

brownejacobson  
law, less ordinary

# shared services survey

08

the report

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## Foreword Sir Peter Gershon, CBE



Sir Peter Gershon, CBE

This report comes at an important juncture in the evolution of the shared services agenda.

Since 2005, shared service initiatives have been a crucial plank in public sector organisations' successes in improving efficiency and delivering quality, value-for-money services to their communities. The public sector's efforts have achieved much in this regard, while laying the foundations for the future.

With much more ambitious government efficiency targets in place for the coming three years, the shared services story is only at its beginning. Shared services will remain high on the strategic agenda for public sector leaders, as only a long-term approach can deliver sustained improvements in public sector efficiency.

As such, now is an ideal time to explore the progress being made by public bodies undertaking shared arrangements to drive cost efficiencies and improve service quality; to examine the challenges they face in making these initiatives a success; and to acknowledge the risks shared services can present to collaborating organisations.

I therefore welcome the publication of Browne Jacobson's shared services survey 08. The report will make a valuable contribution to the debate over the role of shared services in the continuing drive to improve efficiencies and enhance public service delivery.

**Sir Peter Gershon, CBE**  
April 2008

*Sir Peter Gershon, CBE led the Independent Review of Public Sector Efficiency ('Releasing resources to the front line'), which formed the basis of the Government's SR04 Efficiency Programme.*

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## Foreword

### Lucy de Groot, Executive Director, IDeA



Lucy de Groot

We welcome this report, which shares the research carried out by Browne Jacobson into the views and experiences of local public service managers on shared services – what the challenges are and how shared services are operating on the ground.

Importantly, this report highlights the different interpretations of the term 'shared services'. Traditionally, this has referred to the combining of back office corporate services including Human

Resources (HR), Information Technology (IT), finance and legal service operations. However, as we look to both improve the customer's experience and to identify efficiency savings, more public sector managers are expanding this interpretation so it now also includes front line service operations, such as shared customer contact centres, joint teams, integrated one-stop-shops and mobile services and home visits.

The public sector has been working successfully in partnership with a range of local partners, including the third sector, central government, other councils and the private sector, to join up locally delivered public services both for the benefit of their shared customers and to improve resilience and drive out efficiency savings in the back office.

Over the current spending period, local government has identified over £4.2 billion of efficiency savings against a target of £3 billion as well as making significant improvements to enable both customers and staff to access a range of services and information across multiple channels. Some of these savings and service improvements have been the direct result of work done to join up services both on the front line and in the back office.

Examples of shared service initiatives, which have resulted in improvements for both the customer and the organisations working together, include:

- Suffolk's back office legal services collaboration, involving the county and districts
- Kent's districts back office Audit Partnership
- Sunderland's Bunny Hill front line multi-agency contact centre, involving the PCT, third sector and a range of council services
- Tameside's front line joint pension service team, involving the council, DWP pension services and Age Concern

All of these shared service models have evolved to meet local customers needs and require collaboration both at a strategic and operational level. To achieve this successfully, it is essential for there to be strong leadership and ongoing engagement with staff on the front line, as well as with key stakeholders including elected members, community representatives and local partners.

Looking forward to the challenges that local government faces in the CSR 07 period, including those outlined in the Service Transformation Agreement and the Local Government Act, which will be reviewed locally through the forthcoming Comprehensive Area Assessment, then collaboration and shared service operations, which help join up services both for the customer and for these local partners will be increasingly important.

Local government is in a strong position to drive this joining up and provide strategic leadership through established local partnerships, which include Local Strategic Partnerships (LSPs) and Local Area Agreements (LAAs). These existing models provide a solid bedrock on which to redesign services built around the needs and preferences of local customers, businesses and communities, by sharing resources and expertise, and reducing duplication.

There is a lot of innovative and locally developed good practice that we now need to share if we are going to improve the experience of all customers across the public sector. We also need to share the lessons we have learnt when things have not gone smoothly and highlight some of the barriers to our working effectively together.

The IDeA will continue to support work that highlights knowledge sharing and learning that helps the public sector continue to improve how services are organised and delivered for our shared customers, including our own report on Front Office Shared Services, and this report, which will contribute to the debate and help drive improvement. I therefore commend this report to you.

Lucy de Groot, Executive Director, Improvement and Development Agency for local government (IDeA)  
April 2008

[www.idea.gov.uk](http://www.idea.gov.uk)

word

# welcome

## Introduction



Dominic Swift

Welcome to the *shared services survey 08*. This report sheds new light on the myriad of risks and challenges faced by those tasked with delivering one of the most ambitious programmes in the history of the UK public sector. We hope that by sharing their insights we can help public sector managers deliver the next generation of shared services.

The private sector already has considerable experience in consolidating and centralising back office operations such as HR, legal, IT and finance in the drive to cut costs and gain a competitive advantage.

Since the publication of the Gershon Review in 2004, the focus on efficiency has also taken centre stage within the public sector, pushing the shared services agenda to the fore for leaders of public organisations.

With tougher than ever government efficiency targets in place, the pressure on those tasked with delivering cost efficiencies at a national and local level has never been greater.

There can be little doubt that public services have achieved much in their efforts to be more effective and efficient over the last three years. HM Treasury statistics boast an impressive £23 billion of cost savings accomplished, surpassing a target of £21.5 billion (HM Treasury March 2008).

What is equally clear is that despite the progress made there is still a high expectation for the public sector to continue their efforts to find efficiencies as well as exploring the further opportunities to enhance front line service delivery.

So what does this mean for the shared services agenda? How well are current shared initiatives progressing? What are the barriers they face? And how can risks, which seem insurmountable, be mitigated?

Over recent years we have been working with an increasing number of clients whose aim has been to realise some of the benefits of shared services for their own organisations. We have seen an insatiable appetite from them to understand the bigger picture, share best practice and seek innovative solutions to make their projects a success. Like our clients we wanted to understand more and set out to research attitudes to shared services among the managers responsible for the delivery of our health, local government, fire, social care and education services.

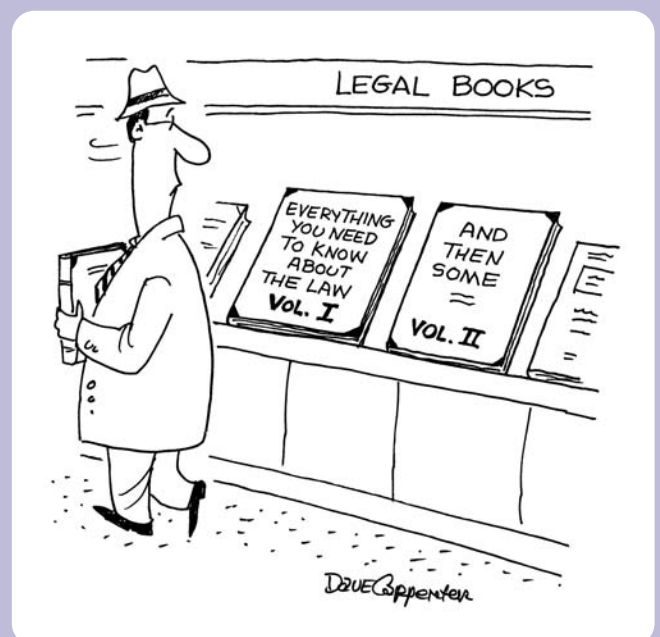
Our report sets out an overview of those findings and then goes on to explore some of the barriers and risks in more detail, as well as offering some ideas and advice on how to overcome them. We very much believe that effective understanding and use of legal considerations and regulatory frameworks will protect and enable your efforts and we have included some examples of where this could be the case.

However, what has been the most encouraging aspect of our research has been the great examples of success we have come across on the journey. We have included many case studies throughout our report to demonstrate what is possible and to acknowledge those pioneering organisations that have driven through the changes despite the many potential pitfalls they have encountered.

As you can perhaps imagine, we have generated far more data from our research than we have been able to include within this brief summary. Should you wish to find out more, or give us your thoughts and views, we would be delighted to hear from you. Please contact us via the details on page 25, or alternatively log on to [www.brownejacobson.com/sharedservices](http://www.brownejacobson.com/sharedservices)

And finally, we wish you every success on your journey.

Dominic Swift  
Head of Shared Services, Browne Jacobson



# Shared services: the driving force

The Gershon Review may have been the catalyst for shared services, but four years on, where does the momentum lie for their continued role in public service delivery? Who or what is driving the shared services agenda in 2008?

The main driving force would appear to be the very people we interviewed: senior managers in public sector organisations. 77% of those taking part in the survey believed that public sector senior management are now the main drivers of the shared services agenda. The momentum, it seems, is being generated internally – and from the top. Middle managers are seen as a much lesser influence, cited by just 30% of interviewees.

Central government is seen as the greatest external influence. Whitehall departments were identified by over half (52%) of public sector managers as driving shared services.

Worryingly, however, those delivering – and even more crucially, those receiving – public services are regarded as having very little influence on the development of shared initiatives.

The shared services agenda has two overarching aims: to *drive cost efficiencies* and *improve public service delivery*. Yet our research suggests that front line staff and the public themselves represent only a marginal influence on its development in the opinion of those surveyed. Front line workers are seen as a driver of shared services by just 13% of managers, the public by just 10%. This may shed light on the back office emphasis when it comes to shared services, which our research reveals.

As organisations grapple with challenging new government efficiency targets, public sector leaders might give this anomaly some careful consideration. Should the experiences of front line workers and, crucially, the needs of the taxpayer, not be harnessed as the next generation of shared services are designed and implemented? Is there a lack of awareness among the public as to the benefits shared services could offer them? And how can public sector managers motivate their front line teams to help drive the agenda forward? Until this is achieved, the efficiency / improvement equation may never quite be balanced.

## Q: In your view, who is driving the introduction of the shared services agenda?

### Drivers of the introduction of shared services – Sector

%	Total	Health	Local authorities	Social care and education	Fire services
MPs	38	29	35	41	60
Whitehall civil servants	52	45	59	44	65
Elected representatives (local councillors)	39	22	37	54	55
Senior managers in your organisation	77	80	82	68	70
Middle managers in your organisation	30	35	26	29	35
Front line staff in your organisation	13	14	7	20	20
General public	10	6	10	15	10
All equally	1	–	–	–	5
Don't know	2	4	–	2	–

### Drivers of the introduction of shared services – Region

%	Total	East Midlands	West Midlands	North	Wales	South	London
MPs	38	31	34	44	39	44	38
Whitehall civil servants	52	54	31	72	61	54	44
Elected representatives (local councillors)	39	33	41	40	44	38	44
Senior managers in your organisation	77	81	72	76	83	72	81
Middle managers in your organisation	30	21	44	32	11	36	38
Front line staff in your organisation	13	8	28	20	6	3	25
General public	10	8	13	16	–	15	–
All equally	1	–	–	4	–	–	–
Don't know	2	–	3	–	–	3	6

# Executive summary

Four years on from the publication of the Gershon Review in 2004, shared services reform in the public sector continues to be a critical tool in achieving efficiency gains and improving public services.

On the face of it, our research shows a positive attitude towards the agenda from the managers responsible for driving it. Unsurprisingly, the level of support is thought to be much lower across the wider workforce.

Despite being several years into the reforms, there remains a surprisingly limited understanding of the full scale of opportunities and benefits, with most feeling that the agenda is to drive cost savings through 'back office' process consolidation. To keep the momentum, an approach must be developed for the consolidation of front line services and to develop initiatives which cross geographical or public sector boundaries. Embracing partnerships with the private and voluntary sector could also offer further opportunities and expertise, as well as helping to gain funding which is so vital to set up.

The subject of the potential efficiency saving seems to show some further anomalies with our respondents being far less optimistic about the levels of savings available than the original and subsequent government estimates. This is especially true when financial impact of the upfront investment in IT and resources to implement the changes are taken into account.

The risks and barriers highlighted by our research perhaps go some way to explaining why these targets aren't being achieved despite the overall positive views towards the agenda. Main concerns are around set up costs, people issues and finding partners who can be trusted. This is further compounded by fears over how to handle an exit strategy and against a backdrop of reform fatigue and competing priorities.

While there are barriers along the way for those tasked with implementing shared services, these are not insurmountable. Partnerships need greater formality to help overcome risks and be founded upon the solid bedrock of mutual trust, to overcome concerns around perceived parochial behaviours and lack of capability.

The current level of informal arrangements is exposing the sector to unnecessary risks should things go wrong. The level of risks identified by those taking part is significant, demonstrating a lack of confidence to move forward at pace.

In conclusion, it would seem that while the shared services agenda would appear to have had a relatively successful infancy, our research suggests that many untapped opportunities exist. A bolder approach, and greater focus on the front line and the demands of citizens, may be required as we move into the next phase of the public sector efficiency drive.

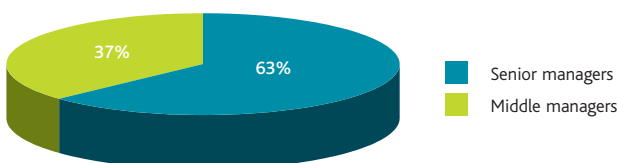
***“Local government will be responsible for delivering over £6.45 billion of total efficiency gains by 2007-08, building on existing best practice. At least half of these savings will be cashable, releasing resources to front line activities.”***

Sir Peter Gershon, CBE – Releasing resources to the front line – 2004

## About the research

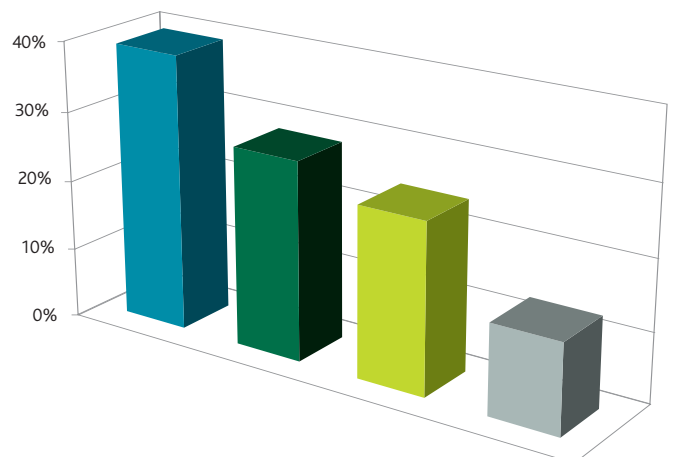
In 2008, Browne Jacobson commissioned independent research with 178 senior public sector managers drawn from the UK's health, local authorities (excluding adult & children's services), social care and education (including adult & children's services and schools) and fire services sectors. Interviewees were divided between the Midlands, North (including Scotland & Ireland), Wales, South and Greater London regions. Of those surveyed, 113 (63%) were senior managers and 65 (37%) were middle managers.

### Seniority of research respondents



### Sector split of research

- Local authorities 38%
- Health 27%
- Social care and education 23%
- Fire services 11%



## Highlights of the research findings

Our research asked a total of 68 questions the results of which can be split across the sectors, regions or seniority of the respondents. Clearly, we have only been able to give a snapshot here of the insights available. Here are some of the key findings:

- An overwhelming majority of organisations (97%) are **taking part** in delivering shared services in some capacity, while some 88% of our respondents **support** the agenda
- Overall, those working in **social care and education** were more **positive** about the shared services agenda than their counterparts in health and fire services
- Managers did not feel that a high level of support existed amongst their **workforces**, with 32% of them feeling their people **opposed** the agenda and 53% stating workforce opposition as a **significant barrier** to delivery
- Whilst more than seven out of ten managers regard **back office functions** as prime candidates for shared initiatives, less than half see the potential for front line services
- Worryingly, one third of respondents are **not planning to take part in any further shared service initiatives** (34%). This rises to 45% and 41% for health and social care and education respectively saying they have done as much as they can
- Very few (7%) see opportunities in working with **private** or **voluntary** organisations, with 49% thinking the public sector will be just as effective in delivery as the private sector
- The majority of respondents (61%) agree that **long-term rewards from shared services justify the short-term 'pain'**
- However, concerns exist over the challenges of implementation, with 53% of managers describing such projects as **'attractive but hard to deliver'**
- 59% raised concerns over the scale of projects, fearing they may become **unmanageable beyond a certain optimum size**
- **Insufficient financial resources** represent the primary barrier to shared services, identified by 65% of managers. **Lack of manpower** ranked a close second at 59%
- At best, senior managers believe a **total of 12%** (local authorities) of their organisation's budgets could be saved by sharing services over time. However, the least optimistic (health) thought a **total of 3%** was more likely. This is against a backdrop of publicly stated central targets of **3% per annum**
- **Ongoing liabilities and high exit costs** (71%) topped the list of identified risk factors facing the introduction of shared services
- Procurement was also prominent, with 61% of managers concerned about the legal repercussions of **failure to comply with procurement processes**
- In terms of set up, 42% think it is **easier to start from scratch** rather than merge (fire services 60%)
- 41% of respondents are fearful of the dangers of **poorly drafted contracts** – yet 69% of public sector managers have **delivered services under informal collaborations**
- 59% of managers believe **adequate manpower** is a critical success factor in the delivery of shared services
- 55% feel that **adequate consultation with employees** is important, rising to 63% amongst health managers
- Over a third (34%) of managers believe that **disagreements with service partners** and a **lack of cooperation** pose a major risk
- 64% have concerns for the long-term survival of a project should a **partner leave** the arrangement
- Where **trust** was seen to be a barrier, 85% felt that the partners **'giving priority to their own issues'** was a reason as well as **'being less competent'** (71%)
- Alongside procurement, IT provision was identified as most likely to benefit from sharing services, with **70% of respondents considering moving back office technology to a shared services model**
- More than half agree that **advances in IT** are creating the greatest opportunities for improved service delivery (58%)
- Conversely, management of data poses the greatest headache for many organisations, with as many as a third (31%) concerned of **falling foul of data protection laws**
- Despite the importance of exit provisions, 45% of managers believe their shared services lacked a clear **exit strategy**
- Additionally, 71% of respondents are concerned about **shouldering the liabilities** and high exit costs where an exit strategy is not in place
- One in four think **no one wants to take responsibility** (32% in social care and education) and that there isn't enough due diligence (30% fire services)
- 48% thought **reform fatigue** was a significant barrier
- One in five stated they believed shared services was **the latest government idea**, but would deliver nothing. The jury was still out for a further 31% who said they didn't know yet if this was the case

For further detailed research results, please visit [www.brownejacobson.com/sharedservices](http://www.brownejacobson.com/sharedservices)

# research

*“Service transformation is not about further increases in public spending or investing in new technology. There is an opportunity to coordinate services more directly around the needs of citizens and businesses and to deal with more problems at the first point of contact.”*

Sir David Varney – A better service for citizens and businesses, a better deal for the taxpayer  
December 2006

## What are shared services?

### Defining shared services

Through a series of government-led initiatives, the public sector finds itself under increasing pressure to deliver efficiencies among both front line and back office functions. The Gershon Review of 2004, Sir Michael Lyons' independent review of public sector relocation and subsequently the Cabinet Office's *Transformational Government* strategy, shaped by Sir David Varney, have painted a vision of public sector organisations joining functions and delivering services in partnership to create these efficiencies.

In addition, the e-government agenda, the Local Government Act 2003 and the creation of the regional Centres of Excellence have all increased the focus on shared services as a means to streamline costs and deliver first class, value for money front line services shaped around the needs of the 'citizen' rather than organisational silos.

Despite the government's sustained emphasis on shared initiatives, our research shows that among public sector managers 'shared services' means different things to different people. While many managers describe these initiatives as '*sharing, collaboration and the pooling of resources*', surprisingly, only one in four (26%) respondents to Browne Jacobson's *shared services survey 08* referred to cost savings and end benefits when asked to define what shared services meant to them. And of those who did at least refer to benefits, very few of our respondents included any references to improvements in service or to the end user in their definitions.

This raises an interesting question: is the rationale for the shared services agenda properly understood among those responsible for its delivery? For those who at least understand the efficiency agenda, has this overshadowed the other explicit objective of improvements in front line service delivery?

Interestingly, very few managers saw opportunities in working with private and voluntary sector organisations, revealing concerns among those taking part in our research to move the shared services agenda outside of their own sector, or a simple lack of information of what those sectors may have to offer.

*Q: When asked to define 'shared services', the following proportions of respondents included references to the following in their definition*

Sharing, consortium, collaboration, pooling, merging etc	57%
Mention of councils, organisations, NHS, agencies	50%
End benefits, economies of scale, cost savings etc	26%
Mention of functions or departments	25%
Services / mention of services generally	20%
Shared service structures	10%
Private sector	5%
Voluntary sector	2%
Other	3%

## Back office or beyond?

Many functions are considered prime candidates for shared services by public sector managers. However, what is striking is that these tend to be primarily back office functions. For example, nearly three quarters of public sector managers would consider bringing procurement (72%) and technology (70%) under the shared services banner, just under half (49%) see potential for consolidating front line services.

It is perhaps fairly obvious that procurement would come at the top of the agenda if efficiencies are seen as a prime driver. The regional Centres of Excellence are well established centres for local government efficiency. Similarly, from a health service perspective, the introduction of Practice Based Commissioning and the renegotiation of NHS pharmaceuticals procurement, demonstrate the potential shared procurement services offer. The latter of these alone secured a price reduction of £1.2 billion over a three year period.

Within our survey, 83% of local authority managers recognised the potential for efficiency savings in procurement. However, social care and education managers are less enamoured, with just 46% considering shared procurement services. This poses tough questions for the Centre for Procurement Performance – an initiative run by the Department for Children, Schools and Families (DCSF).

While the trend towards consolidation of local authorities continues apace, 62% of managers can see opportunities for

## Case study: shared IT service procurement

The District Councils of Lichfield and Staffordshire Moorlands wanted to introduce new technology to meet their e-government objectives and achieve Best Value. They worked in partnership to purchase shared IT support services from Serco. The partnership forecasts efficiency savings of more than £700,000 over the five year contract. They have also split the costs of procurement, legal and consultancy fees and have improved customer satisfaction levels, for example to 80% in Lichfield

Source: Transformation through shared services – CBI

collaboration and centralisation. Half of managers interviewed from social care and education can also see options to collaborate to deliver what Varney refers to as 'citizen-focussed services'.

However, just a third of health and fire service managers would consider delivering front line services via a shared model – raising potential issues for on-going initiatives such as public-private partnerships in the NHS and the positive engagement with the centralisation of fire control centres.

Q: Which of the following functions would your organisation consider moving to a shared service model in the future?

%	Total	Health	Local authorities	Social care and education	Fire services
Procurement	72	70	83	46	80
Technology back office	70	59	81	50	87
HR	64	52	77	46	67
Legal	58	52	69	33	73
Front line / customer service	49	33	62	50	33
Finance	48	37	56	42	53
Other	36	44	37	42	13

# efficiency

## Shared services: differing perspectives

*“Shared services are any means of collaborating to provide an improvement to the public... a formal contract partnership with more than one organisation, or even a formal agreement to share activities without a contractual commitment.”*

Patrick Clackett, Head of Strategic Finance and Audit,  
London Borough of Barking & Dagenham

*“Shared services are back office, procurement and administration.”*

Anon, Fire Service

*“It’s a combination of increasing efficiency and effectiveness, based on customer demands and restructuring of services to achieve that.”*

Paul Griffiths, Head of Leisure & Recreation,  
Powys County Council

## Let’s talk money

From the outset, cost efficiencies have been a key driver behind the shared service agenda. As such, the *shared services survey 08* would not be complete without a look at what public sector managers believe can be achieved in this respect.

Our research reveals a marked difference of opinion on this front. Middle managers are significantly more upbeat about the scale of potential savings on offer through shared services compared to their senior counterparts. And in turn, this seems to demonstrate a rather differing view from that of the government.

Senior management themselves are reasonably optimistic, estimating an average of around 9% total potential cost savings across the board. On the other hand, middle managers are twice as optimistic, identifying almost 19% in total savings for their own departments.

However, our research did show a degree of uncertainty surrounding just how much budget can potentially be saved, with 37% of senior managers and 54% of middle managers responding ‘don’t know’.

Of those who did respond, the majority gave estimates that still appear to fall short of the government’s most recent targets outlined in the Comprehensive Spending Review (2007), which raised the bar from an initial 2.5% to a target of 3% savings per year as part of a 10 year programme. For example, senior health managers anticipate less than 3% total budgetary savings, as opposed to the expectation they can deliver that amount per annum. It is also unclear whether in setting its targets, the government have taken into consideration the significant implementation and set-up costs commonly associated with shared services, largely driven by the need to invest in IT systems, to make the changes possible.

### Case study: improving services, reducing overheads

The Hertford Shared Service Centre is a joint initiative between Hertfordshire County Council and Serco providing pensions and payroll service for over 100,000 employees spread between 75 customer organisations. The objectives were to improve value for money for the local authority and provide a better quality of service at reduced cost. By integrating IT systems, implementing best of breed pensions administration and investing in staff training, the project delivered reduced costs per payslip, increased accuracy rate and a reduction of 12% in payroll staff.

Source: EURIM

## The future

The overwhelming majority (97%) of organisations surveyed by Browne Jacobson are already involved in delivering shared services at some level – a very positive starting point.

However, our research reveals a degree of concern for the longevity of the shared services agenda. A worrying one-third (34%) of respondents had no plans to develop new shared projects in the future. This rises to close to half of health service managers

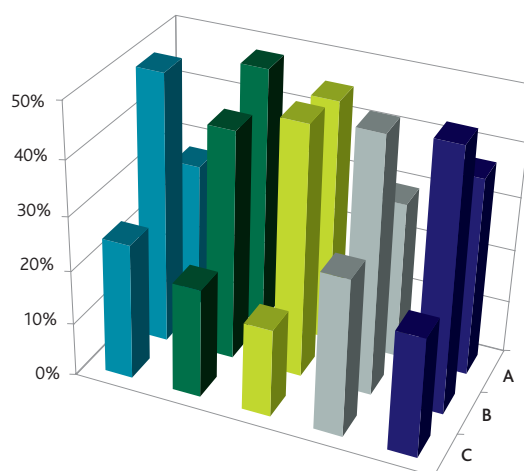
(45%) and two fifths of managers delivering social care and education services (41%).

This is likely to be of concern to the government, with the most challenging efficiency targets yet in place for 2008-11. Talk of efficiency savings in terms of a 10 year programme and the threat of a weakening economy is likely to pull the public sector purse strings tighter still.

**Q: Is your organisation planning to take part in any (additional) shared services arrangements in the future? If so, what are the timeframes for their introduction?**

- A – Not taking part in any more
- B – Taking part within 12 months
- C – Taking part within 12 - 24 months

	A	B	C
Local authorities	23%	46%	21%
Health	45%	37%	16%
Social care and education	41%	39%	12%
Fire services	25%	40%	25%
Total	34%	41%	18%



*“Where social care and education managers are looking to go down the shared services procurement route, it is important to leave enough time for the process to be managed properly. A procurement timetable is a valuable tool and should be produced for all major procurement exercises. It should set out all the key stages in the procurement process as well as the length of time expected for each stage.*

*The timetable should be determined at the outset of the procurement process and should take into consideration the availability of all the key members of the procurement team. The timescale will vary from project to project depending on its complexity. For example, in the case of a restricted procedure this can be anything up to nine months.”*

Sharon Jones, Head of Contracts & Procurement, Browne Jacobson

# 02

*“A reluctance to commit the significant capital investment many shared services projects require may be understandable. However, it is vital to secure adequate financial and human inputs if shared initiatives are to generate cost savings over the long term. Public authorities must explore the funding options available to ensure the viability of their shared projects. Many are already making use of prudential borrowing as a means of getting projects off the ground.”*

Paul Ray,  
Head of Banking & Finance, Browne Jacobson

## What’s holding implementation back?

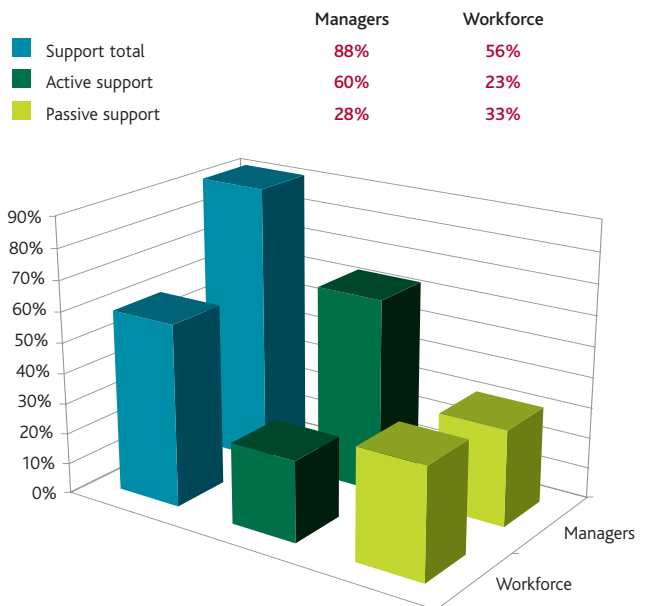
### Attitudes to shared services

Shared service arrangements do not happen overnight. It is clear that consolidating major back office functions such as HR, or essential front line public services, will not be without its challenges. With this in mind, our research sheds a fascinating light on the mixed feelings public sector managers have about shared services.

Public sector managers overwhelmingly support shared arrangements (88%) and are comfortable about delivering them. Just a quarter (27%) see shared services as presenting a greater level of risk than conventional service delivery. Managers have also bought into the potential shared services offer: some 61% agree that the long term rewards were worth the short term ‘pain’.

However, in the same breath, public sector leaders acknowledge the challenges and complexities shared services present. A majority (53%) describe shared services as ‘attractive but hard to deliver’. Nearly two thirds of managers (59%) raise concerns about scale, fearing that projects risk becoming unmanageable beyond a certain optimum size.

#### Support for shared services



#### Proportion of public sector managers agreeing with the following statements – top five response rates:

The long term rewards from shared services are likely to be worth short term pain	61%
There is an optimum size for shared services beyond which they become difficult to control	59%
Advances in IT are creating the greatest opportunities	58%
Shared services are attractive, but hard to deliver	53%
Shared service arrangements between public organisations work just as effectively as those between private sector service providers	49%

## Barriers

The public sector managers we surveyed also identified a set of significant barriers to successful delivery of shared services.

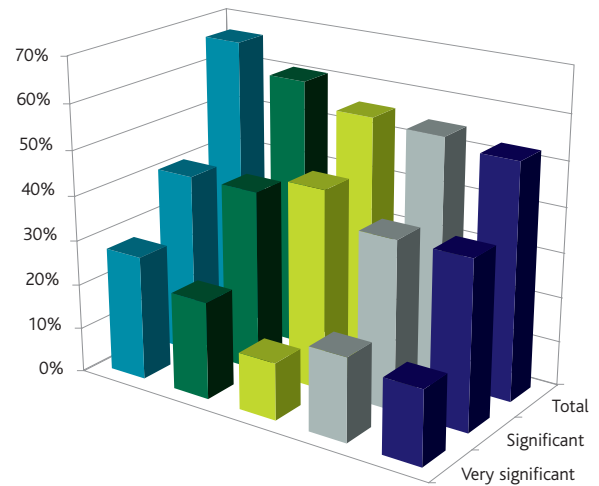
Of paramount concern is a lack of adequate financial resources especially when most projects will require significant investment in IT. Similarly, a lack of manpower ranks a close second. This is particularly evident within social care and education, where 85% of managers expressed concern over a lack of financial resources and 71% identify a lack of human resources as a critical barrier.

Organisational culture also presents a significant barrier. Managers identified the risk-averse nature of their organisations, a lack of collaborative culture and even a lack of trust between collaborating organisations, among the key obstacles to delivering shared services.

### Top five barriers to delivering shared services

Barrier	Very significant	Significant	Total
Lack of financial resources	26%	39%	65%
Lack of people resources	20%	39%	59%
Level of organisational and structural change needed	11%	43%	54%
Workforce opposition / fear of job losses	17%	36%	53%
Lack of collaborative culture	15%	36%	51%

Other barriers identified by public sector managers include the sheer scale of re-shaping services, the potential for workforce opposition and fear of job losses, the need for strong leadership qualities, 'reform fatigue' and variations in central and local government agendas.



# attitudes

## Opposition

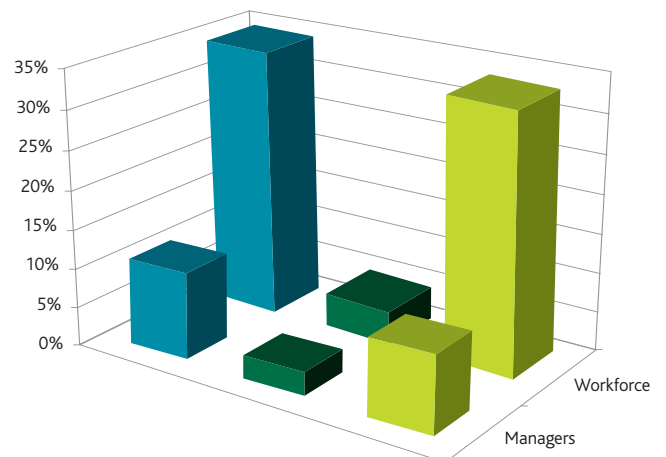
Managers responsible for driving shared services forward are broadly supportive of the arrangements they are implementing. However, their views of support from front line staff tell a less positive story.

Public sector leaders perceive worrying levels of opposition among their workforces. They estimate that less than a quarter (23%) of front line staff are active supporters of the shared arrangements they are being asked to deliver. Even more worryingly, almost a third (29%) quietly oppose them, indicating high levels of disengagement. This opposition rises to 34% among local authority employees and some 40% among fire services.

These findings should be of particular concern when we consider that staff costs account for a significant proportion of public sector budgets – and that ultimately, improved productivity and cost efficiency is a key driver for sharing services in the first place.

### Opposition to shared services

	Managers	Workforce
Opposition total	10%	32%
Active opposition	2%	3%
Passive opposition	8%	29%



# 03

*“We are seeing an increasing number of public / public and public / private shared services initiatives and it is important that all of the risk and insurance implications are addressed by the partners collectively at the earliest possible stage”.*

Bill Sulman, Executive Director, Public Sector Practice, Heath Lambert Group

*“There is no doubt that risks to sharing services are real and significant, but with strong leadership, a sound business case, adequate resources and the right partnership model in place, the barriers encountered can be overcome. Practical and commercially sensitive use of the law can offer real protection and assurance to mitigate some of the risks, and as such can be a real enabler to help those involved in driving shared services forward to do so with more confidence.”*

Richard Barlow, Head of Local Authorities & Fire Services, Browne Jacobson

## What are the risks?

In addition to the challenges facing public sector managers tasked with successfully implementing shared projects, our research also uncovers some very real risks which may also be holding them back.

Later in this report, we will look at how public agencies can overcome these risks and challenges in practical terms. However, it is first worth examining the main risks public sector managers identified.

Chief among our respondents' fears are on-going liabilities and high exit costs, over which more than seven out of ten managers (71%) interviewed expressed concern. Exit strategies would appear to be a particular worry, some 60% cited the impact on a project of one or more partners exiting the arrangement as a key risk.

Procurement, it seems, is a further headache. Given the resource-intensive nature of procurement in terms of time, cost and legal advice, it is perhaps unsurprising that close to two thirds of managers (61%) list this as a major concern.

Procurement risks are especially high on the agenda for fire service leaders and social care and education managers. Around seven out of ten of them identify procurement as a significant concern (70% and 69% respectively), compared to only 47% of health managers.

Perhaps conscious of the perceived workforce opposition to shared services we saw in chapter 2, staff consultation would appear to be a high priority. Inadequate workforce consultation is seen as a crucial risk by over half of managers (55%), rising to some 63% in the health sector.

As noted above, the issue of liability is also taxing the minds of many managers. 52% fear that a lack of accountability and ownership might jeopardise a project, while a significant minority (37%) are worried about being held responsible for delivering services by other organisations. As we shall see, the issue of trust, along with the need to ensure that contracts are watertight in this regard, are critical success factors when addressing shared services.

Lower down the rankings, but still considered to be a significant risk is compromising public safety (22%). As we might expect, this is a higher concern among fire services, where 35% of managers cite public safety as a key risk.

### Key risks

**Q: To what extent do you consider each of the following to be a risk associated with the introduction of shared services?**

Risk	Very significant	Significant	Total
Ongoing liability or high exit costs	26%	43%	71%
Unviable schemes if partner(s) decide to exit	28%	38%	66%
Legal challenges if procurement processes not followed	28%	33%	61%
Poor communication and consultation with staff	16%	39%	55%
Difficulty in allocating financial responsibility	15%	37%	52%

*"Nottingham City Council have used prudential borrowing to fund a contact centre for council service users which is bringing together 8 different buildings into a single stop shop allowing both better service standards and significant savings. There is nothing to stop local authorities borrowing together to jointly fund projects that may benefit the wider area"*

John Healey MP, Minister of State at the Department for Communities and Local Government (DCLG), speaking at the Core Cities Summit, Albert Hall, Nottingham, November 2007



## What about set-up?

As we have seen from previous chapters, our research unearths public sector managers' fears over the financial and legal risks associated with shared services. Without the appropriate legal, governance and commercial structures in place, there is a concern that the shared services agenda might stall. This is particularly true at the early stages of a new initiative and below we explore some of the risks surrounding 'set-up' in more detail.

### Funding

Implementing shared services presents a number of financial challenges for the public sector.

There are undoubtedly significant set-up costs to establishing shared service arrangements, even in relation to back office functions such as HR and finance. Most projects require substantial investment in IT, as well as the possibility of redundancy or severance payments, capital investments in new premises and consultancy support. This often adds up to high levels of upfront investment. Senior managers may encounter challenges when trying to make the business case for this investment against a backdrop of immediate expectations of budget savings.

Understandably, having the necessary financial support in place is an issue exercising the minds of more than two thirds of senior and middle managers, rising to 69% among those in the East Midlands – and 75% in the West Midlands.

In our experience, it is crucial that managers consider all possible funding options open to them, from private sector investment and capital grants to prudential borrowing. From our research, it seems that private sector options are not being fully explored or utilised and this may be a missed opportunity: perhaps due to perceived lack of trust and / or inexperience of working in collaboration across sectors? If correct measures are taken, this need not be an issue.

For example, funding agreements should clearly outline from the outset how risks and rewards are to be distributed among the collaborating partners. This is especially necessary where shared services arrangements aim to generate income.

If the new partnership intends to raise capital via the open market, institutional lenders will need to be convinced of a reliable revenue stream to service and repay borrowing, be assured that the shared services model is a legitimate legal entity and be clear as to what guarantees each party is willing to provide to support any of its obligations. A solid business plan and clear formal legally binding agreements between parties will normally be expected by lenders to give them the assurances they need.

## Procurement

As we have seen from chapter 1, procurement was identified as the function that could benefit most from being managed jointly across a consortium of public sector organisations. This may be a double-edged sword, however, as procurement is a practice fraught with potential legal pitfalls.

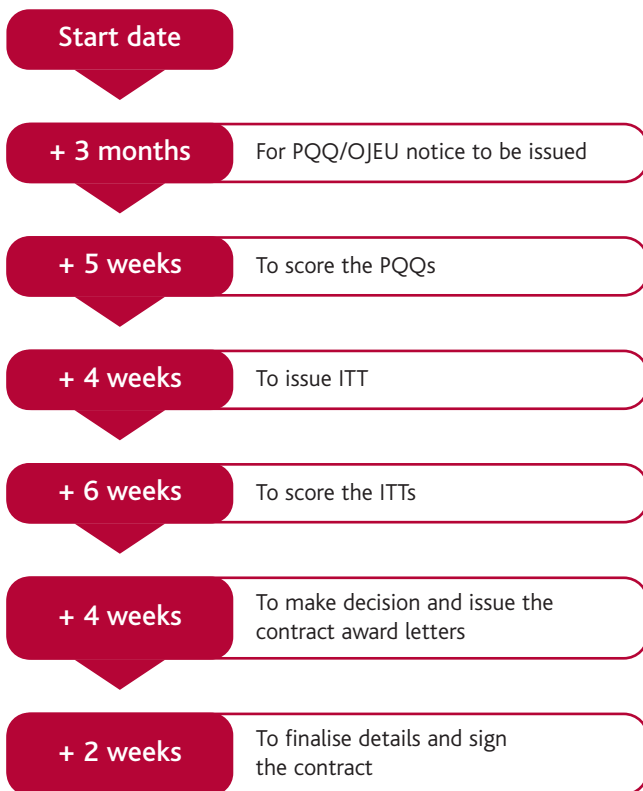
This is clearly a concern not lost on our respondents, more than six out of ten managers identified compliance risks inherent in shared services around formal procurement procedures and associated EU Regulations.

Procurement is a costly and complex process, all the more so when services are to be combined. Innovative procurement processes, which may be beyond the experience of many public sector managers, are likely to be required.

## Public procurement timetable

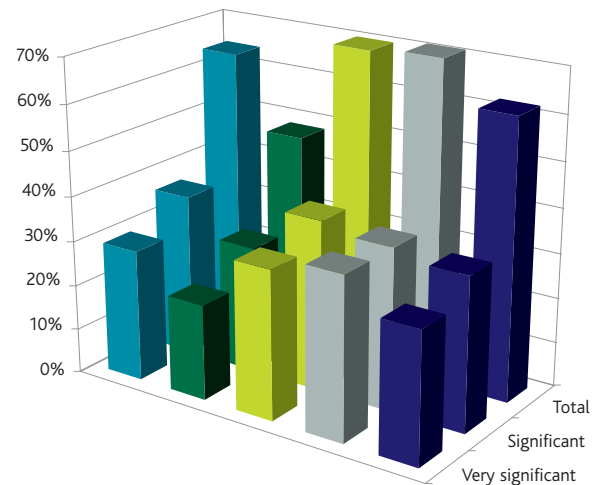
When entering into a procurement exercise, managers should ensure they allow sufficient time for a 'restricted procedure'.

A suggested timetable would be:

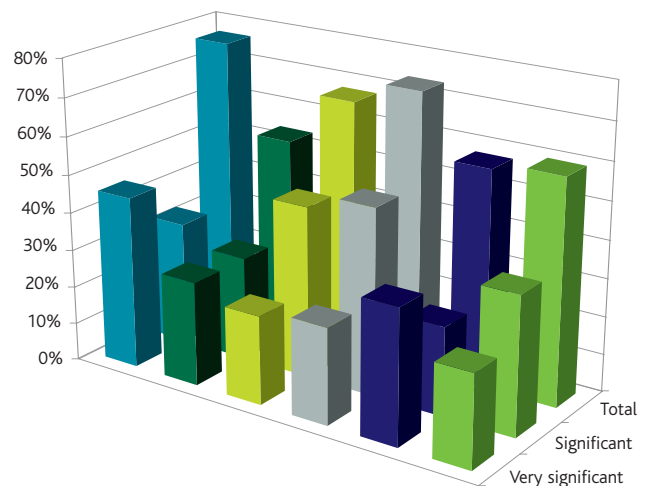


**Q: Shared services may face legal challenges if procurement processes are not followed. To what extent do you consider this to be a risk to the introduction of shared services?**

Sector	Very significant	Significant	Total
Local authorities	28%	35%	63%
Health	20%	27%	47%
Social care and education	32%	37%	69%
Fire services	35%	35%	70%
Total	28%	33%	61%



Region	Very significant	Significant	Total
London	44%	31%	75%
South	26%	26%	52%
Wales	22%	44%	66%
North	24%	48%	72%
West Midlands	34%	22%	56%
East Midlands	23%	35%	58%



## Did you know?

- A £185m fund was set up by government in January 2008 to help deliver efficiency savings over the next three years. The fund is available to councils in England via the nine Regional Improvement and Efficiency Partnerships (RIEP)
- The Welsh Assembly Government is actively promoting shared services and supporting their implementation through its £9m Improvement Fund. The fund supports innovative joint working projects that improve public services and stimulate change
- The European Commission has recently published legal guidance on how government organisations and private companies should put together deals to build public services. See: [http://ec.europa.eu/internal\\_market/publicprocurement/ppp\\_en.htm](http://ec.europa.eu/internal_market/publicprocurement/ppp_en.htm)

## Top tips: procurement considerations

- Ensure compliance with EU Procurement Directives, domestic legislation and Contract Procedure Rules
- Sit down with your procuring partner authorities and agree, before you do anything, exactly what you want to procure. Too often, procurements are started with only a vague agreement of what the partners want and then half way down the line they realise they want different things
- Agree who is going to carry out the procurement. Ensure there is a written understanding of what each party is going to do and what resources they are going to bring to the table. For example, how is it to be carried out, who drafts the documents, who pays, evaluation process and how problems are going to be dealt with
- Prepare sound and complete tender documents. These should state what you want and describe in detail how tenderers are to price their submissions – for example, whether VAT is included. Think about pricing mechanisms (i.e. lump sum or schedules of rates) and if these will be flexible enough to accommodate potential changes in the future
- Performance monitoring and payment arrangements. Be clear as to how payments are to be calculated and how contract performance measures are to be achieved. Make sure these are incorporated into the tender documents
- Probity and accountability. Ensure the whole process is documented and recorded, and that all key documents are signed, dated and retained
- Behave reasonably, fairly and even-handedly throughout the process. Decisions to award contracts following a procurement process can be challenged by judicial review as well as via the legislation and it is therefore important to ensure that you act in a way which is not contrary to natural justice
- In relation to shared services, it is essential that the purchaser and the seller have the power or vires to make a legally binding decision to buy or sell services. Specific legal advice should be sought to ascertain the applicability of vires to specific shared service programmes of work

## Contracts

Another risk highlighted by our research is the danger posed by the lack of formal contracting on service delivery.

It is sobering to think that a staggering 69% of public sector managers told us that they currently deliver services as informal collaborations. Clearly, such arrangements entail high levels of risk. They are highly likely to lack sufficient accountability and enable one or more partner organisations to 'walk away' without having to take into account the impact of their leaving the collaboration on the long term stability of the service.

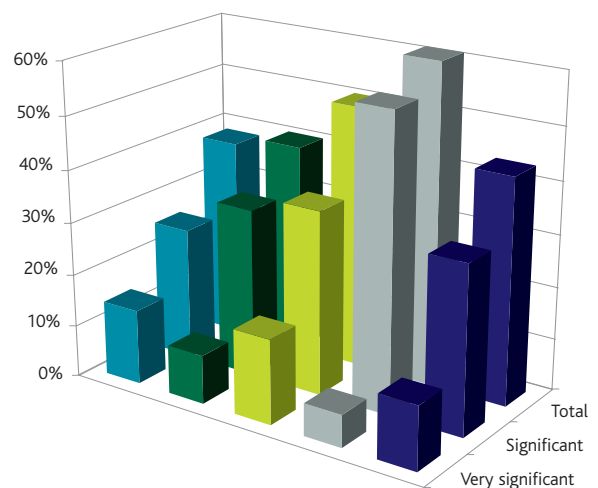
Perhaps surprisingly, only half (51%) of the public sector organisations we spoke to are engaged in joint ventures. It may be that some public sector managers are cautious about entering formally contracted arrangements by lengthy negotiation processes and risks of supplier lock-in commonly associated with joint ventures and outsourcing. However, in our experience more formal arrangements up front cannot help mitigate more serious issues which may arise at a later stage.

### Top tips: how to create watertight contracts

- Conduct rigorous due diligence. It is essential to know exactly where each partner stands in terms of existing contracts. There may be long term agreements with existing suppliers which prevent new shared service arrangements being put in place. Ensure that neither party is operating ultra vires
- Formalise each partner's role and responsibilities in a legal contract
- Ensure service level agreements are in place with suppliers
- Make sure all contracts are consistent
- Put in place contractual reviews to ensure all contracts are kept up-to-date
- Ensure contractual remedies are adequate
- Deal properly with liability issues and ensure limitations on liability don't mean inadequate damages
- Make sure intellectual property rights which are licensed or which are developed in the course of the service are safeguarded

**Q: When designing contracts, problems may arise in clearly apportioning responsibilities to each partner. To what extent do you consider this to be a risk to the introduction of shared services?**

	Very significant	Significant	Total
Local authorities	13%	24%	37%
Health	8%	31%	39%
Social care and education	15%	34%	49%
Fire services	5%	55%	60%
Total	11%	31%	42%



*“It is important that all your people understand the vision, strategy and business case for shared services. And most importantly of all they will need reassurance about their new roles and value. A robust communication and consultation strategy is key for managing morale issues and overcoming scepticism and fears about the future.”*

Iain Patterson, Employment Partner, Browne Jacobson

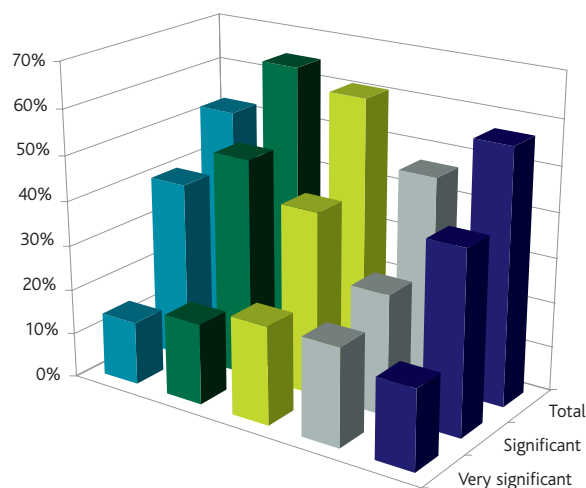
The importance of the human factor is clearly not lost on public sector leaders. As noted above, public sector managers often feel unable to provide the necessary human resources to ensure that shared initiatives are a success. Yet more than half (59%) of those interviewed believe that having adequate manpower in place is a critical factor in the delivery of shared services. A further ‘people’ challenge, also illustrated above, is a lack of engagement among front line workforces.

In this light, it is perhaps not surprising that a majority (55%) of those interviewed felt that the success of shared services would be under threat if employees were not consulted sufficiently. This proportion rises to a significant 63% among managers in the health sector.

Clear consultation and communication from the outset – with employees, unions and local representative bodies – will have a crucial role to play in ensuring successful partnerships. Managers need to decide at an early stage what should be communicated, to whom, when and how, ensuring that this is done in a consistent and coordinated manner. Managers should also consider the feedback received from these stakeholder groups and act decisively to address any major concerns.

**Q: To what extent do you consider inadequate communication and consultation with staff to be a risk to the introduction of shared services?**

Sector	Very significant	Significant	Total
Local authorities	12%	38%	50%
Health	16%	47%	63%
Social care and education	20%	39%	59%
Fire services	20%	25%	45%
Total	16%	39%	55%



## Top tips: bringing the workforce with you

- Don't short cut the planning. Identify your objectives at the outset and implement a realistic timetable ensuring compliance with all regulatory and other legal requirements
- Discuss proposals with HR at an early stage to identify statutory consultation requirements on any changes leading to job losses or entailing TUPE Regulations
- Develop a joint communications strategy to be agreed by all participating authorities and consult widely across each organisation involving staff at all levels

- Make clear that redundancies are a last resort and will be avoided where possible by redeployment
- Conduct a staff and skills audit to identify the skills mix, compare terms and conditions and identify relocation costs, pension arrangements and training requirements
- Ensure that sufficient training is available for incoming staff and those who may require new skills
- Consider offering flexible working to make the change more palatable to staff. This can deliver efficiencies such as reduced accommodation and improved productivity
- If relocating employees, determine what temporary accommodation might be needed and whether there needs to be a lead-in time for 'fit-out' works

## Redundancies and transfers

It is an unfortunate reality that any efficiency drive is likely to entail changes to jobs and potential redundancies – more than 50% of managers highlighted workforce opposition and a fear of job losses as a concern.

Challenges faced in this regard will largely depend on the shared services model to be implemented. Informal collaborations, favoured by a significant proportion of the managers Browne Jacobson consulted, tend to create minimal staff displacement, if any. By contrast, joint ventures could result in job losses or relocation, as well as a potential need to redesign roles and the difficult process of harmonisation of terms and conditions of employment. They may also present complexities surrounding benefits, such as pension schemes.

Where job losses or transfers are in the frame, public authorities are subject to a legal duty to act fairly. With this in mind, there may be legal requirements to consult fully with staff, unions and other stakeholders, particularly if redundancies or changes to terms and conditions are likely. Should consultation break down or not be adequately conducted, public managers should be prepared for a legal challenge. A failure to comply with collective consultation requirements can result in awards of up to 90 days pay per affected employee.

Only around a third (35%) of those surveyed expressed concern over legal risks inherent in transferring employee rights. Yet if a shared project leads to a change of employer, TUPE Regulations will almost always apply, leading to further information and consultation obligations. Resolving this may be further complicated if employees are to be on new terms and conditions. It is worth noting that failure to comply with TUPE Regulations can result in financial penalties and / or unfair dismissal claims. Schemes to avoid changing the employer, such as by secondment, need to be handled carefully to avoid TUPE from taking effect, regardless of any agreement between those involved.

Transferring staff may also entail implications for pension schemes. If services are being shared within the NHS or within the local authority sector, for example, this should be straightforward. However, where employees are transferred to the private sector, the private sector employer will require special status to enable staff to remain in their public pension scheme. Employers also need to be aware of the relevant public sector codes of practice.

Clearly, the legal complexities surrounding the workforce, not to mention engagement and productivity issues, have the potential to seriously impact upon, even derail, the smooth and successful implementation of shared services.

### Case study: successful skills transfer

Customer Service Direct (CSD) is a 10 year initiative involving Suffolk County Council, Mid-Suffolk District Council and BT. CSD provides seamless access to both councils' services to the public through walk-in centres, a telephone helpline and transactional web site. It also delivers integrated finance, IT and HR services to both councils. Nearly all of the company's staff were seconded to the joint venture from the local authorities, rather than transferred under TUPE. One of its key achievements has been to increase the skills and status of many employees in the joint venture through training and restructuring.

Source: Shared Services – The opportunities and issues for public sector organisations, IPF, June 2006

## Did you know?

- The Information and Consultation Regulations, also known as the ICE Regulations, came into force in April 2005. The ICE Regulations require employers to set up permanent information and consultation arrangements when requested by 10% of employees (subject to a minimum of 15 employees). These could become relevant to plans for shared services earlier than collective consultation requirements
- A study by Proudfoot Consulting reveals that bad management, low employee morale and poorly trained staff can cost British organisations an average of 117 lost working days a year

*“The Worcestershire Hub partnership share a common vision and commitment to exploring new ways of working together and recognise that they have a responsibility to try to meet local residents’ expectations of good quality public services. The Worcestershire Hub works in close partnership with service areas in order to provide an efficient and effective front office service and deliver a consistent level of customer service.”*

Rachel Hill, Head of Customer Services,  
Worcestershire County Council



*“I’ll agree to a fifty-fifty split, But I get the hyphen.”*

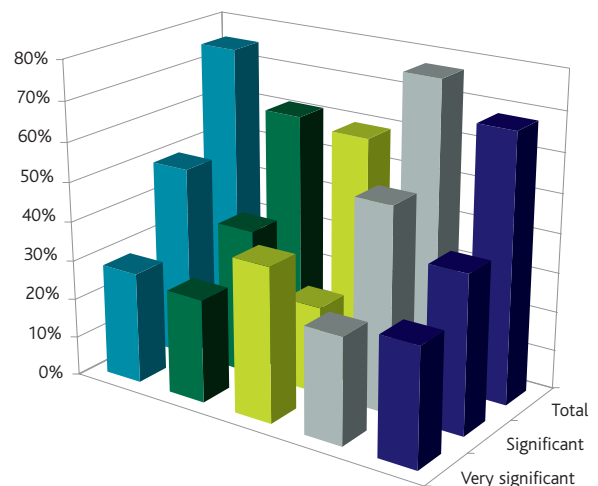
## What about partners?

Shared services arrangements come in a variety of guises. There is an array of partnership models within which public bodies can work, ranging from informal collaborations to outsourcing and joint ventures.

Possibly as a result, partnership worries are among the concerns revealed by our research. Over a third of managers (34%) believe that disagreements and a lack of cooperation pose a major risk to shared services, whilst almost twice as many (64%) expressed concern for the long-term survival of the project should a partner decide to leave the arrangement.

**Q:** *There is a risk shared service schemes may not be viable if one of the partners withdraws. To what extent do you consider this to be a risk to the introduction of shared services?*

	Very significant	Significant	Total
Local authorities	26%	47%	73%
Health	24%	35%	59%
Social care and education	37%	20%	57%
Fire services	25%	50%	75%
Total	28%	38%	66%



Making shared services happen is not a one-off event. Continual innovation and collaboration needs to be built into the delivery model. Essential to the smooth workings of any new partnership initiative should be the appointment of a project manager. The project manager needs to be solely responsible for the partnership, and not expected to perform this role alongside the 'day job'.

One of the key questions when allocating tasks to partners in a shared service environment is whether the partner in question has the legal powers to carry out that task. For example, it is worth remembering that, in principle, a local authority can only delegate functions to its own committee or sub-committee of members, to offices or, under the Local Government Act 1972, to another local authority (and its members / officers) – or any combination of these or joint board (in some cases). So, where services which go to the heart of an authority's functions are being outsourced to partners which are not local authorities, compliance with this key governance rule should be considered from the outset of a shared project. Two possible solutions exist:

1. Ensure that makers of key decisions do fall within one of the authorised categories mentioned here (e.g. by ensuring that key decision makers remain as officers of the outsourcing authority)
2. As a last resort, seek a Secretary of State's Order under the Deregulation and Contracting-Out Act 1994

As we have seen, a significant proportion of managers are opting for informal arrangements to deliver shared services, rather than entering into outsourcing contracts or joint ventures. Whilst these limit costs and disruption, they also carry inherent complexities and risks, as we have highlighted.

Although formal partnerships such as joint ventures and outsourcing arrangements need time to establish, they are a useful way of building trust. Of 37% for whom trust is a key concern, 43% cited partners giving priority to their own issues, and 40% a lack of authority over their partner's workforce, as the two principal barriers to establishing trust.

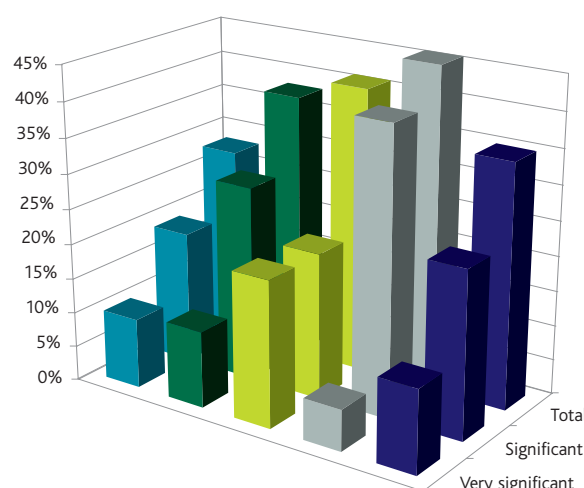
This may shed light on the focus on back office functions when it comes to shared services, rather than on 'politically sensitive' front line services. The importance of trust cannot be over-estimated if public bodies are to realise the full potential of shared services.

With this in mind, it may be prudent for managers to consider building on existing partnerships and relationships with organisations where the foundations for mutual trust are already in place.

Organisations should also set performance targets and ensure that these are reported on regularly – perhaps every six months – as part of a service level agreement. Other monitoring mechanisms, such as feedback from internal customers, may also prove useful in ensuring the arrangement is working as intended.

**Q: There is a risk of disagreements and lack of cooperation between partners. To what extent do you consider this to be a risk to the introduction of shared services?**

	Very significant	Significant	Total
Local authorities	9%	18%	27%
Health	10%	27%	37%
Social care and education	20%	20%	40%
Fire services	5%	40%	45%
Total	11%	23%	34%



## Top tips: perfect partnerships

- Identify partners your organisation can work with, and that you share a common vision and ethos with. Don't be limited by geography
- Formalise arrangements where possible, so that all parties are aware of their responsibilities
- Contract documentation should specify who will make key decisions and the mechanisms in place in case of disagreement
- Agree each party's objectives. For some, cost savings will be the priority, whilst improved quality or increased flexibility may be more crucial to others. Ensuring that all partners have clear gains to be made from the arrangement will create real momentum to drive the project forward

- Consider defining, within the contract, a balanced set of targets which work for all parties across not just financial but also people, process and client measures
- Aim for equality. Unsuccessful partnerships suffer from power struggles between personalities. Do not assume that it is simply a case of merging one service into another; ensure that governance is correct and devolves power to an appropriate board or committee
- Beware overcrowding. Carefully examine the number of partners involved at the start of the project. Initially, too many partners can slow down decision-making and progress. As the project develops, a larger number of partners may be brought on board. However, it may still be prudent to keep overall governance and project management to a smaller group who are responsible for ensuring the overall plan, which has buy-in from all partners, is met

*"As guardians of the Data Protection Act the Information Commissioner's Office is seeking new powers that could see any employee who has seriously breached the Act being subject to criminal sanctions. This proposed change in the law, which comes in the wake of a number of thefts of patient data held on laptops, could mean that offenders are fined up to £5,000 in a Magistrates' Court or unlimited sums in the Crown Court."*

Simon White, Data Protection Expert, Browne Jacobson



"You maybe read the small print, Mr Hill, but you obviously didn't read the microscopic print!"

## What about compliance?

A major challenge for public sector organisations implementing shared services lies in ensuring compliance with legal and other regulations. There are a raft of legal issues to consider when implementing a shared services arrangement. For example, viruses must always be considered by public body participants. Additional legal considerations will include procurement law, employment and pension law and compliance with data and knowledge management issues. The list opposite sets out the many compliance considerations, but for the purpose of this section of our report we have concentrated on IT, data sharing and health and safety in view of their universal importance and to illustrate how such issues need to be carefully addressed.

Investment in technology alone will not ensure shared service success. However, without an effective IT platform, service delivery is highly likely to be compromised.

It is understandable then that alongside procurement, IT is one of the areas most commonly identified as suitable for sharing. 70% of managers are considering moving back office technology to a shared services model, while more than half agree that advances in information technology are creating the greatest opportunities for improved service delivery.

### Case study: data sharing among partners

Cambridgeshire County Council's Social Services and health care providers in the county joined forces to create a single source of information on the care needs of older people so that critical information could be shared more easily between different agencies. Fujitsu was chosen to develop an electronic version of the system based on hand-held computers that could enable all staff to gather the information needed to gauge the help and support needed in a single visit.

Source: Fujitsu

However, for many organisations, technology also presents the greatest headache. Perhaps conscious of Sir David Varney's vision of personalised services, reduced duplication and increased access to citizen information, many managers are anxious about the sharing of data: 31% fear falling foul of data protection laws.

Where services are to be combined, in all likelihood, so are records. Organisations need to take steps to ensure that information is shared in accordance with the Data Protection Act. Common standards and practices for information management need to be developed, as does an effective range of tools to allow the most efficient use and sharing of information to those with a legitimate need to see and use it.

In addition, flexibility must be built into IT systems to accommodate the needs of future partners.

There is no doubt that document management is of paramount concern to the public sector. Not only must a wide range of documents be securely stored and archived, these must be easily retrievable, for example, in response to a Freedom of Information Act request. To complicate matters, historical records may require digitisation. Verification documents must be kept secure and backed up as part of disaster recovery measures.

## Case study: right side of the law

Two local authorities wanted to merge their HR functions with an NHS scheme – NHS Shared Business Services (SBS) – a Department of Health joint venture with outsourcing giant Xansa which currently provides corporate services to 100 health trusts. SBS was set up under a framework agreement procured under European Union rules. Unfortunately, new EU public procurement regulations had come into force since the contract had been agreed which meant that both authorities could have been open to legal challenges from other suppliers. Both local authorities took the decision not to pursue the arrangement any further but still went onto work together on sharing their e-business suite.

Source: Shared Services in Britain by Dexter Whitfield, June 2007

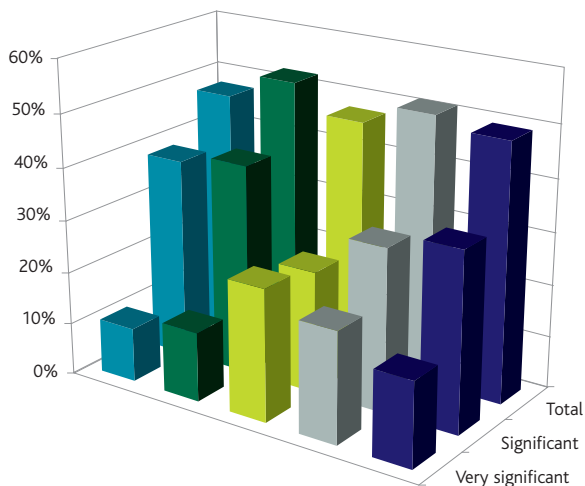
Enormous resources, both financial and non-financial, are likely to be required to ensure a seamless IT and document management system transition. This undoubtedly creates a fear factor, almost half (48%) of managers interviewed – more in the Midlands – expressed concerns over services failing during the critical transition stage.

Organisations should decide at the outset whether to adopt a step-by-step approach to information and service migration and it may be prudent to run services in parallel. Clarity over responsibilities for a test phase is also imperative.

These concerns and measures apply not only to data issues, but also to health and safety measures. Compromising the health or safety of citizens or employees during the transition to a shared arrangement is unthinkable and organisations must safeguard the effective management of health and safety during this phase. It is sobering to note that the Corporate Manslaughter and Corporate Homicide Act 2007 is now in force and applies to all corporate bodies including local authorities, NHS Trusts and many non-departmental public bodies.

**Q: There is a risk of service failure during the transition to shared services. To what extent do you consider this to be a risk to the introduction of shared services?**

	Very significant	Significant	Total
Local authorities	9%	37%	46%
Health	12%	39%	51%
Social care and education	24%	22%	46%
Fire services	20%	30%	50%
Total	15%	33%	48%



## Top tips: compliance considerations

Compliance is a broad subject and worthy of a full report in its own right. The list below gives an indication of some of the considerations. For more information visit [www.brownejacobson.com/sharedservices](http://www.brownejacobson.com/sharedservices)

- **Corporate manslaughter** – clearly, prevention is the primary objective, but consideration needs to be given to dealing with responsibilities and risk mitigation, should the worst happen
- **Health and safety** – the division of responsibility between the participating organisations and the risk of things falling between two stools. When sharing premises, clarify whose health and safety policy will apply and ensure that staff from one authority using the facilities of another are familiar with all health and safety policies and procedures
- **Data sharing** – this is a serious challenge but one which can be overcome – requirements of the Data Protection Act, and Freedom of Information Act need to be considered as well as confidentiality. One way to protect personal information would be to ensure the relevant software is available to enable encryption. Invest time in ensuring each organisation implements ISO 17799 on Information Security Management. More information on this can be found at [www.iso.org](http://www.iso.org) Anyone processing personal data must also make sure that they have the necessary consent in place and establish which of the parties to the shared services will be liable if the relevant personal data is used otherwise than in accordance with the DPA. These areas should be covered in an information sharing protocol agreement
- **Regulatory risks** – address corporate obligations where new special purpose vehicles are created, sector specific legislative requirements can be demanding and the partnership arrangements need to be capable of meeting these requirements
- **Intellectual property** – a positive element providing it is managed correctly and ownership remains with the appropriate body
- **Pensions** – ongoing duties to meet pension legislative requirements
- **Charities** – the requirements of the Charities Commission need to be observed to maintain charitable status
- **Tax** – if special purpose vehicles are created to deliver shared services, then the taxation implications need to be considered in advance – key aspects being corporation tax, income tax and value added tax
- **Audit** – clear financial procedures are essential, as is evidence that these have been applied consistently and rigorously
- **Performance** – all public bodies are subject to substantial levels of scrutiny and performance review. It is essential that those who deliver shared services are able to demonstrate that effectiveness in customer "experience" and value for money is being delivered through the arrangements
- **Conduct** – high standards of probity for those administering our public affairs are a given, which requires robust corporate governance systems

*“Choosing the right partner has its obvious advantages; getting it wrong could be catastrophic for the initiative. It is important to make sure that all the partners share the same vision. Unfortunately, things can go awry so it is crucial to discuss the trigger points for exiting, as well as the disengagement process itself, in the early stages of negotiation.”*

Sharon Jones, Head of Contracts & Procurement, Browne Jacobson



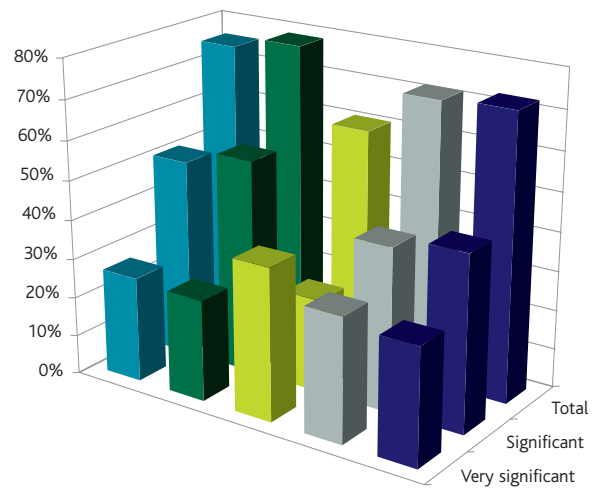
“First you'll have to sign this form, releasing me from any liability.”

## What about exiting?

In a highly risk averse culture, exit provisions might be expected as a given in shared services contracts. However, our research reveals that close to half (45%) of public sector managers believe their shared services lack a clear exit strategy. In addition, almost three quarters (71%) are concerned about shouldering liabilities and high exit costs where an exit strategy is not in place.

**Q:** *There is a risk of ongoing liability or high exit costs if a clear exit strategy is not identified at the outset. To what extent do you consider this to be a risk to the introduction of shared services?*

	Very significant	Significant	Total
Local authorities	26%	49%	75%
Health	24%	53%	77%
Social care and education	37%	22%	59%
Fire services	30%	40%	70%
Total	28%	43%	71%



### Top tips: ensuring a smooth exit

- Review at the outset whether a proposed scheme is ultra vires
- Conduct a rigorous due diligence exercise to clarify where each partner stands in terms of any existing contracts and when and how they could exit their current arrangements
- Seek early legal advice on the form and structure of the contracts to be put in place to clarify the shared services model on offer. As well as defining each partner's rights and responsibilities, contracts should make clear termination notices, circumstances in which a termination will occur automatically and with immediate effect, and compensation clauses
- Make sure contracts stipulate how assets, both physical and intellectual, will be divided on exit
- Put in place a contingency plan to manage the service at a time of crisis – this should cover handling adverse media reaction

Shared agreements should make clear at the outset how costs, risk and rewards are to be shared among the partners – not only during the lifetime of the service, but just as importantly, upon termination. The more complex a partnership, and the larger a project, the more difficult it may prove to unravel should the unthinkable happen.

Taking on responsibility for another organisation’s services is a concern raised by more than one in three managers (37%), rising to over half (53%) in the social care and education sector. This is why an exit strategy, which is clear, cost effective and can be rapidly implemented, should be in place from the beginning.

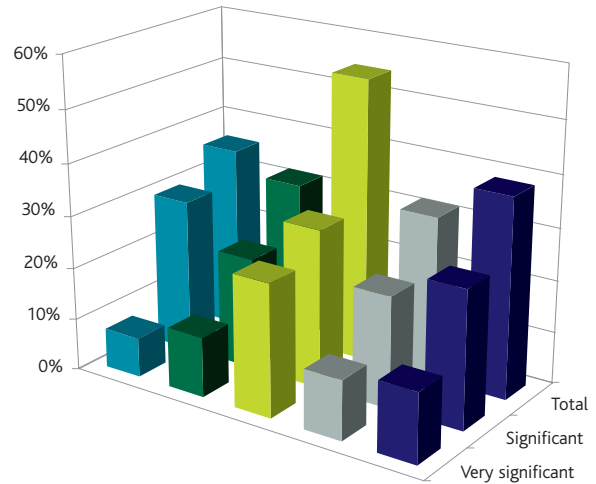
### Case study: agreeing a smooth exit

Staffordshire Connects is an award winning partnership of 10 local authorities, which have been highly successful in harnessing technology to deliver public service in convenient new ways. In its risk management strategy, it has been agreed that any partner must give two years’ notice of intention to quit – this enables the remaining partners ample opportunity to manage departure of authority in question and potentially find a replacement.

Source: IDeA

**Q: As a part of shared service arrangements, directors will be liable for the delivery of services by other organisations. To what extent do you consider this to be a risk to the introduction of shared services?**

	Very significant	Significant	Total
Local authorities	6%	28%	34%
Health	10%	20%	30%
Social care and education	24%	29%	53%
Fire services	10%	20%	30%
Total	12%	25%	37%



# strategy

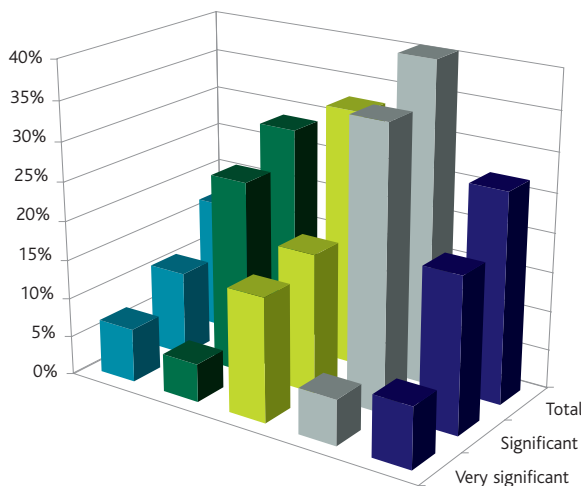
An exit strategy should outline exactly how and in what circumstances the organisations should go about withdrawing from the arrangement smoothly, without significant impact on the service. It is also important that the partnership model is flexible enough to allow partners to join or re-join at a later date.

If required, contracts can provide extra assurances, through penalties, for withdrawal or long notice periods.

Public sector organisations must operate in accordance with their statutory duties. Failure to do so violates ultra vires principles, potentially rendering a contract with a partner null and void. Surprisingly, this appears to be lower down on managers’ list of concerns. Only 26% of those interviewed saw this as a significant risk. Clearly, this is something that needs to be fully reviewed at the outset.

**Q: As a part of shared service arrangements, it is possible that ultra vires principles may be infringed. To what extent do you consider this to be a risk to the introduction of shared services?**

	Very significant	Significant	Total
Local authorities	6%	10%	16%
Health	4%	24%	28%
Social care and education	15%	17%	32%
Fire services	5%	35%	40%
Total	7%	19%	26%





Dominic Swift



Richard Barlow



Sharon Jones



Simon White



Paul Ray

## About us

Browne Jacobson LLP is one of the largest law firms in the midlands, with regional and national reach through our offices in Birmingham, London and Nottingham. The firm is over 500 strong, including 60 partners and over 200 other lawyers.

We have a long established and nationwide reputation in all areas of our public sector, insurance and commercial practice. Our public sector experience and commitment to understanding the issues faced by the public sector enables us to provide a tailored and effective legal service to our clients.

Shared services are a key issue for the public sector currently, and in recognition of the challenges faced by our clients and contacts in this area, we have formed a dedicated team of shared services specialist lawyers, led by Dominic Swift. Our specialist knowledge, coupled with a practical and straightforward approach, means that you can expect our legal advice to be based on an understanding of your practical needs and on-going business demands.

We work closely with our clients to provide the bespoke solutions they need. Our committed and experienced team see themselves as an extension of your own team, working to the same core values and beliefs and providing you with practical and straightforward advice. Our focus is on long-term relationships with our clients that are friendly, straightforward and accessible; our aim is to provide the service you want, how and when you want it.

As a full service law firm we can advise on a wide variety of legal matters. Our comprehensive range of services includes:

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- Risk management and liability
- Administrative law – consultation and decision taking
- Procurement, contracts and joint ventures
- Data protection and freedom of information
- Funding
- Partnerships, LLP agreements and corporate
- Pensions, tax and charities
- Employment
- Planning
- Property
- Construction

For more information on how we can help, or to find out more about our specialist shared services team, please visit [www.brownejacobson.com/sharedservices](http://www.brownejacobson.com/sharedservices)

## Let us know your thoughts

If you have any thoughts about our research or about shared services in general then we would love to hear from you. Please get in touch:

- Email your thoughts to [sharedservices@brownejacobson.com](mailto:sharedservices@brownejacobson.com)
- Call Dominic Swift on 0115 976 6148
- Post a message on our discussion forum at [www.brownejacobson.com/sharedservices](http://www.brownejacobson.com/sharedservices)

# www.brownejacobson



Richard Cox

Maralyn Thomas

Iain Patterson

Anna Eastgate

## Key contacts

### Dominic Swift

Head of shared services  
Property and construction  
t: 0115 976 6148  
e: dswift@brownejacobson.com

### Richard Barlow

Governance, litigation, administrative law, vires and risk management  
t: 0115 976 6208  
e: rbarlow@brownejacobson.com

### Sharon Jones

Procurement, contracts and joint ventures  
t: 0115 976 6284  
e: sjones@brownejacobson.com

### Simon White

Data protection and freedom of information  
t: 0115 976 6532  
e: swwhite@brownejacobson.com

### Paul Ray

Funding  
t: 0121 237 3998  
e: pray@brownejacobson.com

### Richard Cox

Partnerships, LLP agreements and corporate  
t: 0115 976 6135  
e: rcox@brownejacobson.com

### Maralyn Thomas

Pensions, tax and charities  
t: 0115 976 6549  
e: mthomas@brownejacobson.com

### Iain Patterson

Employment  
t: 0121 237 3924  
e: ipatterson@brownejacobson.com

### Anna Eastgate

Planning  
t: 0115 908 4127  
e: aeastgate@brownejacobson.com

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During the course of constructing this report we spoke to a number of our clients, who we'd like to give special thanks to for their thoughts and contributions.

## The shared services report

For additional copies of Browne Jacobson's shared services report and further information about Browne Jacobson, please contact:

**Jemma Jackson**  
t: 0115 908 4856  
e: jjackson@brownejacobson.com

For media enquiries please contact:

**Lakhbir Rakar**  
t: 0121 237 3926  
e: lrakar@brownejacobson.com

## The legal bit

The information and opinions expressed in this report are not a substitute for legal advice. It is guidance only, if in doubt please telephone 0115 976 6000.

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