billion in 2007-08 and local government was expected to play a prominent role in delivering this - £6.45 billion (or 30% of the total savings target). This represents additional savings in each of these three years of 2.5%, with a total annual saving of 7.5% (in real terms) by 2007-08.

It was expected that 40% of these savings would be delivered through schools, 35% through procurement in other services and 10% through policing. The remainder was to be delivered in a number of ways, but in each of these areas, the majority of savings were expected to come from the reform of back office and transactional services. Half of the savings made by local government are to be cashable (meaning that they will be capable of being redirected to the front line), with the other half to be delivered through increased outputs and enhanced services at no extra cost.

The Minister for Local and Regional Government later made it clear to local authorities that they were free to choose how they would achieve their targets, although a range of initiatives have been launched by central government to provide individual councils with support. Local authorities are to report their savings in their Annual Efficiency Statements, signed off by the Leaders, Chief Executives and Chief Financial Officers of Councils.

3. Practitioner Insights into Delivering on Gershon

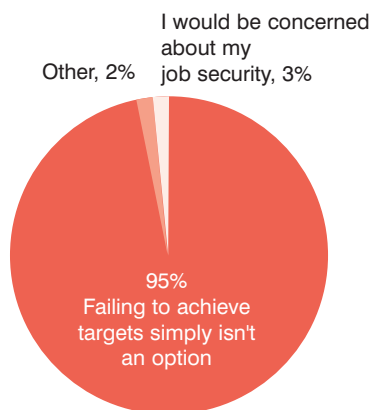
Since the release of the Gershon Review, a significant amount of effort has been invested into meeting its objectives. One survey has suggested that local authorities will easily meet the first-year target of £1.2 billion¹. But it was always recognised that the greatest challenge lay in delivering the Gershon efficiencies on a sustainable basis over time. Serco's research into the attitudes of practitioners towards Gershon is intended to provide an insight into some of the realities of implementation.

3.1 Who is responsible for delivery?

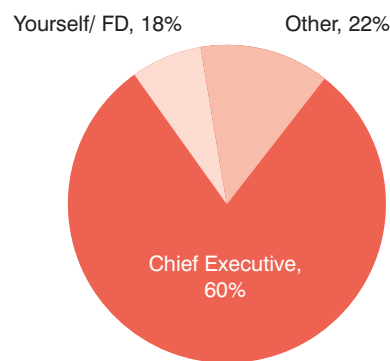
The survey results suggest that finance directors accept the inevitability of the Gershon reforms: while they do not have ultimate responsibility for delivering the efficiency targets, overwhelmingly they take the view that failure to deliver is not an option (Figure 1). When asked what was their biggest concern with the implementation of the recommendations in the Gershon Report, fewer than one in five of the respondents listed not meeting their targets (Figure 3). This suggests a high level of resolve among finance directors to deliver the Gershon efficiencies.

Figure 1:

What is the impact of you failing to achieve the targets set out by Gershon?



Who is ultimately responsible for the delivery of Gershon targets?



¹ IPF, 'Annual Efficiency Targets More Than Matched by English Councils', Press Release, 22 July 2005.

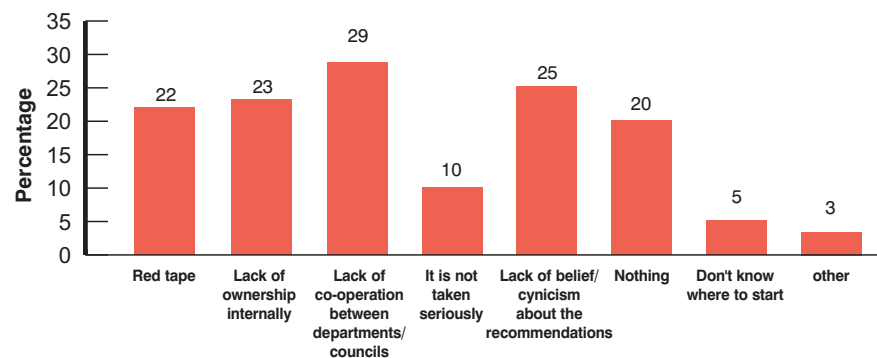
3.2 Barriers to Implementation

When they were asked what is hindering the implementation of the Review, respondents gave a variety of responses, but 29% of them mentioned cynicism about the recommendations and 23% said there was a lack of internal ownership (Figure 2). This suggests finance directors are concerned about a lack of commitment elsewhere within their local authorities, and implies a need for clear leadership on the part of local politicians and senior executives. This is consistent with research into the introduction of shared services in a number of governments around the world, which suggests that clear leadership is fundamental to success in this area.

The other significant response to this question (25%) was a lack of cooperation between councils and departments within councils. Lack of collaboration within councils also suggests a need for firm leadership, but when it comes to the establishment of shared services between councils, it is unsurprising that executives in different local authorities feel that cooperation with other autonomous bodies will be difficult.

The challenge of overcoming organisational inertia and established routine is evident in the 22% of finance directors who listed 'red tape' as a hindrance to implementation, although this is not a surprise given the scale of the change involved.

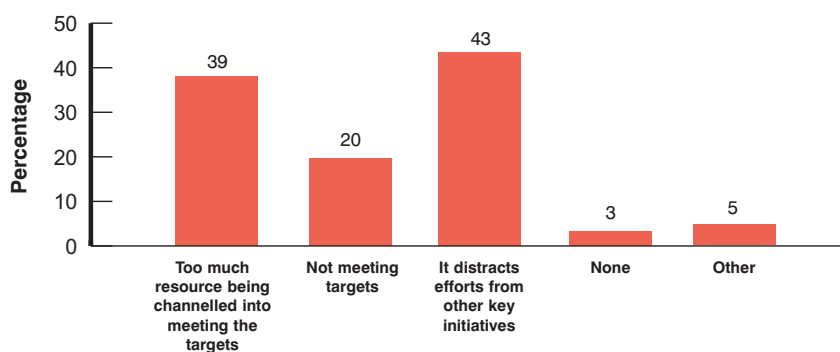
Figure 2: What is hindering the implementation of efficiency strategies in order to achieve Gershon targets?



But while they accept the inevitability of the Gershon reforms and only a small minority are concerned about not meeting their targets, finance directors do have concerns about the resources being committed to their delivery. 43% of respondents believe that it is distracting effort from other key initiatives, while another 39% report that too much resource is being channelled into meeting the targets.

This leads us to believe that finance directors are treating the Gershon targets as a separate challenge to the efficiency targets that already exist in other key initiatives in their authority. They have clearly understood the political mandate to deliver, but unless they can integrate the Gershon targets so they align with the outcomes of other key initiatives, they will continue to see them as a distraction (Figure 3).

Figure 3: What are your biggest concerns around Gershon?



* The total adds up to more than 100% because some respondents chose more than one answer.

3.3 Sources of Savings

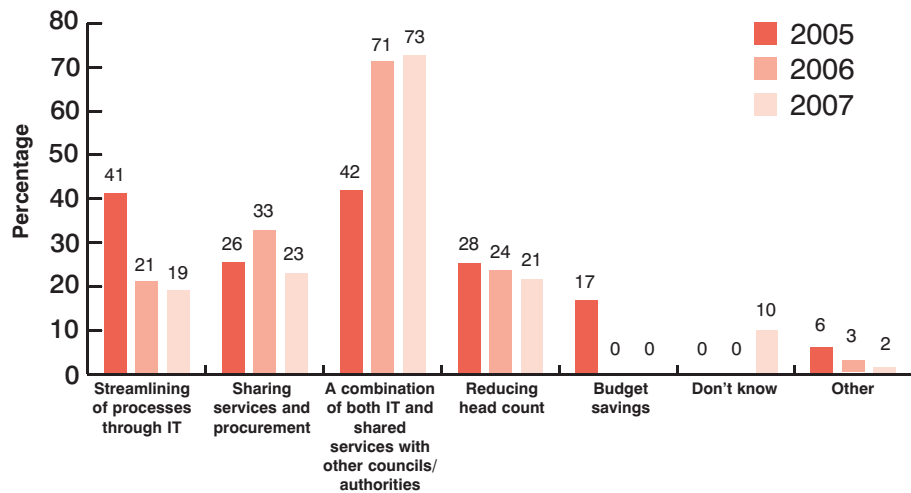
Industry commentators had predicted that local authorities were likely to have made sufficient savings in the first year of the Gershon Review's period to meet their initial targets, and early surveys seem to confirm this. This is explained by a number of factors: it is expected that existing e-government programmes focused on cost reduction will make a contribution to the additional targets, and initiatives which can deliver high levels of 'one-off' savings, such as head count reduction, are capable of being realised in the first year.

The second and third years covered by the Gershon Review are likely to be much more difficult. As well as established methods of cost reduction, local authorities are being required to look to more innovative strategies in order to reach untapped savings potential. Our research suggests that local authorities are using a number of different approaches to tackle their efficiency targets including reduction of head count, streamlining processes using IT, sharing services and sharing procurement.

The results confirm that streamlining processes through the use of IT, reducing headcount and other short-term budget savings are more prevalent in the first year, whereas a combination of IT and sharing services with other authorities will be increasingly favoured in 2006 and 2007 (Figure 4). Moreover, 94% of finance directors reported that IT had acquired much greater significance for them over the past two years, reflecting this shift in emphasis.

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Figure 4: Where will Gershon savings come over the next three years?



* The total adds up to more than 100% because some respondents chose more than one answer.

3.4 Summary

Efficiency reform has been at the forefront of the local government agenda for some time, but the Gershon Review has sharpened the focus with identified targets, central reporting and common strategies. Our survey suggests a high level of resolve among senior managers but also a range of concerns.

- There is a reluctance on the part of finance directors to adopt a 'reactive position' in relation to the Gershon agenda;
- On the other hand, two out of five finance directors report that a lack of commitment to or ownership of the efficiency agenda within local government is hindering implementation;
- Time, talent and money are scarce and the challenges involved in implementing organisational reform, particularly where it involves collaboration between different local authorities, are significant and necessarily involve a diversion of resources from other key priorities;
- It appears that the Gershon Report and/or central government officials have failed to adequately explain the full benefits of the efficiency reform to a key group of senior officials in local government;
- While finance directors report that they are relying on a range of short-term initiatives to deliver savings in the first year, the evidence suggests a much greater reliance on IT and shared services in future years.

4. A Closer Look at Shared Services

4.1. The Emergence of Shared Services

Partly as a result of developments within domestic and international markets, and partly because of the emphasis given by the Gershon Review, shared services have received a great deal of attention in debates over the delivery of the efficiency savings. Large industrial corporations have been increasingly using shared services over the past decade, although the concept has not been embraced by the public sector in the same way. The Efficiency Review has placed the sharing of services across multiple agencies at the heart of efficiency reform going forward.

There appears to be a general recognition of the potential for significant economies of scale through the sharing of administrative and support services across multiple agencies, departments and governments. 44% of the finance directors interviewed reported that they were planning some form of shared services initiative in the next year and 51% in the next two years (Figure 5).

Figure 5: Are you planning any form of shared services in the next few years



* The total adds up to more than 100% because some respondents chose more than one answer.

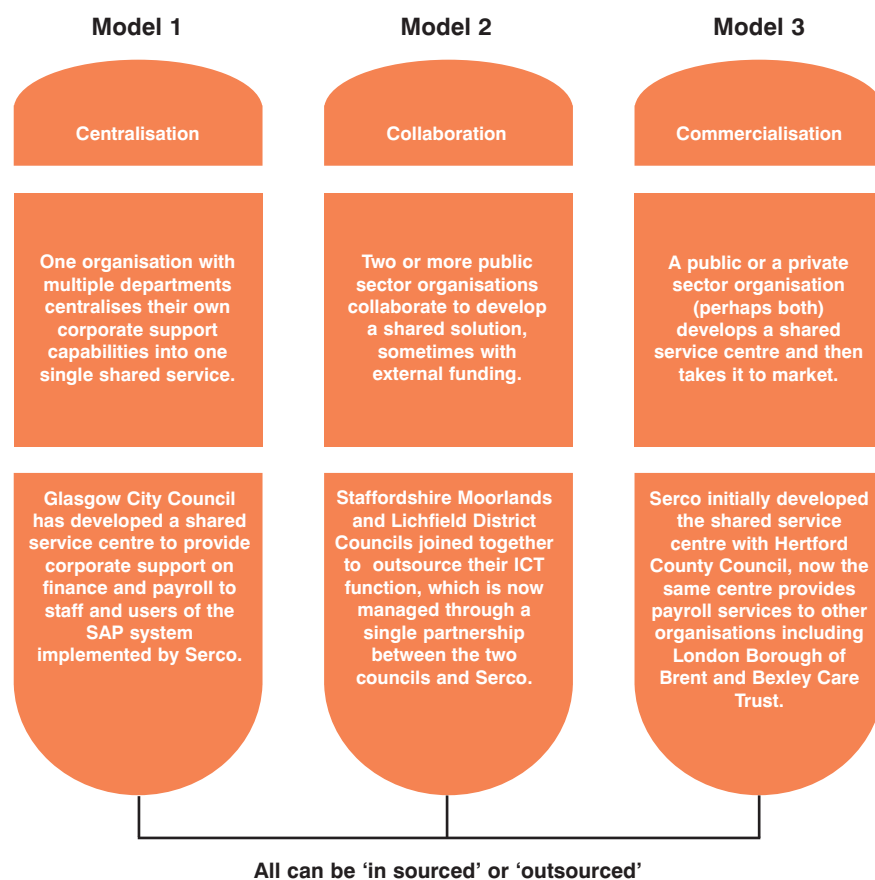
4.2. What is Meant by 'Shared Services'?

While the concept could be extended to the full range of local authority services, the term, 'shared services' is most commonly used to refer to back office or corporate support functions such as finance, human resources, information technology and procurement. By bringing these services together into a single centre, organisations are able to capture economies of scale, streamline business processes and free up front line staff to concentrate on their core business. A significant element of shared service reform has involved the professionalisation of support functions - turning the back office of a number of different departments into the front office of the shared service centre.

4.3. Shared Service Models

Given the political and managerial complexity associated with the introduction of shared services, it is perhaps unsurprising that various different options are being explored by councils. This suggests the need for the private sector to respond flexibly to these diverse needs if private providers are to respect the complex needs of local officials. Broadly, shared services can be categorised into three different models.

Figure 6



Of the shared service structures outlined in Figure 8, the centralisation and commercialisation models are the most common. However, collaboration is now emerging as an alternative approach, opening up new opportunities for sophisticated partnering arrangements. This is particularly relevant for small local authorities. The Strategic Partnering Taskforce observed that 'a small district council cannot attract a strategic service delivery partner because of the smaller scale of their operations and therefore correspondingly low financial spend. Critical mass might be achieved by aggregation as in joint working.'

The following case study provides an illustration of how the collaboration model has been put into practice, giving a valuable insight of what can be achieved by smaller councils that don't have the capacity to pursue these efficiencies on their own.

Case Study: Lichfield and Staffordshire Moorlands District Councils

Figure 9

Who formed the alliance?

Lichfield and Staffordshire Moorlands District Councils formed a contract with Serco Solutions in April 2003.

The solution

What is believed to be the first ICT outsourcing commissioned jointly by two councils with all IT processes for support services - including infrastructure, desktop management new projects, disaster recovery, systems development and integration, database management and helpdesk support - outsourced and managed through a single partnership.

What were the goals of the collaboration?

- Improve access to services to citizens across both districts.
- Update the IT infrastructure by creating a new shared service centre.
- Acquire greater access to skills and resources.
- Create a space where step change in service delivery could be achieved in a quicker timeframe.

What drove the district councils to take on this approach?

- A requirement by both councils to achieve their e-government objectives.
- The necessity to streamline the back office to get better value for money.
- Combined entity meant the two councils could attract a wider range of service providers.
- Costs of legal and consultancy fees could be split between the two councils.
- Double the amount of resources could be applied to assess opportunities and evaluate supplier proposals, reducing the time invested by each council.
- Best Value Reviews of IT Services in both Councils identified the need for substantial improvement.

Project highlights

- Savings in excess of £700,000 over the life of the five year contract.
- Awarded additional funding of £150,000 from ODPM in recognition of the innovations achieved.
- Presented with an outstanding achievement award from the Society of Procurement Officers.
- Highly commended in the SOCITM/Sollace/Intellect awards.
- Won the best IT outsourcing deal 2004 from the National Outsourcing Association.
- Excellent feedback from users who are experiencing greater levels of service.
- Introduction of a common standard in service delivery enabling benchmarking and performance measurement.
- Handing over the day to day IT allowed greater focus on the e-government agenda.

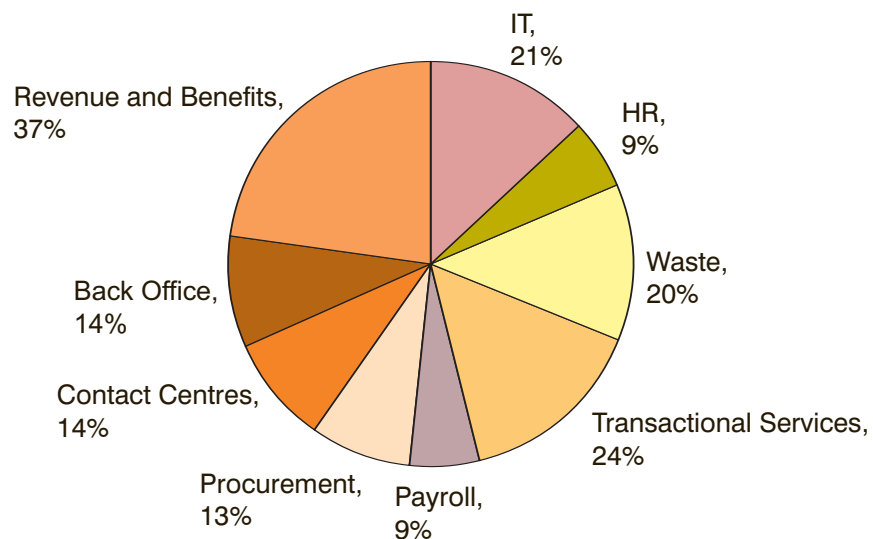
What are the lessons learned?

- The scope for success in the project would have been limited without dedicated leadership team.
- Setting a specific range of criteria, including an evaluation of partners whose ethos and culture fit, is crucial to achieve a successful partnership.
- Using external bodies who have skills in this area should be considered (Society of IT Managers [SOCITM] were consulted on this project).
- Creating focus groups, including users and stakeholders from both Councils, to evaluate all stages of the process directed the project towards 'joint solutions' and helped to avoid potential conflicts.

4.4. Which Services Would Benefit Most from a Shared Approach?

Our respondents had no fundamental objection to the concept of sharing many support services with other organisations: 86% reported that it would not have an adverse effect on their service objectives. But finance directors had different views about where a joint approach would be most beneficial. We asked our respondents which services would benefit most from a shared services approach. Their answers suggest that they see collaboration of this kind as most readily implemented in informational and transactional services, with much greater caution around support services which are central to the management of council staff, such as human resources and payroll. Interestingly, procurement is another function where a clear majority of finance directors are not yet convinced of the benefits of a joint approach (Figure 6).

Figure 10: Where do you feel you would see most benefit from undertaking a shared service approach?



* The total adds up to more than 100% because some respondents chose more than one answer.

4.5. What are the Drivers and Enablers of Shared Services?

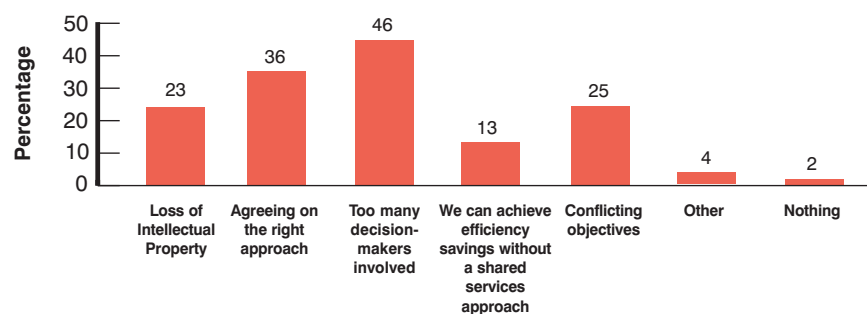


² *Regional Centres of Excellence in Procurement launch. Local Government Association, 25 February 2005.*

4.6 Barriers to sharing services

We asked finance directors what deterred them sharing services with other local authorities: overwhelmingly they mentioned the high costs involved in negotiating arrangements for integrating their administrative and support functions. Somewhat less significant was a concern over a loss of intellectual property, reflecting the importance that local officials place on their authority maintaining a unique identity.

Figure 11: What most puts you off sharing services with another authority?



* The total adds up to more than 100% because some respondents chose more than one answer.

In the enthusiasm for delivering the benefits of shared services, it is easy to overlook the significant challenges that can be involved in integrating the systems and processes of distinct organisations.

The responses provided by finance professionals in this study underline the importance of strong leadership, and this is likely to be more evident where local authorities are able to find a model for sharing services where they feel that they are in control. In its final report the Strategic Partnering Taskforce³ also defines leadership as a foundation to successful strategic collaborations noting, “In local government this necessitates determination, vision and commitment by elected members (particularly the leading members of all parties), the chief executive and senior officials”. For the successful sharing of services, leaders need to demonstrate their commitment to long-term partnerships and provide consistent and structured support from the outset.

These results also suggest that, in the beginning at least, the promoters of shared service models should concentrate on those services where the leaders of local authorities can see the greatest benefit, the least loss of political and managerial control and the lowest transaction costs in negotiating a shared capability. For the present, the services which best meet these criteria appear to be overwhelmingly transactional and informational in character.

³ *Strategic Partnering Taskforce, Final Report, ODPM, March 2004.*

5. Conclusions

As we have highlighted, enhancing efficiency in local government is not a new challenge for local authorities. The Gershon Review has only served to sharpen the focus with specific targets, central reporting and common strategies. Finance professionals harbour a range of concerns, even though they are committed to fulfilling the targets. They recognise shared service strategies as one way that local government can enhance their potential to deliver efficiency savings. Our survey confirms:

- Over half the finance directors plan to use some form of shared services in the next two years.
- Finance Directors appear to see Gershon targets as a separate challenge to the efficiency targets that already exist within other key initiatives in their authorities. It is likely that they will continue to view the Gershon targets as a distraction until they are able to integrate them to align with existing key initiatives.
- Informational and transactional services is where finance directors see the greatest benefit from sharing services, with much greater caution around support services which are central to the management of council staff, such as human resources and payroll.
- There are many enabling factors rapidly emerging which persistently promote shared services, presenting a growing trend towards using the model to achieve efficiencies.
- Barriers to sharing services do exist but with clear leadership, thorough appraisal of which services can be shared and the right model, the benefits of adopting a shared service approach should not be overlooked. Leaders need to demonstrate their commitment to long-term partnerships and provide consistent and structured support from the outset.
- Smaller district councils can attract quality service partners by joining together as long a 'true partnership' is forged. As Chris Elliot, Head of ICT and Corporate Procurement at Staffordshire Moorlands Council, states, "Our approach proves that working as part of a true partnership based on trust and honest feedback reaps immense rewards. As a result of this project we really have achieved results that otherwise simply would not have been possible."
- Suppliers are unlikely to be attracted to a market place where the risks are too high and are only likely to work with authorities that demonstrate a clear commitment to long-term strategic collaboration.

This paper has set out with the intention of contributing towards the debate around delivering efficiency in local government. It has offered some insights from a practitioner viewpoint on two levels - from our survey of finance directors and from our experience as a supplier of shared services. We have established a clear trend towards using shared services to achieve efficiency in local government and we welcome an open discussion about how the private sector can add real value through collaborating with local authorities to improve services for local people.

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About Serco

Serco Group is a service company and has been delivering essential public services for over 40 years. Operating on a global basis we deliver services in a diverse range of sectors, including defence, aerospace, and science, public transport and traffic management, health and education, justice and local government.

Serco Solutions is the IT solutions and outsourcing division of Serco, built from ITNET plc that was acquired by Serco in Feb 2005. Serco Solutions operates on over 60 UK sites enhancing Serco's expertise in IT outsourcing, consulting and IT-based change management.

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