

## Modern public services: shared services

**Bigger, cheaper, better?**



November 2006

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This report published in 2006 by the  
Society of Information Technology Management  
PO Box 121 Northampton NN4 6TG

ISBN 1 904 414 56 7

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# Contents

<b>1</b>	<b>Case studies</b>	<b>5</b>
	<p>There is nothing new about shared services, particularly those involving ICT. We look at a range of practical examples from the recent past in order to assess the potential for sharing and the lessons that we can learn, taking into account the different services, geography, participants, and priorities.</p>	
<b>2</b>	<b>Potential for sharing</b>	<b>17</b>
	<p>We analyse the possibilities for implementing shared services in both the back and front offices. In isolation, the potential economies of scale make a compelling case. However, there are good reasons why local government is responsible for local services. We make a pragmatic appraisal of the case for shared services.</p>	
<b>3</b>	<b>Shared services and ICT</b>	<b>23</b>
	<p>ICT services have instigated many approaches to sharing, and enabled sharing in other services. We look at sharing ICT, and beyond to the ways in which ICT can facilitate a larger scale and more comprehensive approach to sharing.</p>	
<b>4</b>	<b>Taking shared services forward</b>	<b>29</b>
	<p>In addition to determining the governance structures, choosing a delivery model, and considering private sector involvement, there are political concerns, both large 'P' and small 'p'. We provide comprehensive guidance on how to come to a decision, and then make progress along the chosen route.</p>	
<b>5</b>	<b>The models for collaboration</b>	<b>41</b>
	<p>We provide a range of models for establishing sharing arrangements, and indicate the relevant legal frameworks. We consider governance arrangements, and how public sector organisations might engage the private sector in their sharing arrangements.</p>	
<b>6</b>	<b>Shared services in action</b>	<b>51</b>
	<p>Creating a shared services arrangement is likely to be a complex and lengthy undertaking. It is vital to think about the many impacts of the procurement process to turn ideas into reality. We look at the practical steps necessary in order to make shared services happen.</p>	
<b>7</b>	<b>Conclusions</b>	<b>59</b>
	<p>We summarise our advice by identifying the key findings from this research. These all point to the conclusion that setting up a shared services undertaking is likely to be both complex and time-consuming because of the many parties involved. We provide a maturity grid to enable readers to assess the readiness of their own organisation for sharing services.</p>	
	<b>Appendix</b>	<b>63</b>

# Detailed contents

<b>1</b>	<b>Case studies</b>	<b>5</b>	<b>5</b>	<b>The models for collaboration</b>	<b>41</b>
1.1	Warwickshire Direct Partnership	6	5.1	The scope of sharing	42
1.2	Single Non-Emergency Number — Hampshire and the Isle of Wight	7	5.2	Governance design	43
1.3	Partnerships in Parking Programme (PiP)	8	5.3	In-house centralisation	43
1.4	Surrey CC	10	5.4	Simple outsource	44
1.5	Connected Cumbria	12	5.5	Informal collaboration	44
1.6	Local authorities in Shropshire	13	5.6	Joint venture	45
1.7	Further examples of shared services	14	5.7	Public sector consortia	47
1.8	Sharing services at Tandridge DC	16	5.8	Contractual partnership	47
<b>2</b>	<b>Potential for sharing</b>	<b>17</b>	5.9	Lead client	49
2.1	Government expectations	18	5.10	Prime contractor	49
2.2	Definition of shared services	18	5.11	Trading company	50
2.3	Context	19	<b>6</b>	<b>Shared services in action</b>	<b>51</b>
2.4	Reasons for sharing services	19	6.1	Procurement	52
2.5	Incentives for sharing	20	6.2	Qualification	53
2.6	Importance of local priorities	20	6.3	Licences and leases	53
2.7	Back office services	21	6.4	Due diligence	54
2.8	Front office services	22	6.5	Handing over	55
2.9	Priorities for shared services	22	6.6	Benefit realisation	56
<b>3</b>	<b>Shared services and ICT</b>	<b>23</b>	6.7	Risks	57
3.1	A special case	24	<b>7</b>	<b>Conclusions</b>	<b>59</b>
3.2	The history	24	7.1	Readiness to share	60
3.3	Common systems	25	7.2	Key findings	60
3.4	The transformation agenda	26	<b>Appendix</b>	<b>63</b>	
3.5	The changing role of ICT	26	1	The Tuckman model	64
3.6	Sharing ICT	27	<b>Further information</b>	<b>65</b>	
<b>4</b>	<b>Taking shared services forward</b>	<b>29</b>	<b>The Socitm <i>Insight</i> library</b>	<b>68</b>	
4.1	Providing leadership	30			
4.2	Finding partners	31			
4.3	Building the business case for shared services	33			
4.4	Dealing with potential blockages	36			
4.5	Thinking ahead	38			
4.6	Planning the implementation	40			

# Foreword

I am anxious that public sector organisations start to recognise the professionalism of the ICT service and the role it can play in transforming service delivery. In shared services, we have a double opportunity to excel. Whilst our immediate thoughts might focus on how we can help our organisations and business managers share and transform their services, by sharing parts of the ICT service itself we can demonstrate our capability as strategic thinkers and opinion leaders as well as competent implementers and change managers.

There is much to gain from sharing infrastructure and systems with others. Besides the obvious economies in software seats and hardware, we can also begin to meet some of the challenges we face under the Civil Contingencies Act. The more distributed our organisations are, the less vulnerable we are to physical attack.

The government strategy sees shared services as one of the three principal stands to modernising our public sector services. This study by Socitm *Insight* not only reflects upon examples of good practice from the past, but also looks forward to how we can capitalise on our experience to develop innovative models of service delivery for the future.

This is a document to share with your leader, chief executive, and top management team.

Peter Ryder, Socitm President

# Preface

*Transformational Government — enabled by technology* (Cabinet Office, November 2005) spelled out a three-pronged strategy for delivering the government's vision for public services in the 21st century. Along with services enabled by ICT and designed around citizens and business plus professionalism from the ICT service, came shared services. The latest white paper *Strong and prosperous communities* encourages sharing in two-tier areas. The government estimates annual savings of 20 per cent, equating to £1.4 billion, from sharing services across the public sector. Therefore, this latest research report in our series on ICT-enabled transformation in local government takes a critical look at current practice, and explores how we can drive this approach forward to increase the quality of public services, and realise economies in their delivery.

# Section 1

## Case studies

There is nothing new about shared services, particularly those involving ICT. We look at a range of practical examples from the recent past in order to assess the potential for sharing and the lessons that we can learn, taking into account differences of services, geography, participants, and priorities.

# 1 Case studies

## 1.1 Warwickshire Direct Partnership

### Introduction

The Warwickshire Direct Partnership (WDP), formerly known as the Warwickshire Online Partnership, started with the local government online (LGOL) initiatives in 2002, and now comprises the county council and all the districts in the county. The major component is a joint CRM system to support contact centres involving the Northgate system hosted by Steria. WDP aims to improve services to citizens throughout the area through sharing resources, technology, and good practice. This system implementation also provides a broadband link to all the partners. In addition, the county supplies payroll services to two districts, and the district councils use some of the county PC contracts.

### The partnership

Warwickshire is not new to innovative partnership arrangements, having set up a facilities management company in the 1980s, and collaborated with other counties in joint procurement through the Eastern Shires Purchasing Organisation (ESPO). All the partners signed a memorandum of association prior to one of the councils entering into the five-year contract with the private sector suppliers on behalf of the other councils. The partnership is now in its third year of operation.

The participants regard the system as a good use of the LGOL funding, because, by pooling it, they have all enjoyed additional value that some partners might not have been able to obtain if they had acted alone. Whilst the partners are all using the same system, the usage is still sub-optimal. The hosting involves six separate databases, but technically this could be a single, unified database. The approaches in the individual contact centres are all slightly different. Whilst this might not be the ideal situation, the difficulty in winning agreement to anything more unified would probably have

meant that there would be no partnership agreement.

### Benefits

There have been real savings through the joint procurement process. The business case forecast savings of up to £600k. There are also savings that count for efficiency review purposes in operations, equipment, and time spent managing system upgrades. Savings amounted to £190k of in 2005/06.

Perhaps most important is the benefit to citizens. Partner councils now have improved customer service facilities, all delivering improved services via their contact centres. Partners procured these advanced facilities at reduced cost through exploitation of external funding, and joint working.

Councils have increased ability to work jointly across Warwickshire, reducing the problem of the citizen contacting the wrong council. The shared service supports improved response for citizens at the first point of contact.

As a result of this collaboration, there is now more discussion on other topics among the partners, potentially increasing the opportunity for further co-operation.

### Lessons learnt

However well partners get on, there are bound to be some tough discussions about the different ways in which things are done. It is important to be clear about the requirements, both individually and jointly. The external LGOL funding certainly helped facilitate the process, and the firm deadline to commit the funding provided an important spur to progress. On the other hand, EU procurement rules and local standing orders can both create potential barriers.

### Socitm Insight comments:

In this interesting two-tier case, the county entered into the contract on behalf of the partnership, with the memorandum of association providing the necessary legal framework. Relationships between tiers in some areas might dictate alternative approaches.

Whilst the WDP partners have chosen to have separate databases, this has allowed them to proceed. Getting agreement on all the details or selecting an optimum service process is very difficult. Anyone who has tried to implement an

Enterprise Resource Planning (ERP) system will immediately recognise the difficulty of getting even internal service units to sign-up to a 'vanilla' approach.

Participants in our research workshop repeatedly mentioned the lack of pump-priming funding as potential block to sharing. In this case, LGOL money certainly facilitated agreement to proceed, and the firm deadline ensured partners had a good reason to reach an agreement.

## 1.2 Single Non-Emergency number — Hampshire and the Isle of Wight

Hampshire and the Isle of Wight were first to implement the Single Non-Emergency Number (101) service in the first wave of the national implementation. The project started with an overture to Hampshire Police and Southampton City (who were involved in the 'It's your call' initiative) from the Home Office. The scope soon expanded to include all three unitary authorities (Isle of Wight, Portsmouth and Southampton) in the area, and the county council. It was only later that the partnership approached the constituent district councils. There is now a partnership across Hampshire and the Isle of Wight.

The service uses a shared call centre based at the Police Headquarters, Winchester.

This 24x7 service would be a facility that most of the partners would find difficult to provide, individually. There are considerable economies of scale through collaboration.

At launch on 15 May 2006, the services covered included:

- vandalism, graffiti and other deliberate damage to property
- noisy neighbours and other noise nuisance
- intimidation and harassment
- abandoned vehicles
- fly tipping, rubbish or litter
- people being drunk or rowdy in public places
- drug related anti-social behaviour
- highway defects and street lighting.

Another shared infrastructure component is the private broadband network covering the whole area, provided as a managed service to the partnership by Hampshire County Council through a contract with Unisys. £2m funding came from the LGOL programme.

The network is an enabler for the 101 service. It is a voice and data network with the potential to share applications in the future, currently used to transmit 101 request information from the police to the local authority partners.

One issue that has arisen concerns differing service levels in the councils. The increased transparency allows the public to make comparisons. It could lead to further sharing as councils offer or buy-in services from others, or adopt the 'best of breed' approach used by another partner. Already, Southampton City provides an 'out of hours' noise nuisance service to Eastleigh at the weekends, and is well disposed to offering it more widely.

It was probably less than helpful that as a result of the way the initiative started, the district councils were last to be involved. Considerable effort went into making the sale to them. A big concern was the funding from central government that was guaranteed only for the first two years of a five-year programme, pending the Government's Comprehensive Spending Review in 2007. District chief executives did not want to be left holding the bill for a new service that it would be very difficult for them to back out of in the event that the funding ceased. A persuasive argument for joining the partnership was the opportunity to shape the approach. As Hampshire is one of just five localities that are included in the first wave, it will be one of the first to discover the issues and one of the first to design the solutions.

In any case, half the authorities in England and Wales will be part of the 101 service by the end of June 2007 and all authorities will have to be part of the service by 2008.

A memorandum of understanding approved and signed by all the partners' chief executives provides the basis for a formal partnership. It is still early days for the service, and initial call volumes are encouraging, but low enough to allow the technical teams to sort out the inevitable post-implementation glitches without impact on the public.

Promotional leaflets will start to be distributed to all households in Hampshire and the Isle of Wight starting in June, and the team anticipates that the upward trend in call volumes will accelerate as soon as this happens.

### 1.3 Partnerships in Parking Programme (PiP)

This is an exemplar programme initially funded by the London Centre of Excellence. It draws together the parking and procurement expertise and resources of six London boroughs, led by the City of Westminster and also including Camden, Islington, Kensington & Chelsea, Lambeth and the Corporation of London, plus Transport for London.

As interim director of parking, Stephen Lawrenson conceived the original idea in his assignment with City of Westminster. He realised that there were common problems and opportunities across London that only a joint approach could satisfy. The programme aims to gain economies of scale and efficiencies by grouping the procurement of parking — related equipment, supplies and services and specifying new technologies, equipment and processes. Once proven within the existing partnership, it will expand across London and beyond. The project produces a better customer experience, and reduces the number of appeals by providing a more consistent approach across councils. This in turn leads to reduced administrative costs.

#### A formal partnership agreement

The draft PiP partnership agreement affirms and defines the relationships between existing and future partners. Whilst other consortium arrangements are voluntary agreements, where participants can pick and choose contracts and even their level of participation, PiP needed more commitment in order to achieve volume-based discounts on equipment and services. The result is significant financial savings through combined purchasing power.

The draft agreement identifies the purpose of the partnership, the roles and responsibilities of the parties, entry and exit of partners, and general governance and administrative provisions. It defines a cross-council Partnership Board of elected members supported by a central officer team.

#### Socitm Insight comments:

This case illustrates that given a firm steer — in this instance, a mandate for a national service — shared services involving all types of authority can work. Clearly, the foresight to invest in a broadband network has made implementation easier, and Hampshire councils are winning the benefits of being 'early adopters'. A point to ponder is the question of how far could this go? Why should the services offered by the combined call centre stop at those covered by 101? Is there any point in partnering councils providing their own

call centres for other services when the facility is already in place and could potentially offer greater economies of scale?

The London Centre of Excellence will use the PiP Agreement as a model for other cross-council procurement initiatives.

### Programme overview

The programme comprises four inter-related projects:

#### Project 1 – Harmonisation of parking stationery

Harmonising stationery improves the customer experience by providing clarity and consistency to parking notices, and by making the process for disputing parking notices clearer and easier to understand. The work ensured that parking notices are compliant with statutory obligations.

#### Project 2 – Technology selection and procurement

PiP jointly specified and procured ‘state of the art’ pay and display (P&D) parking technology. A six-month trial started on 3 April 2006 using the first chip and PIN compliant machines in the UK. Evaluating the machines and suppliers against the original specification on a monthly basis provides feedback for further development to the suppliers. PiP aims to have three suppliers all meeting a very high standard with framework agreements in place so that any London borough can procure at agreed discount levels. It also hopes to incorporate payments through Transport for London’s pre-payment Oyster card. The project also delivered an open standard specification and procurement model.

In early 2006, Project 2a recognised evolving technology by investigating methods for paying parking fees by phone. The partnership agreed to trials of this new technology to assess take-up rates and customer perceptions. Several partners are keen to pilot the technology, subject to approvals.

#### Project 3 – Payment processing and information economies

This project is harmonising parking payment processing and debt management across London

boroughs. A working party is identifying opportunities for improved debt recovery through bailiff management including comparison and benchmarking of bailiff performance across councils; standard key performance indicators (KPIs) and bailiff reports; sharing of information across boroughs; and technology improvements.

#### Project 4 – Standardisation of parking controls and practices

PiP identified opportunities for harmonising and standardising parking policies and processes, and each partner leads on an individual work streams:

Initiative	Lead council
Addressing persistent evaders	City of Westminster; Royal Borough of Kensington and Chelsea
Motorcycle policy	London Borough of Islington; City of Westminster
Clamp and removals	City of London; Wandsworth Council (in a non-partner capacity)
Parking permits	London Borough of Lambeth
Loading and unloading	Association of London Government (ALG)
Parking suspensions	Royal Borough of Kensington and Chelsea
CCTV	London Borough of Camden

The project team is benchmarking current policies and processes. Each initiative is looking to develop inter-council working processes. The project seeks to identify areas of best practice and to agree standard policy positions for central London.

A pilot for information sharing between councils in Project 4 uses a web-based system work to consolidate motorcycle policies will lead to better harmonisation of feedback to action groups.

“Getting a cross-council partnership, with each participant used to taking different approaches, to collaborate and agree on a programme of this complexity presents a real challenge. You have to get a lot of stakeholders to shift their view, and that means a lot of ‘give and take’ is necessary.”

Stephen Lawrenson, Programme Director, Partnerships In Parking, City Of Westminster

#### Socitm Insight comments:

This case illustrates the need for formal collaborative working in order to secure the commitment to volume discounts from suppliers. A casual arrangement would have insufficient credibility and less purchasing power.

The partners have gone beyond simply identifying the ‘best of breed’ approach to systems and processes from among their number, and have sought a significant improvement in both service quality and efficiency in their joint approach.

It is refreshing to see effective information-sharing between councils without people using the Data Protection Acts as a blocking device.

## 1.4 Surrey CC

Surrey County Council's shared service centre (SSC) was voted the best new shared service centre in Europe, beating off competition from major private sector firms including electronics giant Philips and news agency Reuters. The SSC centralises a range of back-office functions including finance, procurement, business intelligence, recruitment, employee services, payroll, data management and training administration. Behind the scenes is the SAP enterprise resource-planning system hosted by IBM at its Warwick facility. The business relationship with IBM is shared risk and reward in a ten-year contract. Both the implementation and break-even point are in year three.

Surrey chose to phase the project by front-line service. As each unit adopted the SAP system, the personnel moved into the shared services centre and business processes were re-engineered in the service prior to joining the SSC. The Head of Shared Services (HSS) believes that this to be the most economical approach. Whilst there is advice from public sector organisations to separate systems implementation and the move into a shared building, the HSS believes that this increases costs and the likelihood of incurring problems. Implementation started with straightforward activities such as accounts payable, ending with the more complex activities such as children's services and finally adult services.

The shared services centre takes responsibility for day-to-day operations and transactions, not policy. The head of service role remains in the corporate centre. Age discrimination legislation provides an example. The head of service defines the policy approach to ensure compliance. Then the shared service centre sets up the supporting processes, for example in placing advertisements for jobs, in accordance with that policy.

The HSS put significant effort into public relations before implementing the change. It is necessary to get heads of service on board with the concept, or else they may see the proposal as a threat leading to their loss of control. It is essential that they take ownership.

As the support delivery teams affected initially showed much resistance, considerable effort went into helping them through the change. There were open sessions where they could discuss issues, and an anonymous e-mail system where they could express their concerns. The HSS talked to small groups about the culture and service standards she wanted to maintain. People preferred to talk in small groups rather than one-to-one. The teams moved into the SSC on Valentine's day. They were greeted with a welcome letter and heart-shaped chocolates. There was no work done on the first day — it was reserved purely for induction.

Surrey acknowledges that critics say that shared services moves some costs from the back office to the front office. The HSS says that there is nothing more than anecdotal evidence for this. However, she acknowledges that front-line teams may feel that they have lost their personal, local support. To counter this, there is a service relationship and performance team whose role is to liaise with the centre's clients. There is a client guide explaining what the SSC does, and what it does not do. Publication of performance against the agreed KPIs occurs on a quarterly basis so that clients can see just how the SSC is doing.

It is easy for front-line professionals to equate a close relationship with a good service. The HSS feels that there is no evidence for this, and that there is nothing preventing service delivery without a close working relationship being more efficient

### **Socitm Insight comments:**

Whilst this case illustrates internal sharing, there are many valuable points applicable in all cases, such as dealing with the people's fears about changing their working arrangements, the sources of the savings, and handling professionals whose support arrangements change radically.

and of better quality. At present, a central establishment recharge funds Surrey's shared services, and so customers have no choice about service level. However, a framework exists to measure customer service delivery and it remains one of the core deliverables in the SSC. However, the HSS is interested in providing an element of improved service responsiveness with added value, if customers will pay. The more support added to the service, the more the customer service will need to contribute, either in cash or in people.

Shared services and ERP have forced a more commercial approach upon the council. Previously, it took months to close the financial accounts at end of year. This is no longer acceptable. The commercial disciplines affected senior managers' thinking.

It has taken more than a year to stabilise the processes following the change. Now the council and its IBM partner are starting to apply continuous improvement and total quality management approaches to improve customer service, optimise processes and make savings.

Savings also accrue from:

- economies of scale
- increased purchasing power by aggregating procurement
- decommissioning old systems
- improved sickness absence monitoring and management
- reducing the property portfolio.

Surrey CC does not use a package CRM system as this would provide more functions than it needs. It has a complex call-logging system that identifies who contacted the centre, the time of the contact and what they wanted. The council has no need of tools to profile customers in order to sell more services to them at the moment!

The HSS previously implemented systems in the private sector. She comments that there are twenty years of experience with shared services in the commercial world, but feels that their requirements are less complex than she has encountered at Surrey.

## 1.5 Connected Cumbria

The Connected Cumbria Partnership (CCP) was formed in October 2001, and includes all the local authorities, fire and police services in the county. It also includes the Cumbria Interactive Broadband Initiative (a public/private consortium), Business Link Cumbria, Voluntary Action Cumbria, North Cumbria Health, and the Lake District National Park Authority. The partner organisations came together to maximise the value of e-government for the citizens of Cumbria. The Information hub project originated in an Invest to Save bid. CCP took it over after a previous false start, with the aim of modernising services across the public sector by creating a regional strategy for Cumbria.

One of the greatest strengths of the partnership is the pragmatic approach. CCP recognises that not all partners will be involved in all projects but all partners are fully aware of project progress, whether active or not. All the local authority partners in Connected Cumbria will fund the partnership initiatives until March 2008, by contributing an equal share to the salaries and on costs and the general expenses of maintaining the unit office. Partners negotiate contributions to other initiatives at project initiation stage. A Partnership Board is charged with reviewing the governance model; there is an executive board of elected members and chief officers representing the local authority partners and this has been key in the success by ensuring full support and buy-in. Representatives of the partnership also sit on the executive, strategic board and programme board of the North West e-Government Group.

Use of a joint e-government unit has provided the partners with a cost-effective resource to support their e-government aims. The partnership has realised significant savings — up to 70% off the listed price of the product in one case — from joint procurement initiatives. The process of undertaking a joint approach to procuring goods and services has been improving through learning over a number of undertakings. The partnership estimates a total saving of £3m across the sub-region,

equivalent to £400k saving per council in achieving priority outcomes. Use of a single point of contact in initiating and implementing projects is a major benefit, both to partners and to suppliers. The nature of the partnership allows partners to take advantage of initiatives without necessarily becoming a subscribing or core partner, as well as giving them the opportunity to opt in and out of projects in order to meet their needs closely.

Through various initiatives, participating organisations have improved the way that they interact in defining and executing projects. Although not perfected, they now have a much clearer view of the potential pitfalls involved in the process, and a much more pragmatic and mutually supportive approach to negotiating them. There is a hard-won honesty and acceptance of different authorities' agendas and priorities. This has been an essential element of the maturity of discussion and decision-making of the CCP. For example, a joint procurement of a content management system produced two suppliers rather than one. The partnership recognised that a different product to that chosen by the districts would better deliver the county's needs. Whilst in earlier times observers might have seen this as a split in the group, partners appreciated and accepted that the councils made the decisions on a sound technical basis.

Connected Cumbria owes its success to effective communication between the partners, and the use of a well-designed governance structure that has shown sufficient flexibility to meet the needs of individual partners. Starting from an ICT background, the reputation of the group through its successes has seen the chief executives and council leaders adopting CCP as its delivery vehicle for wide-ranging shared service programmes. Here ICT represents a small part of the business change and process-improvement schemes in the transformational government agenda that the councils of Cumbria are pursuing. CCP will broaden its active membership into the police service and NHS as the shared service agenda develops.

### **Socitm Insight comments:**

This case demonstrates sharing not only among local authorities, but other public sector bodies as well. The flexible 'opt-in' approach shows imaginative thinking and an understanding that not every partner will agree to every proposal. In effect, Connected Cumbria has a menu approach. Charging the partnership board with review of the governance model puts this important function on a politically neutral footing.

## 1.6 Shropshire CC and constituent districts

To a certain extent, Shropshire County Council sees the shared services agenda as 'business as usual'. The six Shropshire councils (the county and five districts) have a long history of sharing and collaboration wherever that leads to improved services to citizens.

In the past, the county council hosted and provided services for all the district councils in the county, eg council tax, non-domestic rates, and housing benefits. However, as the result of the general move away from mainframe to distributed computing platforms in the 1990s and the subsequent e-government initiatives, all of the district councils eventually took these applications and services back in-house.

Over the past two years, it has once again become attractive for some district councils to commission some services from the county. Three districts connect into the county's broadband network, and take various services and applications including corporate finance and payroll/human resources. There are advanced plans for one of the district councils to begin using a 'tailored' version of the county's CRM system, and it is this tailoring that is the key to success. The county does not simply deliver its own standard systems: it works with its partners to ensure that wherever possible they receive a customised version of the system or environment that is suited to their needs. This can also include county employees providing support and advice as well as the ICT systems.

Sharing services is not restricted to the provision of county council services. For example, the county hosts a sub-regional node of the West Midlands Broadband Network (a public sector broadband network connecting some universities, 14 local authorities and a number of FE colleges across the West Midlands) over which some FE colleges receive their internet services. Shropshire CC let the contract for its broadband network in a way that enables other public sector organisations to join in. This is important for a large, rural, and

sparsely populated county where infrastructure provision at times can be a problem. One of the county's FE colleges has taken advantage of this and used the county council's broadband network to link together some geographically disparate campuses.

Nor is the sharing of services by Shropshire councils restricted to sharing ICT systems or infrastructure. Five of the six Shropshire councils have formed a formal strategic partnership called the Shropshire Waste Partnership (SWP). The Partnership is responsible for waste collection, recycling, recovery and disposal of all municipal waste on behalf of these councils. This means that all five councils are now working together to manage Shropshire's waste in the most efficient, effective, economical and sustainable way, and provide the best value for money for Shropshire's council tax payers.

Working in partnership has already achieved big benefits for the councils and local residents. Over the last two years the SWP has attracted over £2.3 million of government funding which has greatly helped with the development of recycling facilities at people's homes and across the county, and avoided additional demands upon the council tax.

The SWP has won £35.8m private finance initiative (PFI) credits to provide the waste management infrastructure, equipment and vehicles needed to deliver sustainable household waste recycling, composting and treatment within Shropshire. The SWP is now in the process of procuring a long-term single integrated waste contract that will see one contractor take on responsibility for the collection, recycling, recovery and disposal of the majority of household and other municipal wastes within Shropshire from 1 April 2007.

Under the contract, SWP will seek to recycle and compost 53% of Shropshire's waste by 2010/11, and 60% by 2020, and eliminate growth in waste by 2022.

### **Socitm Insight comments:**

Shropshire CC embarked on sharing 'bread and butter' applications well before shared services appeared on the government's agenda. It did this for purely practical reasons to meet local needs.

## 1.7 Further examples of shared services

### Cardiff & Blaenau Gwent contact centre

Cardiff CC and Blaenau Gwent CBC share a bespoke customer relationship management system supporting their contact centres (Connect to Cardiff or C2C and Connect to Blaenau Gwent). The CRM database and software sits on servers in Cardiff and Blaenau Gwent has its own contact centre 32 miles away by road in Brynmawr. All calls are answered in Blaenau Gwent, while simultaneously the CRM client data is displayed from Cardiff. The encrypted data traffic utilises the All Wales Broadband Network developed for Lifelong Learning internet access at no capital cost to the councils.

C2C launched in 2001, and Blaenau Gwent approached the council to share the service in 2003. Blaenau Gwent wanted to replicate the Cardiff model, but wanted the service to be local to them. The initial agreement ran for three years until April 2006, but this has since been extended to April 2009. There was some additional customisation of the system to suit Blaenau Gwent's requirements.

There have been benefits for both parties. Blaenau Gwent now has a sophisticated solution at affordable cost with minimal research and development effort. The risk is reduced and shared with Cardiff.

The team at Cardiff feels that it has enhanced the council's reputation through being the largest Welsh local authority helping one of the smallest. The move has generated income that it has re-invested in C2C.

Both councils can now share developments, and have an increased development resource.

### London Connects

London Connects is a London-wide agency formed in 2000, bringing together local, regional, and central government to support the delivery of the e-government agenda across the capital. Partners include the Greater London Authority, the Association of London Government, and London boroughs; together with other cross-London service providers and agencies, including health agencies; London Development Agency; Transport for London; London Fire and Emergency Planning Authority; Metropolitan Police Service; London Grid for Learning; London Libraries Development Agency; and the London Voluntary Services Council. London Connects is a company limited by guarantee and not having a share capital.

One of the products of London Connects is Your London ([www.yourlondon.gov.uk](http://www.yourlondon.gov.uk)): the official online guide to London's public and community services in 25 languages. This was launched in April 2005, and now provides information about or access to:

- 'Report it' facility allowing online reporting of problems such as street-scene issues. Request information is passed automatically to the relevant borough's application.
- school admission applications for all London's primary and secondary schools
- London's community and voluntary sector organisations
- links to all borough services
- 'Find your nearest' services such as nearest chemist, cash machine or post-office, linked seamlessly to an online journey planner
- comprehensive London public-sector job search facility
- database of over 1100 parks and open spaces
- news feeds from BBC London, Transport for London and the Meteorological Office
- live traffic and roadworks including feeds from CCTV cameras across the capital
- a 'Virtual London' section offering panoramic views of over 25 locations across the capital.

### Staffordshire Connects

All authorities in Staffordshire share a vision of delivering seamless public services, and since 2002 have joined together in the Staffordshire Connects partnership. They collaborated to buy a customer relationship management system and an e-payments system for council tax, non-domestic business rates, sundry debtors, accounts and invoices.

Staffordshire CC and Staffordshire Moorlands DC jointly established three one-stop shops, while Lichfield DC and Staffordshire Moorlands DC won three national awards for their outsourced ICT desktop support. Cannock Chase DC and Lichfield DC share responsibility for emergency, out-of-hours services. Staffordshire Connects is developing proposals to share back-office services including payroll, revenue collection and telephony. The trust inspired from working in Staffordshire Connects generated these sub-partnership collaborations.

The partnership has won many awards for delivering real benefits through joint working and was recently awarded Beacon Status. Partners have achieved capital savings of £1.8m while annual revenue savings of more than £400,000 arise from the joint maintenance and development of systems. Annual efficiency gains of between £0.75m and £1m are expected from the anticipated resolution of 80 per cent of service requests at first point of contact, when the CRM system is developed fully across all ten partners.

### Staffordshire Plus

This partnership, formed in October 2005, comprising Staffordshire Fire and Rescue Service plus all Staffordshire local authorities and two Warwickshire partners: North Warwickshire DC, and Nuneaton and Bedworth BC. The partnership aims to build capacity in five improvement strands, identified through analysis of comprehensive performance assessment reports of each partner. Work started in December 2005 and will run for two years.

- Leadership and change management
- Elected member development
- Management development
- Improving partnership working
- Customer service

The vision is one of 'delivering improvements that our communities will notice by building capacity in people, performance and partnerships'.

### Welsh disaster recovery sharing (WADRC)

This co-operative approach involving Cardiff, Carmarthenshire CC and Wrexham CBC stemmed from initial discussions at the Socitm *Cymru* forum in early 2003. Further discussions with Sun, Fujitsu and interested local authorities spanned over several months, resulting in business and technical proposals. Following agreement, the councils procured a service early 2004, with equipment commissioned by August 2004.

Carmarthenshire made the first system test in September 2004. There is a dedicated disaster-recovery configuration in a secure computer room environment connected to the Wales Broadband Network. Fujitsu and Sun support the equipment with management and administrative control provided by Cardiff CC. There is joint development, testing and documentation of the disaster-recovery plans, and a fully documented invocation agreement. The support agreement was set up to run for four years until the end of July 2008.

### Joint procurement in Cornwall

Cornish local authorities share and use the same content management system (iCM from Goss Interactive). They have a shared hosting arrangement, and all the websites reside on the same web server at Goss's offices in Plymouth. The old Cornish Key web portal is also part of this arrangement, but there are proposals to rebrand and redevelop it in the near future.

The participants share template updates and developments where appropriate. They also share training and other overhead activities.

The Cornish councils are currently looking jointly at improved business continuity and off-site recovery options.

### Scotland

The Scottish Executive issued a consultation paper indicating its desire to see shared services implemented to save money, improve customer service, increase management information, and make public services more adaptable to change. In Scottish local government, both Glasgow City Council and the City of Edinburgh Council have internal shared services, whilst the City of Edinburgh and South Lanarkshire Councils provide payroll services to local police and fire services. City of Edinburgh also administers non-domestic rates on behalf of Midlothian Council. There is a partnership between South and East Ayrshire Councils, Stirling, Falkirk and Clackmannan Councils, and cross-sectoral arrangements in Glasgow between different government agencies and Glasgow City Council.

## 1.8 Sharing services at Tandridge DC

All the case studies presented so far are records of success. There is, however, as much, if not more to learn from initiatives that fail. In this final example, we look at the practical difficulties of getting shared services started. It is not easy, and not all sharing proposals reach maturity. The head of ICT at Tandridge DC points out how his council's extensive experience of partnership discussions provides valuable learning from what failed to materialise. We should point out that we imply no criticism of any council involved.

Tandridge DC has considerable experience of trying to share services, extending back to 1997 with a proposal for a joint revenues and benefits system with Brighton and Hove Council, Lewes DC and Wealden DC. At the time this received a high profile and political recognition both nationally and locally, being quoted as a prime example of the then new Best Value policy. However, it fell apart when the councils could not agree on the location of the shared service centre.

When this failed to reach fruition, Tandridge continued to explore a Tandridge Business Centre with WS Atkins as the commercial supplier, but this too came to nothing. However, the council then continued earlier discussions with its neighbours in Kent, Sevenoaks DC, and established a joint finance system hosted by Sevenoaks using the Agresso system. This provides cost benefits from reduced equipment and software costs, but also in training and implementation costs. The two councils also share their operational knowledge. Tandridge and Sevenoaks then successfully examined a proposal to use LGOL funding jointly to improve electoral services.

Tandridge is now involved in the East Surrey Improvement Partnership with Mole Valley DC and Reigate and Banstead BC. These councils plan to share a virtual private network, and are considering the establishment of two mirrored computer centres for their entire service provision, yielding both business continuity benefits and cost savings.

The lessons to share from this experience are:

- Changes in political leadership can derail sharing plans, either because a key champion develops new interests, or because a changed administration does not want to be associated with its predecessor's policies.
- Trust is a vital component, and cannot be over-emphasised. Trust between officers and the elected members, as well as between partners, is essential and takes time to establish. A newly elected set of members may be risk averse, and will not have had the opportunity to establish trust.
- Publicly presented reasons for ending sharing discussions may differ from the real underlying cause. These causes often involve complex political and business issues.
- It is essential to involve the teams in the proposal discussions and take them with you. One proposal foundered when the employees discovered that their employer expected them to travel to the proposed shared services centre location.

# Section 2

## Potential for sharing

We analyse the possibilities for implementing shared services in both the back and front offices. In isolation, the potential economies of scale make a compelling case. However, there are good reasons why local government is responsible for local services. We make a pragmatic appraisal of the case for shared services.

# 2 Potential for sharing

## 2.1 Government expectations

The *Transformational Government* paper and the introduction to the Comprehensive Spending Review 2007 (CSR07) provide the clearest possible lead from central government that it expects shared services to play a major part in delivering on its agenda. As the potential savings across the public sector rank in the billions of pounds, shared services on their own could easily satisfy the efficiency review savings. According to Ovum, an industry watch and research group, the UK public sector will spend £6.6 billion on shared services between 2005 and 2010. The economies of scale from sharing might seem to have clear business logic, but there are significant issues to overcome, particularly those of a political nature (both large and small 'p').

Sharing services, however, is nothing new, particularly for ICT services. In the mainframe era, there were many examples of shared data processing, notably the London Local Authorities consortium (LOLA) and many consortia in county areas. These did not survive the PC revolution, probably because of the decentralising effect of that technology, the remoteness of the shared computer centre, and the bureaucracy around their operation. There was nothing wrong with sharing in principle. Outside ICT, the CLASS consortium for superannuation has survived for over thirty years and enjoys extremely high participation across UK local authorities. The joint procurement organisations such as YPO and ESPO underline the effectiveness of sharing in delivering economies of scale by amalgamating purchasing power.

## 2.2 Definition of shared services

For the purposes of this report, we have chosen to define shared services as those provided to more than one client by a single provider organisation. Quite deliberately, this wide definition covers many possible operational models, from one extreme to another:

- Several different functions within one organisation sharing support services
- to
- a single commercial organisation providing a service to a group of collaborating clients as 'lead contractor' on behalf of a collaborating group of providers.

The scope of this report covers the full spectrum of this wide definition. However, our research shows that the most common model currently in operation comprises peer groups of councils engaging a single commercial provider. Moreover, these examples are predominantly single back-office functions such as ICT services or revenues and benefits. The major gains are likely to come from sharing complete back-office functions, ie covering HR, training, exchequer, payroll, pensions, property management, legal support and the non-strategic elements of ICT. The more organisations that share, the greater will be the potential economies of scale.

### CSR07

'In particular, best practice demonstrates that moving to a shared services model can generate significant savings, and in the CSR07 period all departments will be expected to develop plans to realise these benefits.'

**Releasing the resources to meet the challenges ahead:** *Value for money in the 2007 Comprehensive Spending Review*

HM Treasury July 2006

## 2.3 Context

We, too, see shared services as a major component of transformation. However, we temper that view with a pragmatic perspective on the political issues. This is the fifth publication in our series on transformation. It follows the two scene-setting papers *The challenge of transformation* and *Transformation in practice*. The third on flexible working described an approach that establishes the climate ready for transformation by engendering trust and independent responsibility. The fourth dealing with the emerging role of the chief information officer (CIO) received strong backing from central government. There are CIOs throughout Whitehall. In local government, there is currently a healthy debate about the role of CIOs, particularly as agents of transformation.

Looking forward, we think that shared services will trigger a search by partners for optimal business processes. Our next publication in the series will cover business management in all its forms, including process redesign and workflow.

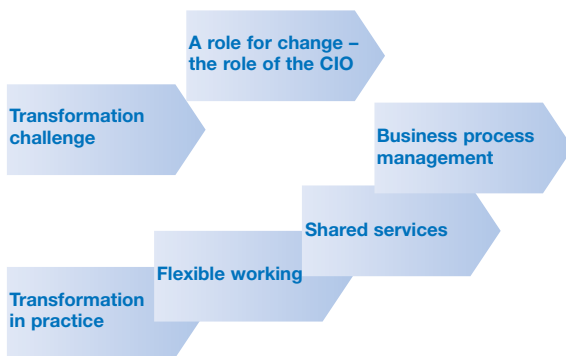


Chart 1 Transformation reports in *Modern public services* series (Socitm Insight)

## 2.4 Reasons for sharing services

There is no doubt that the great interest in shared services stems, firstly, from a desire to save money and, secondly, to drive up service delivery standards. Other reasons include driving transformation or business process redesign, increasing capacity or capability, and freeing up resources to concentrate on core service delivery. We have heard other reasons. Conspiracy theorists have suggested that by promoting shared services the government will achieve aggregation without imposing a reorganisation. We have anecdotal evidence that a group of district councils, fearful of amalgamation with a neighbouring unitary authority, will share services as a defence strategy.

There are other drivers. The single non-emergency number (SNEN) will certainly force local service providers to co-operate closely if not amalgamate their service delivery. The Home Office is introducing the SNEN service in three waves. The first involves partnerships between police forces and local authorities in South Wales, Hampshire, Leicestershire and Rutland, South Yorkshire and Northumbria. Hampshire was the first to go live. The findings from the first wave will inform the development of the non-emergency services for the second wave (mid-2007) and full nationwide rollout (planned for 2008).

Small or geographically compact councils may jointly respond to the Civil Contingencies Act 2004 and provide business continuity arrangements. They may well help each other with disaster recovery. Nationally, Government Connect is an implicitly shared approach.

Intractable problems or a failing service provide a common, but mistaken rationale for outsourcing. We fear the application of the same rationale to shared services, but with far-reaching consequences beyond the council with management problems.

## 2.5 Incentives for sharing

Unprecedented support for our research direction-setting workshop into shared services confirms huge interest in this topic. The realities of making shared services happen are another matter. The cold logic of economies of scale is irrefutable. However, will public sector organisations listen to the siren cries from the Department for Communities and Local Government (DCLG)? If the Chief Information Officer (CIO) or head of the ICT function makes the case for shared services, will there be the usual response to a prophet in one's own land? A county council may see logic in procuring or providing services on behalf of its constituent districts, but those districts may not welcome the offer as totally benign. Even neighbouring peers may have difficulty if their administrations are of opposing political colours.

However, we must not ignore the risk of failure to agree on a common solution, and we would be wise to learn the lessons from the shared mainframe computer centres of the 70s and 80s.

### The triggers for action

There are a number of potential calls to action, and the drive necessary to sustain interest might come from a number of sources. Locally or sub-regionally, there may already be natural alliances from shared problems, or the accident of geography. Many service-specific alliances, not least where the ICT functions meet on a sub-regional basis, provide a fertile area for sharing ideas. There are also forums for discussion such as those afforded by the professional groupings.

Perhaps the strongest trigger will come from the pictures of success painted in case studies of those who have reaped the economies of scale, or made dramatic improvements in the quality or quantity of their service delivery. These bring peer pressure to bear: a powerful motivator in these days of performance management and quasi-competition through league tables.

## 2.6 Importance of local priorities

Theoretically, it is possible to share any service amongst any number of participants. Why not have a single ICT service for local government nationally, or a single service for any other function such as revenues and benefits, or human resources? We must remember why we have local government and not just national government delivered locally. Different communities have different needs and priorities. The local democratic dimension manages direction and resource deployment.

It is easy to overlook the amount of sharing that is already happening, particularly between ICT services. Unlike the private sector, there is little reason in the public sector to keep non-personal information confidential. Through benchmarking activities, public sector organisations have shared information and collaborated on service improvements. Participating organisations have benefited hugely from the consequent efficiency savings.

Concerns about security through, for example, viruses, Trojans, and denial of service attacks led in April 2003 to the foundation of the London warning, advice and reporting point (WARP) providing help with defence against electronic attacks to all 33 London boroughs. This initiative has spread nationwide in the form of the National Infrastructure Security Co-ordination Centre.

## 2.7 Back office services

### Internal aggregation

The trend for interspersing strategic directors between the chief executive and heads of service is another driver for aggregation. In the back office, this means collecting finance, HR, ICT and property in a single 'resources' directorate.

Meanwhile, enterprise resource planning (ERP) systems aggregate back office services within organisations. The philosophy of ERP suppliers is to implement their products in their standard form. They argue that their solutions encapsulate their extensive experience, so that, by adopting the standard product, the purchasing organisation will also implement 'best in class' business processes. If true, this is a compelling argument. It reinforces the case for taking the standard product: any embroidery will add to the life-time costs through repeated application of local patches to future software upgrades. In all probability, the supplier will charge premium rates for this work as the purchaser has little choice.

### A complex problem

However, implementation of an organisation-wide approach brings disruption. Any large project is disruptive. The need to bring distributed support together under common management adds to the disruption. If the organisation wants to relocate the combined team into common office accommodation, then the potential for problems increases disproportionately.

Where potential partners in a sharing agreement use the same ERP system, and have taken the advice to implement the standard system, aggregation of back office functions could be relatively straightforward from a purely technical perspective.

### Compromise

In practice, most potential partners will have a variety of management arrangements and a variety of supporting systems. In this case, the choices are complex. The partners could pick the best management approach from among their number. Similarly, they could pick the most effective support system. However, what constitutes the best? Could it be the cheapest? What about the one that delivers the greatest customer satisfaction? One partner may argue strongly for their system or structure, and be unwilling to compromise. Perhaps the chosen system conflicts with the chosen management approach. Whilst sharing implies picking the 'best of breed', in practice compromise may dictate sub-optimal approaches.

Despite these issues, back office sharing will be in the vanguard. Support services impinge less directly upon the public perception than the front-line. Local politicians will have fewer concerns about 'letting go' of immediate control of ICT, HR and the exchequer services aspects of finance. There is plenty of experience in sharing ICT, and, despite problems, many councils are happy to outsource it to a private sector supplier. The ICT service will be high on the agenda for those councils who see it as a commodity rather than a strategic resource, or where the head of ICT concentrates on the 'head of technology' aspects of their role rather than managing information for strategic benefit.

### Revenues and benefits

Those councils that deliver the service usually put revenue collection and benefits together in the same function. Arguably, we might classify revenue collection as a back office activity whilst the benefits service (housing and council tax) is front office. For this discussion, what matters is that, as the legal framework to service delivery is prescriptive, differentiation between councils depends upon response times, and people skills rather than the approach to service delivery. For this reason, many councils have already a shared revenues and benefits service, using a common system.

## 2.8 Front office services

### A lower priority

The front office is the public face of the council service. It represents the aspect of service delivery that citizens identify with. Elected members are concerned to reflect the corporate identity in service delivery. For example, where transportation companies provide services on behalf of the local council, the vehicles usually carry the council brand, or at least a legend stating that the company is working with the council. They will be concerned to ensure that the council receives credit for the services delivered through any sharing agreement. These concerns will inevitably make front office sharing a lower priority than the back office for many.

### Customer relationship management (CRM)

The exception is CRM systems. These organisation-wide products are the front office equivalent to ERP in the back office. Once again, these have a unifying effect. The objective of the CRM is to present a unified view of a citizen's transactions with the council irrespective of the particular services engaged. In this way, CRM cuts across the 'functional silos' of the organisation, blurring the boundaries. From a citizen's perspective, the council begins to behave as a cohesive whole rather than a set of largely autonomous functions.

Commercial CRM systems are costly, and smaller councils may want to share, because such solutions would be prohibitively expensive for sole use. This was the case in the Warwickshire Online Partnership. Common CRM systems ease the process of sharing. In two-tier areas particularly, shared CRM has the potential benefit of providing a single interface to the citizen for all public services. It is no longer necessary for the citizen to understand the complexity of government, nor need to understand the different geographic boundaries depending upon function.

## 2.9 Priorities for shared services

We conclude that most sharing arrangements will start with back office functions, followed by CRM as the entry to the front office. In all cases, common systems will enable the sharing. There is an argument that with service transformation proceeding in parallel with the drive from central government for shared services, it would be wise to transform first, and then identify the support required. Alternatively, others argue that sharing back office functions uncouples them from the front-line, and therefore changes in service delivery are easier to make. This view aligns with the view of a future service oriented architecture (SOA) for public sector organisations (similar to ICT SOA) that we described in *Modern public services: the challenge of transformation*. By increasing the autonomy of service units, theoretically it becomes easier to change the overall configuration.

# Section 3

## Shared services and ICT

ICT services have instigated many approaches to sharing, and enabled sharing in other services. We look at sharing ICT, and beyond to the ways in which ICT can facilitate a larger scale and more comprehensive approach to sharing.

# 3 Shared services and ICT

## 3.1 A special case

When we consider shared services, there are several reasons why ICT is a special case:

- There is a history of sharing ICT in local government at least, though few examples remain.
- ICT facilitates sharing through common systems.
- There are many opportunities to share common infrastructure.
- ICT is an agent of transformation, and this has implications for control.
- Whilst some might regard ICT as a 'commodity' service, it is moving rapidly from the back office into a vehicle of front-line service delivery.

As a result, the ICT function has the opportunity to be in the vanguard of sharing, demonstrating the potential to the rest of the organisation, and helping to set the agenda.

## 3.2 The history

### The mainframe era and the PC

It seems a long time since the personal computer revolutionised data processing and information technology. Arguably, the pervasiveness of so much cheap computing power with ease-of-use facilities for non-technical personnel has 'democratised' computing. Control and operation rested with the technocrats in the mainframe era. Arguably, the corporate body and the user community now have far greater say in its deployment and use.

It was against the background of mainframe computing that shared bureaux sprang up. Mainframes were expensive resources. Smaller organisations could not afford them, and even those that could had concerns about spare capacity going to waste. Earlier Local Government Finance Acts had special provisions allowing councils to sell their surplus computing capacity.

Mainframe computers demanded specific skills that were often in short supply. Depending upon the point in the economic cycle, the public sector often had great difficulty in getting the skilled people it needed.

### Computer bureaux

These points combined to make sharing mainframe facilities a sensible way forward. In the 70s and 80s there were many examples of shared computer bureaux. These reported to a board comprising elected members from the sharing partners.

### Demise of sharing

These arrangements, however, fell away. The principal reason was the demise of the mainframe. Centralising ICT services led to remoteness from the customer and lack of sensitivity to local needs. The requirement for charging or cost sharing mechanisms led to increased bureaucracy. The implicit need for economies led to standard approaches seen as inflexibility by the customers.

Future sharing proposals must take account of these previous problems in their design. We cannot afford to repeat the mistakes of the past.

We must learn from the lessons drawn from sharing in the mainframe era.

### 3.3 Common systems

#### Sharing ICT in the 21st century

Today's ICT sharing concerns network facilities and business continuity management. The pressure to join up, the National Grid for Learning, economics and the simple logic of geography all provided sound arguments for sharing network facilities. In some two-tier areas, the county council lead on network coverage, allowing the constituent districts to 'piggy-back' on to their contract. The Hampshire cases described earlier are just two examples of many. Similarly, one council might act as internet service provider on behalf of many others.

The Department for Transport is investigating running all its 35 websites from a single platform. Currently, it has different sites covering issues as diverse as rail travel, driver and vehicle licensing, road safety and the Transport Direct portal. The Welsh Assembly has invited tenders for an aggregated service providing broadband connections for public sector bodies. Meanwhile, Norfolk CC has set up a wireless network for all users, both public and private.

Geography is important in business continuity management. We tend to think of major incidents in planning for business continuity. Freakish weather and acts of terrorism have a geographic impact, so sharing business continuity and disaster recovery with neighbours makes complete sense. Moreover, sharing infrastructure may not only increase resilience but lead to savings too, as the East Surrey Improvement Partnership case shows.

#### Virtual world

Undoubtedly, the ability to share systems makes sharing services much easier. With increasing reliance upon electronic service delivery, the scope for sharing increases markedly. In the physical world, sharing with neighbours or others in close geographic proximity is the only sensible model. This logic no longer holds good in the virtual world. The private sector locates call centres where labour is cheapest rather than locally. The public sector is likely to be more cautious. In the private sector, customers have criticised the quality of service when a foreign call centre agent has no working knowledge of their locality, or has such a strong accent that they are difficult to understand over the phone. Indeed, some have repatriated their services and others make advertising capital from offering a UK-based service. In the public sector, electronic service delivery and physical service often link inextricably. Proximity is important, but regionally based services with locality offices may suffice.

#### Choice of systems

It is hard to imagine shared services using different systems for each client. However, this is a risk, and in the Warwickshire Online Partnership, clients have their own separate database under the common application system.

Systems choice could be a stumbling block. For the big organisation-wide systems such as ERP and CRM there is a relatively small choice of suppliers. Where local systems for discrete services remain, there is considerable scope for debate over choice. As we shall see, sharing and partnership demand compromise, and this is often difficult to obtain. Indeed, failure to compromise is the single biggest reason for sharing partnerships failing to get started.

It would be embarrassing if disagreement over the choice of ICT systems was the reason cited for failure to share. However, the danger exists. One very prominent proposed merger of two building societies foundered in the 1990s on this very point.

#### Norfolk CC shared wireless broadband

Norfolk Open Link, the largest community wireless broadband network in the UK, went live in Norwich on 1 August 2006. It was the only network in the UK offering free mobile internet access for public sector employees, the business community and the general public.

This £1.1 million, two-year pilot project, will run until April 2008 in order to evaluate the impact and potential of mobile technology. Norfolk CC manages it with full funding from the East of England Development Agency (EEDA).

### 3.4 The transformation agenda

We believe that ICT has a key role to play in delivering the transformation agenda through new (electronic) channels. Internally, it facilitates and enables business process redesign, flexible working and business process management (workflow). We have just seen how it is fundamental to enabling shared services. ICT advances transformation as a technology. There is also the contribution of the people in the ICT function. Although their background is in technology management, their perspective is expanding rapidly. Only the ICT function has detailed knowledge of the service delivery processes and systems throughout the organisation. It also has a deep understanding of how to manage change projects using methodologies refined through years of experience. In addition, it also knows how change impacts people and their working lives. The combination of these characteristics is unique within the organisation.

Whilst one can imagine how these skills might operate in a shared services environment, during the delivery of the transformation agenda, at least, most organisations will want to retain the deployment of these skills close at hand, if not under the direct control of the top management team.

### 3.5 The changing role of ICT

#### Back office ICT

Some organisations saw ICT as just a commodity resource and a supporting activity. It met the immediate needs of frontline services, but nothing more. In their view, it made little difference if an in-house team or a private sector supplier delivered the service. They saw no strategic contribution from ICT. In fairness, some heads of ICT inadvertently fostered this view by sticking to technology management and avoiding any involvement in planning strategic direction for the corporate body. Organisations fitting this stereotype would place ICT as a back office activity. When organisations are looking for candidates for sharing, their ICT service will be at, or near, the top of the list.

#### Front office ICT

Fortunately, ICT is coming out of the back office. The involvement in the transformation agenda is only part of the rationale for this move. The other driver is the increasing reliance upon ICT for service delivery. This is bringing the ICT service under the glare of public scrutiny. Citizens will undoubtedly comment upon the ease of use of public sector websites. They will have an opinion about response times. Currently, shared websites seek to disguise or simplify the complexity of local government structure for the casual visitor. On websites based on sharing of information such as Dorset for You, visitors must search in order to identify the names of the collaborating partners.

### 3.6 Sharing ICT

We are concerned that public sector organisations might decide to share an ICT service for the wrong reasons. The bureaux arrangements of the 70s and 80s did not survive the PC revolution. ICT is not a commodity purchase, and it is an essential agent of transformation. As the public migrate to new channels, ICT will become the front-line of public service. ICT is the means to share, not necessarily the service to share.

Organisations should make the choice for the right reasons, which might include:

- increasing capacity
- gaining access to a wider set of skills
- achieving economies on network provision (fixed and mobile)
- increasing resilience in the context of business continuity management
- using a common system to support major functions across multiple functions of a number of partner organisations (eg ERP or CRM).

However, just as with competitive tendering, voluntary or compulsory, and our previous advice on partnerships and outsourcing, we think that all organisations must retain their own strategic advice in-house (*A marriage of convenience?*, April 2005).

Where an organisation makes an informed and logical choice to share its ICT service, it must ensure that it has rigorous governance arrangements to safeguard its interests.



# Section 4

## Taking shared services forward

In addition to determining the governance structures, choosing a delivery model, and considering private sector involvement, there are political concerns, both large 'P' and small 'p'. We provide comprehensive guidance on how to come to a decision, and then make progress along the chosen route.

# 4 Taking shared services forward

## 4.1 Providing leadership

The evidence from our case studies reinforces the Cabinet Office's view that leadership is essential, but where will organisations find it? While the Department for Communities and Local Government (DCLG) has issued a number of very long documents on the mechanics of partnerships and sharing, there is a lack of supporting material on how to provide leadership and to get started. The current momentum around shared services stems from the clear expectations set in documents like the CSR07. Central government acknowledges the need for, but does not provide much practical advice on what to do about:

- identifying and nurturing leaders
- explaining what support they will require, and from whom.

In practical terms, we expect elected member leaders, chief executives and strong heads of resources to lead shared service initiatives. It is possible that a head of a single service could initiate sharing within that specific area. It is likely that all these people will have the range of contacts to initiate discussion if persuaded of the potential benefits.

They are also in a position to make something happen. Whether anything does happen depends upon their personal influence, by which we mean a combination of:

- leadership (rather than managerial) potential
- strength of conviction
- ability to convey an infectious enthusiasm for their ideas to others

- resilience to surmount counter-arguments and recover from setbacks
- understanding of, and ability to use, politics as a positive force.

In short, they need the ability to drive through ideas for sharing, not only in their own organisation, but in others over which they have no formal element of control.

These are some of the characteristics of leadership. It is essential to understand what this means in practical terms. We think that it worth reiterating our advice from an earlier report in this series.

- The vision is clear, understandable and unambiguous.
- Top management's commitment to achieving the vision is repeatedly demonstrated through communications and behaviours.
- No opportunity is missed for leaders to explain how important the vision is to the organisation.
- People are given the freedoms and support to take tactical decisions that will advance the strategy in their local sphere of influence.
- People are recognised for their work to implement the strategy.
- Challenges to the vision are answered positively.

*Modern public services: the challenge of transformation* (January 2006)

### Central Government steer

Local authorities have a strategic leadership role that can act as a catalyst to the facilitation of joined up shared service delivery not only between local authorities but also other public service organisations. The Local Government Association (LGA) sees local area agreements (LAAs), Local Service Partnerships (LSP) and Local Public Service Boards as the strategic framework within which this might be accomplished.

*Structures for collaboration and shared services*  
DCLG, June 2006

### Support for leaders

All organisations will have individuals who exhibit the characteristics and capabilities of leadership to a greater or lesser extent. If we assume that they are disposed to do something about shared services, the question is whether they have sufficient leadership strength to make something happen.

Given the special role for ICT in sharing arrangements, the head of ICT (or CIO) can provide support in two ways. Firstly, that person can reinforce the messages from the leader through his/her own comments, and more importantly through their actions. Secondly, ICT can provide reinforcement by providing appropriate communication linkages, agreeing common standards, and forging ahead with shared infrastructure arrangements with potential partners.

## 4.2 Finding partners

### Expanding horizons

Our research conversations uncovered a common view that resurrection of the reorganisation debate in early 2006 hampered discussions about sharing. We hope that this will not have a lasting effect. However, finding potential partners outside the immediate area is far from easy.

There are many opportunities to expand sharing both by geography and by function. The early mainframe sharing arrangements were strictly local. This was probably because neighbours knew each other well and faced common problems, but also because of the cost of longer-distance private leased lines. Internet connectivity means we can host ICT-enabled services anywhere: there is no economic reason for geographic limitations. In practice, there are limited opportunities for the pace-setters to meet face-to-face with sufficient frequency for the relationships to form and the concepts to take root. Geography remains important for customer service as contact personnel need to know and understand the area. In some cases, such as ICT support, they may need rapid physical access. There is potential for a brokerage service for prospective partners to find one another.

### Brighton & Hove City Council and Eastbourne Buses

Brighton & Hove's real-time display of bus information at bus stops and on the website [www.citytransport.org.uk](http://www.citytransport.org.uk) has enjoyed extensive publicity and was nominated for the Institute of Highways and Transportation Technological Application Award. Formed in July 1997, it is a shared service between the council and the local bus company. Elected members from both East Sussex CC and West Sussex CC attended a system presentation two and a half years ago, and were very impressed. Both councils took the idea forward: West Sussex chose a different system, but East Sussex opted to join the Brighton & Hove City system for its implementation in Eastbourne. Whilst this approach saves East Sussex the capital costs of acquiring a system, the major benefit is in the revenue account. Savings are approximately £0.5m. Sharing proposals tend to focus on financial savings, but this partnership has important sustainability benefits through reducing car usage.

At a technical level, East Sussex has installed its own radio transmitter, but uses the software and server in Brighton. East Sussex has bought the radio transponders installed in all of the Eastbourne Buses fleet. West Sussex has one route that runs into Brighton, and it is looking at linking its system into the Brighton & Hove system in order that travellers receive a complete picture of bus operations.

Another expansion opportunity is to include other public and voluntary sector organisations in the sharing partnership. There are examples of service-specific sharing. In housing, local authorities work with housing associations, such as LOCATA in West London, and Home Connections in Central and East London. Shared contact centres often involve CAB and other voluntary sector organisations. The only limit on the range of potential partner organisations is people's willingness to participate. There are many other examples than those cited here, and there remains plenty of scope to extend sharing.

Currently, and for the immediate future, peer working on a sub-regional basis will typify sharing arrangements.

### Finding friends

Frequently, we were asked 'how do we find potential collaborators to share with?'. As ICT facilitates sharing at a distance, a brokerage service could introduce partners from outside the immediate sub-region. However, we think that just as with private sector partnerships, sharing requires considerable levels of trust. Leaders are unlikely to introduce sharing as a topic of conversation with someone where trust has yet to be established. However, building trust takes time and effort. Extending the marriage analogy from *A marriage of*

*convenience?* Socitm would need to establish a dating agency. Our research of existing sharing arrangements reinforces the importance of surviving the difficult compromises necessary to move the collaboration forward. A strong foundation of mutual trust would certainly enhance the chances of the arrangements surviving this difficult phase.

### Building productive relationships

Despite the obvious similarities in local authority services, there are differences that inhibit sharing. Differences in politics, priorities, ways of delivering services, procurement, questions of ownership, even the style of stationery have all caused disagreement. Clearly, there will be disagreements. What differentiates successful partnerships is the ability of the participants to compromise. As one contributor put it "You know when you are in a true partnership: you have to give up something you want or to do something for nothing". Of course, people do not want to give up things they want, and negotiation can be very tricky. Most of the organisations that we have spoken to encountered this problem, and it is a well-understood phenomenon in group work. Bruce Tuckman described the process as 'forming, norming, storming performing'. We take a detailed look at this in Appendix 1, as it explains the difficult stages necessary in the formation of a working partnership when trying to win agreement and obtain compromise.

### Hambleton and Ryedale District Councils

Hambleton DC and Ryedale DC had been looking to create a partnership to bring the council tax business rates and benefit teams of the two authorities together to improve efficiency and make cash savings. The proposal would attract £685,000 of government funding. In March 2006 Ryedale DC Policy and Resources Committee authorised the chief executive to enter into an agreement 'subject to satisfactory clarification of the matters of detail itemised in the report'. However, elected members at subsequent full council meetings debated the issue again, and upon receiving a consultant's report in September 2006 which scrutinised the potential costs and benefits as well as the risk profile, they decided to withdraw from negotiations.

Hambleton DC's Councillor Neville Huxtable, Cabinet Member for Council Tax and Benefits commented: "Each authority has had to make a decision it feels is right. A partnership on these services for the two authorities would have been challenging knowing the risks involved and doing something completely different to improve services."

"We are naturally disappointed that what would have been a ground-breaking scheme has fallen. By combining the two small teams of staff we could have made a better customer-based service for both authorities. Costs would have been saved — we estimated around £3 per taxpayer in Hambleton — and there was government funding to help with set-up costs too."

### Socitm Insight comments

This case illustrates how two neighbouring councils of similar size have different perspectives on the same issue, and that getting agreement is far from easy. However logical a proposal may seem at face value, it has to make sense to both organisations, taking all considerations into account. It could not have been easy for Ryedale DC to withdraw, but it had to act in the best interests of all its stakeholders.

## 4.3 Building the business case for shared services

### Making the case

In almost every case, the argument for sharing rests on just two points:

- economies of scale
- improved services.

There are other factors, such as access to skills and increased capacity, but organisations could address these individually.

In our report on flexible working in this series on transformation, we provided a business case template. For sharing, it is not possible to assemble a generic template. Instead, we have assembled below a list of the business case items together with some notes about their collection, and how they affect the decision. It is, of course, important not to treat these components as just a snapshot in time: a strategic approach is necessary. Those compiling the business case must consider the longevity of the arrangements, and include life-time costs.

### Checklist of business case elements

#### Benefits from economies of scale

- Choice of 'best of breed' approach from the constituent operations, or adoption of a new 'world class' operation (determine business case figure by comparative benchmarking)
- Reduced management structure (eg the shared service requires only a single head of service) (determine business case figure from full costs of employment less severance)
- Accommodation savings (it may be possible, or even preferable, to concentrate on a single site) (determine business case figure from reduced lease costs, or capital receipts)
- Reductions or economies in licences for application software. (determine business case figure from negotiations with supplier, but beware of restrictions on novation)

#### Benefits from improved service

- Choice of 'best of breed' approach from the constituent operations, or adoption of a new 'world class' operation (determine business case figure by comparative benchmarking)
- Application of the savings derived from economies of scale (identify priorities for improvement or 'wish list' of projects)
- Increased depth and breadth of skill sets from a larger unit, greater breadth of experience. (identify costs of downtime and show as avoidable cost)

#### Cost items:

- Project team
- Software licences
- Accommodation for a shared services centre (both acquisition and running costs)
- Additional infrastructure (servers, networks)
- Training in new working methods and systems
- Inefficiencies during start-up

### Taking account of political considerations

Some opportunities for sharing will make complete sense irrespective of the political administrations in power in the relevant councils. In other cases, there will be political sensitivities. This is particularly true where front-line services are the subject of the sharing arrangement. When developing the business case, it is imperative to bear these considerations in mind. For example, the March 2006 local elections saw a sweeping change in the political colour in West London, an area that has been particularly active in sharing arrangements. Changes of this sort might have wrecked some sharing arrangements had the business case not been put together with political sensitivity. Readers can well imagine elected members saying, for example: 'I'm not having our social services run by that authority' where the other council is of a different political colour. Therefore, it is important to judge the character of the proposal and make the case appropriately. If the proposition was 'we can save money and improve our service through sharing', it could be more enduring through political change.

#### What level of initial investment is required?

Assuming sharing of back-office support services enabled through an ERP system, most projects will require an up-front investment of at least £1 million.

### Finding pump-priming cash

Many believe that an essential precursor to sharing services is the need for 'pump-priming' from an external source (as in the Warwickshire case study), even if a major benefit is the financial saving. The Scottish Executive estimates, from research with the Royal Bank of Scotland; NHSScotland; and Western Australia, that the preliminary investment requirement equals the estimated savings from two years of operation. Organisations should, of course, obtain external funding if they possibly can rather than deplete their own resources until the project pays-back. Indeed, it is unlikely that many public sector organisations will have unallocated working capital to apply to shared service projects. There are a number of possible external sources including:

- regional centres of excellence (in England)
- regional development agencies (in England)
- National Board for Shared Services (in Scotland)
- 'invest to save' funds (eg Welsh Assembly 'seedcorn')
- EU monies in 'Objective' regions
- private sector.

From the contents of the documentation at the start of CSR07, it seems unlikely that in England, at least, central government will provide pump-priming cash. Most of the other options depend on regional priorities or geography, eg the organisation may not be in a qualifying area for EU funds.

However, one research contributor commented that, if the will were strong enough, the organisation would always find the resources somewhere. It would seem likely that many organisations will turn to the private sector. There are many good reasons for doing this.

### Considering the private sector

We concluded that ICT will enable sharing, and that much collaboration will centre upon the organisation-wide systems: CRM for the back office and ERP for the front office. These are expensive commercial packages, and the cost for even modest-sized organisations can easily run into seven figures. It is not just the cost of the application software. The specialist consultancy to adapt and integrate organisational processes into those dictated by the system comes at a premium, and organisations may require a significant level of such expertise.

The most likely source of investment at this level is the private sector. This is perverse, because high-performing local authorities have access to cheaper capital than the private sector. However, many organisations will prefer to buy a managed service over a period of time, at a fixed cost that allows the private sector to recoup its initial investment. In theory, this must be more expensive because the private sector will incur all the costs that the public sector would, plus:

- the additional cost of capital
- the cost of the initial proposals and planning
- risk premiums on the revenue-earning activities
- a profit margin on the whole operation.

Nonetheless, most will adopt this route. We refer subscribers to our detailed advice on engaging the private sector in *A marriage of convenience?* At this point, we list some essential points to keep in mind:

- Understand and engage with the qualification process.
- Check your partner's business model carefully for reasonableness and for resilience.
- Ensure your partner's business case provides sufficient return to retain their interest now and in the longer term.
- Complete 'due diligence' rigorously and early in the procurement process: under no circumstances leave it to the private sector partner or until post-contract.

- Engage experienced and competent contract managers.
- Insist that the partner uses the pre-sales team in delivering the service post-contract (as far as it is able to).

### **Making a real saving**

The savings from sharing come from:

- eliminating redundant or duplicated activities
- making economies of scale
- implementing reduced infrastructure
- achieving efficiency savings through use of 'world class' or at least 'best of breed' solutions.

In quantifying these benefits, we must, however, sound a note of caution. There is no point in treating the business case and cost/benefit analysis as an exercise in creative accountancy. Common justifications for ERP systems involve centralising local support services in a common centre, implementing the application software and associated business systems. The proposal predicated the business case upon the elements listed above. Yet, what may really be happening is that cost is transferred from the back office to the front-line. In other words, highly paid professionals are left to do data entry direct into an ERP system that was previously handled by a clerical assistant on a considerably lower rate of pay. This cost transfer may mean that the cost of reduced efficiency at the front-line outstrips savings from sharing in the back office.

### **Knowing where you are**

Many of the business case items are difficult to quantify. For example, a peer group of local authorities may choose to share their back office functions, adopting a centralised, ERP-based approach already in use with one of their number. The group will want to quantify the potential savings accruing to each individual council. The partners need to know a number of pieces of information in order to make this calculation:

- The savings made when the first council adopted this approach
- The performance metrics for that council vis-à-vis its peers before and after the change
- The comparative performance metrics for the other councils
- The relative sizes and volumes for all parties

Theoretically, it should then be possible to extrapolate the benefits obtained by the first council from the baseline position of the other collaborators to determine the benefits they might gain. In practice, it may be much more complex. There are imponderables such as how the capability of the managers of the shared operation compare with those who supervised the original implementation.

Without the basic information, though, there is no hope of producing any sensible quantification, however qualified. Even if the business case carries significant qualifications for unknowns or uncertainties, at some point it will be necessary to compare the 'before' and 'after' positions. Consequently, it is necessary to benchmark the services before starting to obtain a baseline position. We think that this is particularly important if the private sector are to run the shared service. Without this information, the clients will have no way of knowing whether the contract represents value for money.

### **Not an ICT project**

Except in the special case of a proposal to share an ICT service, organisations should recognise that sharing may be ICT-enabled, but it is not ICT-led. It is important to bear this in mind when putting the business case together. Building the business case might be a precursor to owning the project! It is important that the services involved own the project, but recognise the significant role of ICT in making the project work.

#### **Creative**

#### **accountancy?**

Check carefully whether the cost justification for centralisation and sharing is predicated upon transferring support costs from the back office to the front line.

## 4.4 Dealing with potential blockages

### Internal blockages

Our research identified a number of potential blockages that might frustrate attempts to share services. We look, first of all, at internal blockages.

### Elected member apathy

If, as seems most likely, support services are in the vanguard of sharing, there could be difficulty raising elected member interest. That is not to say that they would actively block progress. Savings appeal to politicians of whatever colour, either to reduce taxation or to increase service levels. It is more likely that they will be passive in accepting sharing; welcoming the savings, but not getting actively committed to making the partnership work at the democratic level.

### Unwillingness to cede control

Those parts of the organisation not involved in the shared service may be unwilling to 'let go'. In traditional public sector organisations, people in this category will have enjoyed local, even personal, support from the back office functions. When organisations implement centralised ERP solutions, professionals lose the convenient local support, and may find their support is at the end of a telephone line, and they are feeding a large complex system. This could be a recipe for discontent. If the perceived inefficiencies exceed notional savings, the discontent is valid!

There is also a tension between making compromises over choice and control in order to make savings for the larger community of collaborators. We know that when there is a need to make difficult choices, many sharing proposals falter.

### Organisational identity

This is a familiar issue from externalisation. Both the client and the supplier want to see their brand on the service. In a solid partnership, both parties will be proud to see the service co-branded, and branding should not present a real barrier to progress. If offered as a rationale for lack of progress, there is probably a deeper reason hidden away.

In shared services, there could be many collaborating organisations. There is a potential problem over branding service vehicles. Would it be sensible for them to carry the brands of, say, ten public sector partners and their private sector supplier?

### Fear of redundancy

Teams in services threatened with sharing will fear for their jobs. Consequently, they will not support the proposal, and may actively resist.

Transparency and openness are essential from the outset. Councils that have approached externalisation with inadequate consultation have encountered resistance to the point of damaging strike action. The record of accomplishment of openness before making the change announcement also has a bearing. The workforce will use this as a barometer for the management team's trustworthiness.

Whilst the savings will come from reduced numbers, it does not mean there is no good news to tell. The total work volume is unlikely to shrink through sharing: the savings come from rationalising management numbers. Most team members will keep a job, but in different circumstances. It may be that natural wastage will cover the bulk of the reductions.

For those moving to the shared service arrangements, career opportunities without changing employer increase because they become part of a larger organisation. They will also be working for an organisation whose principal business activity is their area of professionalism. Consequently, their management team's focus will be their area of professional interest and development. They will be in the mainstream of the business. This contrasts with being 'just' a part of a support service.

**Partnership means giving up something that you want in order that everyone achieves something of greater value.**

## External blockages

### Disinterested neighbours

Many of our research respondents fear that their neighbours in the region or local area are disinterested in sharing. This matters most where the proposed shared service has a significant element of personal delivery. In this case, geography may matter. For many back-office functions such as payroll, exchequer services and pensions this is not a problem. If neighbours are not interested then there are others nationally who will be, with electronic service delivery.

However, we recognise that most sharing arrangements will be local. If the compelling logic fails to convince potential participants, then the real reason behind disinterest probably lies in one of the other points below.

### Parochialism

Some councils will have such a close affinity to their locality that they cannot conceive of remote delivery. This is particularly true in areas where the local economy is stagnant, and the local authority is one of the largest local employers. In this case it would be politically unacceptable to export support jobs to another council's area. There could come a time when shared services and the lower cost model associated with them will override these parochial considerations.

### Threat of reorganisation

At the time of writing, the future structure of local government in Great Britain remains uncertain. The position in Northern Ireland is clear with the district councils rationalised into a smaller number of larger councils. Elsewhere, the prospect of another reorganisation is receding, but it is by no means dead. The mere suggestion of another round of reorganisation had a huge impact on sharing proposals in two-tier areas. For county councils who struggled to work as peers with district councils, and not to be an over-dominant 'big brother', the suggestion was nothing short of disastrous. District councils stopped talking, lest they disappear into a unitary county. They will not sacrifice their autonomy for sharing whilst a debate about reorganisation rages.

On the other hand, peer-to-peer sharing discussions amongst districts increased. The rationale was that cooperating districts had the economies of scale of the county and the customer proximity of the districts. How better to advance the case for unitary districts?

Party political differences might appear to be a rationale for failing to share, but this may not be a valid reason. In the Worcestershire Hub, constituent councils have opposing political colours, yet collaborate effectively. What each council does with the savings it enjoys from sharing is still a local political decision.

### Cultural differences

In the private sector, take-overs or mergers produce cultural mismatches. Take-overs are particularly problematic because of resentment from the employees who have involuntarily changed employer. After reorganisations, citizens have similar responses. The author recalls citizens complaining that the education service was not as good as when run by Middlesex CC!

Cultural difference could produce real problems for sharing. Types of cultural difference include:

- attitude to service externalisation
- degree of concern for employees
- pervasiveness of information management and knowledge sharing
- size-related differences
- performance management standards.

Public sector organisations that are culturally opposed to outsourcing and externalisation could have real difficulties if potential partners want to engage the private sector in shared service delivery. They could argue for using a local authority company, but this would be problematic when sourcing capital or private sector expertise.

Some councils have withdrawn from national pay bargaining, and across the country there is a spectrum of concern for employees extending almost from paternalism to a laissez-faire attitude or one driven by market forces. If employees from different backgrounds transfer under TUPE with their current remuneration and benefits package protected, there could subsequently be equal pay for equal value claims. Savings from sharing inevitably mean reduced headcounts, and TUPE frustrate the process. There is a way around the problem of dismissals during the externalisation, known as 'ETO' for economic, technical or organisational reasons. However, use of this mechanism will probably inflame public sector union sensitivities. They are already alert to the risks of this loophole. Union tensions during an externalisation process could be very damaging both to the council and to service delivery when the private sector takes over with a probably disaffected workforce.

### Reorganisation and sharing

Re-opening the local government restructuring debate in England at least has hampered sharing initiatives as councils look to safeguard their local interests.

## 4.5 Thinking ahead

Employees in those councils who have progressed out of industrial age thinking in relation to information and knowledge could find difficulty in adjusting to any regression. Similarly, it could be difficult for those making the opposite transition to adapt quickly. The practical consequences could be serious where sharing service also means sharing information and knowledge, particularly where the 'best of breed' approach adopted relies upon the associated economies and efficiencies.

Where participants in sharing arrangements are of very different sizes, there will be an implicit cultural difference. In small organisations, it is possible to know and have good working relationships with a large percentage of the employees. In larger organisations, it is impossible to know many people beyond their immediate colleagues. Transfer to sharing almost dictates larger organisations and the culture that goes with them. Those working in the services will feel insecure from not having a detailed knowledge of the people and business functions in their expanded client base. Those receiving the service will miss the personal approach. At least initially, both may feel that sharing was a retrograde step.

Participating organisations will have differing capabilities and levels of performance whether formally assessed or not. Indeed, one of the rationales for sharing may be to bring all participants up to the performance levels of the best in the group. However, this cannot be an abdication. Putting service delivery into a shared service absolves no one from their statutory responsibilities and, where applicable, from comprehensive performance assessment (CPA).

### Flexibility to change

Where the sharing proposals envisage use of the private sector, there is a risk that the relatively long-term contracts will inhibit future flexibility. Clients choose long contracts to spread the cost and minimise the disruption from the procurement process. Providers prefer long contracts as it gives them security and enough time to write off the capital investment and set-up costs without making the contract uncompetitive expensive. One solution is to ensure adequate provision for future change in the contract conditions. However, this could lead to high tender prices if the provider sees the conditions as risky or unduly onerous.

In looking ahead, clients must think about the need for continuous improvement and the probability of future calls for cost reduction, either nationally or locally. If a long-term contract fixes a significant proportion of council expenditure, there is a risk that the pressure for savings will fall disproportionately on front-line service delivery. Clearly, contracts must accommodate these possibilities.

### Long-term planning

Some public sector organisations may want to respond quickly to the undeniable pressure from central government to share services. In doing so, they may be tempted to agree a 'vanilla' service for quick implementation. This approach is risky. It certainly ignores one of the top reasons for considering sharing, ie improved customer service. By definition, a vanilla service is 'one size fits all' rather than an individual response to customer requirements. A probable reason for the failure of the old mainframe bureaux was that they became remote and unresponsive. Jumping into shared services too quickly may precipitate a similar problem. We must remember that local government is about local needs and priorities. One size does not fit all. It is best to determine first the service structure that the sharing will support.

Secondly, partners should identify the optimum process before sharing. They may ultimately agree on a sub-optimal approach because of the need to accommodate local requirements, but this should be a conscious choice made against the political imperatives of sharing.

*"I don't think shared services means robotic, identical services for everyone. But some services are commoditisable." — John Suffolk, Government CIO speaking at Socitm 2006, Harrogate*

### Partnership identity

Using the web as a barometer, opinions seem divided upon the approach to branding partnerships. Taking Dorset and Worcestershire as examples, a search in Google for 'Dorset Council' leads directly to the Dorset for You combined website. A similar search for 'West Dorset Council' or 'East Dorset Council' provides the relevant district council URL. Following these links provides a page from that council's website with a link to Dorset for You and an explanation of the website mergers. For Christchurch BC, the main part of the page is an explanation of the new arrangements, but the left-hand frame retains links to the Christchurch BC content on the Dorset for You website.

Turning to Worcestershire, visitors using a Google search for 'Worcestershire Hub' will find <http://hub.whub.org.uk/home/hubindex.htm>. This has a map with hot links to each of the individual constituent councils' websites. Google searches for the individual councils lead direct to the individual councils. However, all the individual council sites have a common 'look and feel' but with the council branding at top left and the Hub branding at top right. Chart 2 from the Worcester Hub website shows that less than one quarter of respondents to their online survey had responded to direct advertising of the brand.

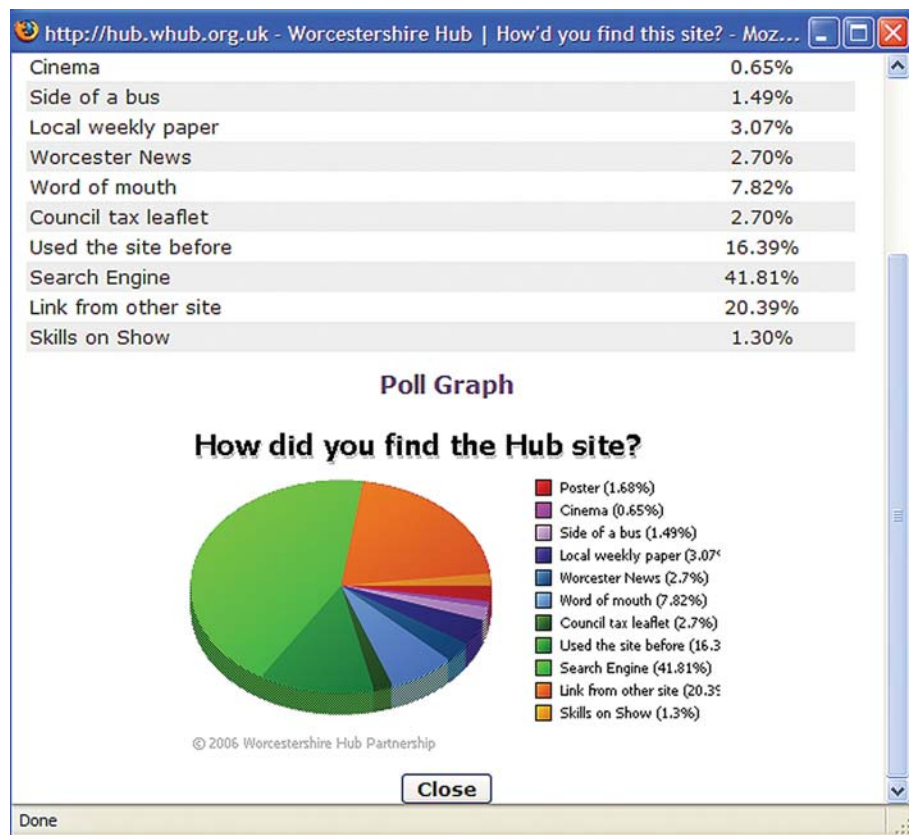


Chart 2 Statistics from the Worcestershire hub website

### Socitm Insight comments

Branding websites is a specific issue. In the Worcestershire Hub example, there is no problem in co-branding the page with both the council and partnership logos. However, we argue that service vehicles that might appear in any locality would look ridiculous painted with every brand. We think that co-branding had a limited life and that eventually the unified approach will prevail. However, debate about the effectiveness of co-branded promotion and the ownership of the unified brand by elected members could cause difficulty.

#### **4.6 Planning the implementation**

Surrey CC advised us that it implemented its shared services centre using an ERP solution at the same time as it co-located the teams providing the service. Our discussions with those who had shared services between organisations generally took a different approach, splitting the system implementation from the co-location step.

As complexity increases rapidly with multiple clients, there is logic in taking one step at a time. Which should you tackle first? Implementing the new systems solution in distributed locations under separate managements risks the development of different approaches. Clearly this might cause problems when the teams co-locate. Conversely, co-location whilst using different systems could incur unnecessary expense in moving or accessing equipment that will subsequently become redundant. However, this may be the best route as it enables new colleagues to establish working relationships before learning a new system.

# Section 5

## The models for collaboration

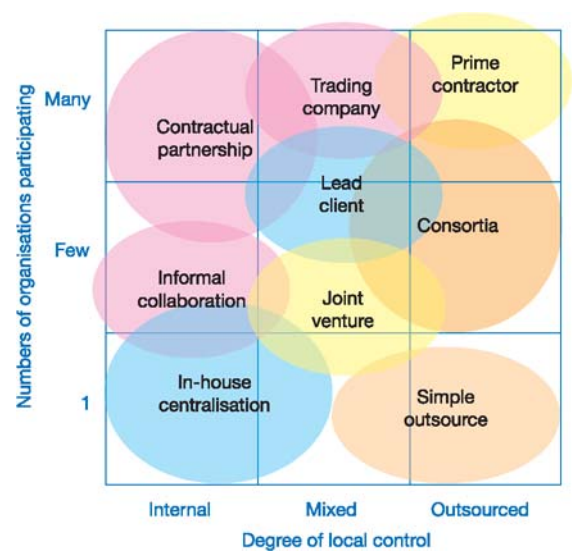
We provide a range of models for establishing sharing arrangements, and indicate the relevant legal frameworks. We consider governance arrangements, and how public sector organisations might engage the private sector in their sharing arrangements.

# 5 The models for collaboration

## 5.1 The scope of sharing

Responses to our requests for examples of shared services covered a huge scope. Taking the number of councils involved: at one extreme, large councils that explained how they had aggregated support to individual services into a centralised 'back office', often implementing an ERP solution at the same time; at the other, large numbers of district and unitary councils have collaborated on providing their revenues and benefits services. In between these two extremes, there are twos and threes collaborating to provide a specific function.

Another dimension of scope is the degree of control that participants want to exercise. Some see a shared service as fundamental to their operation. They are happy to share the provision, and they still see it as part of a strategic approach to serving their community. They wish to influence day-to-day matters, and not just treat the service provision as a mere commodity. Conversely, other councils are happy to specify the outcomes they require, and leave a service provider to manage the day-to-day operations on their behalf.



**Chart 3 Mapping models of sharing**

This analysis maps directly onto the approach that we used in our advice on partnerships in *A marriage of convenience?* We adapted this framework to analyse some models for shared services.

Chart 3 follows the discussion opposite: it plots the degree of control that collaborators want as compared with the numbers of organisations participating.

We look at each of these models in turn and offer information about the legal framework as a general guide.

**Subscribers wishing to follow any model must seek qualified legal advice about their particular circumstances before proceeding.**

Government CIO John Suffolk acknowledged at Socitm 2006 in Harrogate that, when it come to sharing, there is "not one model for all councils in all situations that says big is beautiful".

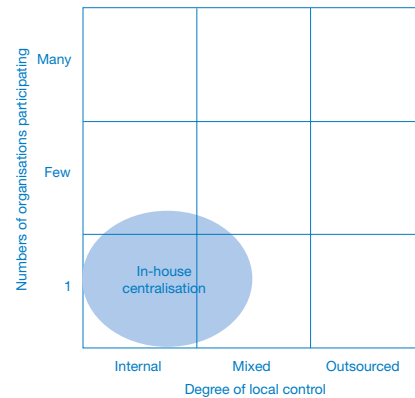
## 5.2 Governance design

Strong governance of shared services is critical for a number of reasons such as the impact of ICT in transformation, the evolving role of the CIO, and increasing awareness by organisations of the value of their information and knowledge assets. In earlier reports we explained our rationale for this view and provided guidance on how to improve the governance arrangements.

Getting services support corporate governance in dealing with different internal ICT services is challenging enough. It will be more difficult in a shared service context, yet governance increases in importance in this setting. Multiple clients compound the difficult choices about resource allocation and priorities.

There must be clarity about the purpose of the shared arrangements. There is a risk that different partners may have differing requirements, and without that clarity and strong governance, it could be difficult to manage and satisfy them all. For example, internal governance may have to police restrictions upon usage and adherence to standards. In the context of shared services the governance must allow for similar powers over all collaborating organisations. Here is potential for friction.

## 5.3 In-house centralisation



This model covers the trend we see in larger councils to aggregate support services, previously managed as individual services, into a single, centralised function. The supporting arguments are compelling. For example, putting all the HR into a single unit should yield economies of scale and increased opportunities for professional specialism and career advancement. Putting all these support activities together should leave front-line service managers free to concentrate on their primary activity without the distraction of managing a support team. The quality of the advice that they receive should improve because of the in-depth specialism available.

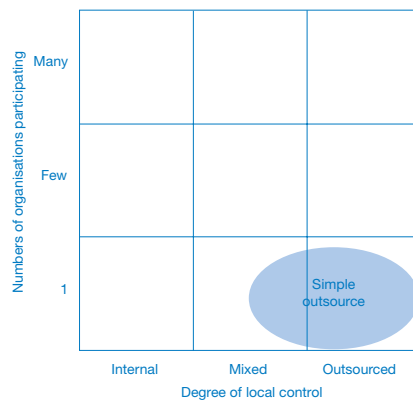
In spite of where we show this model in our framework map, in practice it is most unlikely that service provision will be entirely internal. Commonly, councils implement this approach with an ERP product, and a commercial supplier might host this solution. The private sector provides much of the service from any ICT function that would describe itself as an in-house operation. Consequently, we show some overlap in the middle ground between this model and simple outsourcing.

Similarly, a high-quality or efficient service might attract attention from others, and could lead to overtures to collaborate or amalgamate.

### Surrey County Council

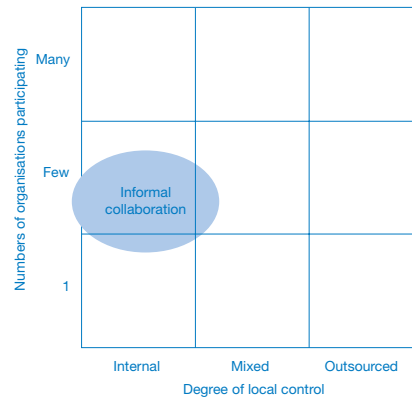
Whilst Surrey's approach is at present purely internal, the process of bringing support services together in a single unit illustrates important points for those wishing to share with others.

## 5.4 Simple outsource



This is another example of a single council approach, but one where the private sector takes over responsibility for day-to-day service delivery. There are many examples following the model established at Lincolnshire CC where the private partner wanted to offer the support service to other public sector clients. We looked at this in detail in *A marriage of convenience?*.

## 5.5 Informal collaboration



### Overview

We believe this to be a transitional arrangement between in-house (whether or not sharing is involved internally) and contractual collaboration. It is an emerging arrangement that prospective partners might use during the initial stages of investigation, and possibly procurement, using another model chosen from one of those in the upper left and right parts of our map. During this stage, there would be no more than a memorandum of understanding between the collaborators.

### Governance

The informality of this approach sits uneasily with strong governance. Disputes might lead to partners withdrawing rather than solving complex differences. This reason alone is a strong argument for using informal collaboration as purely transitory device.

### Legal framework

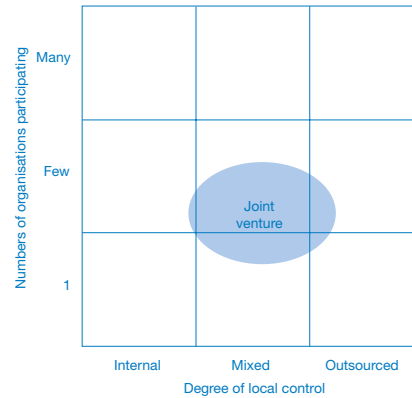
Section 1 of the Local Authorities (Goods and Services) Act 1970 (LA(GS) Act 1970) provides councils with the power to enter into agreements with other public bodies for the supply of goods or materials; provision of administrative, technical or professional services; the use of vehicles, plant or apparatus; and for undertaking maintenance works.

### Milton Keynes Council

Milton Keynes Council has an outsourcing partnership with Hyder Business Services (HBS) that is typical of many outsourcing deals in value, scope and length of contract. The 12-year strategic partnership, worth more than £200m, agreed in January 2004, required HBS to invest more than £26m in the council's services through the development and implementation of new processes and technology. The investment plans covered ICT and HR, as well as the streamlining of

business processes in critical customer-facing services, such as revenues and benefits, and housing repairs. Relevant council personnel transferred to HBS.

## 5.6 Joint venture



Other local authorities are public bodies in this context, and the Secretary of State has a power under Section 1(5) to designate other bodies as public bodies by Order. Prudent councils will want to check the statutory instrument designating other organisations as public bodies before entering into collaborative arrangements with them if they are relying upon the 1970 Act powers.

Case law has established that councils can take a broad interpretation of ‘administrative, professional and technical services’ and ‘works of maintenance’. In the case of *Regina v Yorkshire Purchasing Organisation and British Educational Suppliers Association*, the Court of Appeal held that the 1970 Act empowered local authorities to trade for profit, that they could purchase supplies necessary for trading operations, and even undertake speculative trading.

### Engagement of the private sector

Informal collaborations need not involve the private sector, but the capital costs suggest that many will. Once the project progresses into the procurement process, the commitment of resources and risks, should one party back out, become significant. At this point, all the collaborators will want some enforceable commitment. Prospective bidders may well want to see more formality to demonstrate serious intent before they will be willing to commit their precious pre-sales resources.

### Overview

A joint venture is a popular arrangement for public sector collaboration. Typically, a small group of councils collaborate on a business project, with a contractual agreement underpinning it. In some cases, they may jointly engage a private sector supplier to provide services to, or through, the joint venture. Clearly, this is a significant increase in commitment beyond that involved in informal collaboration. However, it is not as formal or necessarily as permanent as setting up a trading company or other legal entity. It need not (but probably will) involve structural changes, and the collaborators retain their independence. A contract defines the co-operation, and each participant is liable for its own share of costs. The main advantages of this simple form of joint venture are independence, economy, and simplicity. It is a particularly suitable arrangement where councils wish to come together for a specific project for a specific length of time, but do not want an indefinite arrangement.

This description makes no mention of private sector involvement. It could be that the participants pool their existing operations, and operate on a common business model in order to reap the economies of scale. In theory, at least, one participant might be delivering excellent performance, and others locally might want to take advantage of it. It is more likely that peers will

### Examples

Our recent report, *Managing procurement: Improving the ICT service (Vol 3)*, cites joint procurements between Lichfield DC and Staffordshire Moorlands DC, including operational ICT, e-government systems (including CRM and e-Payments) in collaboration with Staffordshire Connects, an automated telephone system, and procurement and implementation of a revenues and benefits system in partnership with four Derbyshire councils. Lichfield also uses a wide area network provided by the county.

collaborate, and we have found many instances of joint ventures to provide revenues and benefits services. Within the scope of this model, these pooled arrangements remain in the public sector. Customer Services Direct in Suffolk is an example.

Participants could, of course, decide to engage the private sector to deliver the service. However, before doing so, they would want the security of a legal arrangement such as a memorandum of association as in the Warwickshire Direct Partnership example. We must not lose sight of the push from central government to embrace partnerships with the private sector; some joint ventures might include the private sector provider as the principle supplier to the venture. Depending upon the style of procurement and contract management employed, the relationship could be a partnership. Public sector partners might want to include the private sector company in the management of the joint venture.

### **Governance**

At this level, clear and effective governance arrangements agreed by, and with full commitment from all parties is essential. Because a formal contract forms the basis of the agreement, the governance arrangements should be explicit. However, will the legalistic expression in a contract satisfy the requirement for clarity? It may be unambiguous from a legal standpoint, but is it readily understandable? It is important that the participants understand the power vested in the joint board, and the residual powers left to the individual organisations.

### **Legal framework**

There are a number of possibilities for a joint venture.

Collaborators might want to use a company limited by guarantee: a form of incorporation used by non-profit organisations that require corporate status. A guarantee company does not have a share capital, but has members who act as guarantors instead of shareholders. The guarantors undertake to contribute a nominal amount towards the winding up of the company in the event of a shortfall upon termination.

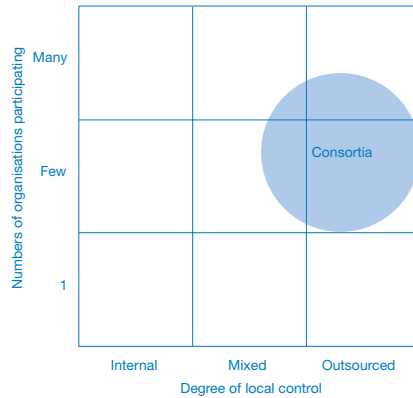
A more commercial approach would be to set up a private company. This would allow trading with any third party.

### **London Luton Airport**

Luton Borough Council opened Luton Municipal Airport in 1938. In 1986, the Airports Act required local authority owners of airports to incorporate their operations as companies with a board to manage the business. In 1987, Luton International Airport became a limited company with Luton BC as sole shareholder. The airport was renamed London Luton Airport in 1990 to reflect its place in the London airport network. In August 1998, Luton BC signed a public-private partnership contract whereby the airport remained publicly owned by

the council, but it is operated, managed and developed by a private consortium, London Luton Airport Operations Ltd, for a period of 30 years. In 2004, Luton BC and London Luton Airport Operations Ltd won the Local Government Chronicle award for Best Public/Private Partnership.

## 5.7 Public sector consortia



### Overview

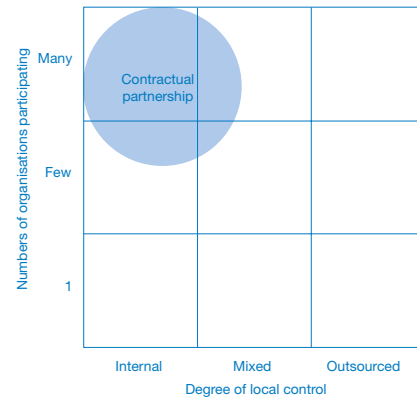
This term is a popular label for the collaborative arrangements in the education and learning sector. For example, in Berkshire the Community Network Group describes itself as a consortium of all the CVSs, Berkshire Community Foundation, WEA, and Berkshire Association of Young People managed by all the unitary councils in what was Berkshire. However, in our framework for shared services, we see consortia as similar to joint ventures, but the participants relinquish direct or day-to-day control of the operation. The archetypical example is CLASS (Consortium of Local Authorities Superannuation System) where local authorities share the pensions system, but only a few of their representatives sit on the management board, and have little to do with the day-to-day operations except act as clients of the service.

This arrangement could extend to any number of participants. Typically, the founder members set up the governance structure, and those who join later accept the status quo. If, latterly, they wish to change the governance structure, they can only do so through their representative on the board, or by becoming a representative. So, in our mapping framework, the consortium approach is very much ‘arm’s length management’, contrasting with the higher degree of control in the joint venture model.

### Legal framework

Local authorities and public bodies could rely upon the LA(GS) Act 1970 as in informal collaboration. Alternatively, they could form a Limited Liability Partnership (LLP). Here the LLP is responsible for any debts that it incurs, whereas in a normal partnership the individual members are personally liable. Company law prohibits LLPs from trading, so this approach is only suitable for operations internal to the collaborators.

## 5.8 Contractual partnership



### Overview

We stated that informal collaboration is a transitional state. One outcome would be where the participants want to retain control, probably through a shared public sector service, but recognise the need for rigour to ensure the continued operational viability of the service. Our case study of the Single Non-Emergency Number service in Hampshire is an example of this. Upon joining, the district councils needed a guarantee, because they could not risk cessation of the service once they had set a public expectation.

There is an increasingly entrepreneurial trend amongst local authorities, and some may want to provide their in-house service to others on a quasi-commercial basis.

### Legal framework

Under Section 99(4) of the Local Government Act 2003, in July 2004 the Government issued the Local Government (Best Value Authorities) (Power to Trade) (England) Order 2004 (SI 2004/1705)). This empowers any local authority in England, which is classed as excellent, good or fair under Best Value legislation (with some exceptions), to ‘do for a commercial purpose anything which it is authorised to do for the purpose of carrying on any of its ordinary functions’. Councils must prepare and approve a business case in support of the power before exercising it. In addition:

- the power must only be discharged through a company
- it must recover all its costs
- if the authority loses its excellent, good or fair classification, it must wind up its trading activities within two years.

The first point regulates activities by bringing them under Part V of the Local Government and Housing Act 1989 and the Companies Acts. This safeguards the position under competition law and the EU rules about provision of State aid. It puts the operation on an equal footing with private sector competitors as regards treatment of taxation.

Section 2 of the LGA 2000 gave local authorities a general power to do anything that, in their opinion, promotes the economic, social and environmental well-being of their locality:

“Every local authority is to have power to do anything which they consider is likely to achieve any one or more of the following objects:

- (a) the promotion or improvement of the economic well-being of their area
- (b) the promotion or improvement of the social well-being of their area
- (c) the promotion or improvement of the environmental well-being of their area.”

Furthermore, this includes power for a local authority to:

- (a) incur expenditure
- (b) give financial assistance to any person
- (c) enter into arrangements or agreements with any person
- (d) co-operate with, or facilitate or co-ordinate the activities of, any person
- (e) exercise on behalf of any person any functions of that person
- (f) provide staff, goods, services or accommodation to any person.

These very broad powers might enable a local authority to set up a service centre in its area to provide services to other councils, provided that it stimulated the local economy by, for example, increasing employment prospects. However, they do not absolve the local authority from responsibility to comply with the European procurement regulations.

### **Blackpool Council**

Blackpool Council ICT Services supply the ICT shared service for housing benefits, council tax and business rates for one of their neighbouring local authorities. In addition, they have won a contract to supply a similar service for Rochdale MBC. Blackpool provides payroll services for Fylde and Chorley councils. In a further possible expansion, the council is looking at the possibility of working with the Lancashire Fire Service to deliver an ICT service that will also make use of Blackpool's accounting system.

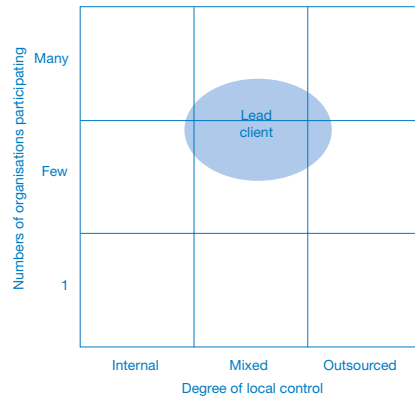
The Gershon and Lyons reviews, an internal review of ICT infrastructure and the Civil Contingencies Act set the scene, but it was the need for a new non-domestic rates, council tax and benefits system in Blackpool that catalysed the new ICT vision. Senior directors and revenues practitioners from Blackpool Council and neighbouring Fylde Council developed a joint working initiative in late 2004. The aim was to replace their mainframe revenues systems with a single, fully integrated revenues system, and to work together on forming a joint processing team. They chose Anite's Pericles system as the replacement. The requirement for a jointly hosted system for both councils drove a new architectural design.

As Blackpool is a Beacon council for benefits administration, word travelled fast about the shared services project there. Rochdale MBC had also engaged Anite to supply its Pericles system as a managed service. Through the earlier work with Blackpool, Anite recognised the quality of its vision and solution, and encouraged Rochdale MBC to collaborate with Blackpool. Rochdale invited Blackpool to bid for the managed service contract alongside other private sector service providers. A significant part of the bid was the new ICT architectural development, which was a significant factor in the award of the managed service contract to Blackpool. In addition, Blackpool's vision to utilise the existing regional broadband network (North West Learning Grid) between Blackpool and Rochdale provided an opportunity to keep costs down.

### **Socitm Insight comments**

Councils have asked us how they can find partners. Blackpool's entrepreneurial approach has attracted not only the public sector, but also a private sector organisation to help expand the sharing arrangements. This is a 'win-win' outcome all round!

## 5.9 Lead client



In some cases, a larger or stronger participant may choose to take the lead client role on behalf of a group of organisations. Alternatively, one organisation with an existing contract may seek or allow others to 'piggy-back' onto their contract. Hampshire CC took this approach when it tendered for its communications network, asking the supplier Unisys to provide a menu of priced services that others could buy into.

Taking a lead contractor approach reduces the cost of the procurement process compared with each participant individually approaching the market. It helps bidders, too, as they have only to spend their pre-sales money once rather than chase after several tenders. Of course, there can be only one winner for the single large contract!

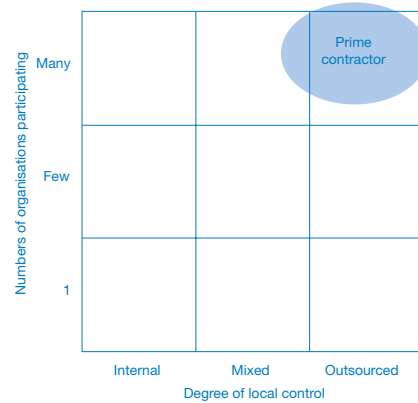
The disadvantage of the lead contractor approach is the necessity for back-to-back legal arrangements between the lead and the other partners to secure their interests. This could lead to potentially complex governance arrangements. An example here is the Worcestershire Hub where the county council is the signatory to the contracts with the private sector suppliers, and the districts 'piggy-back' on to them. Public sector organisations that wish to operate in this manner must seek advice on how to construct their prior information notifications (PINs) and tender advertisements in order that other bodies may join after the initial contract signature.

### Defence Information Infrastructure (Future) (DII(F))

DII(F) will replace numerous individual information systems from within the three separate armed forces with a single, more efficient information infrastructure. It will enable better communication between 340,000 military and civil service personnel, and connect and support 150,000 desktop PCs, laptops and other devices at 2,000 sites.

The project should achieve many of the defence efficiency measures under the Defence Change Programme. These include 'Network Enabled

## 5.10 Prime contractor



This approach could co-exist with other models, eg with 'lead client', but in our framework map, we see this at one extreme, with many organisations participating (in both private and public sector), and the clients taking an arm's length approach to day-to-day management issues. This is a common approach in the private sector, and with large central government contracts. For example, in March 2005 the Ministry of Defence (MoD) and the three armed services jointly awarded the £4bn defence information infrastructure (future) (DII(F)) ten-year contract to the ATLAS consortium.

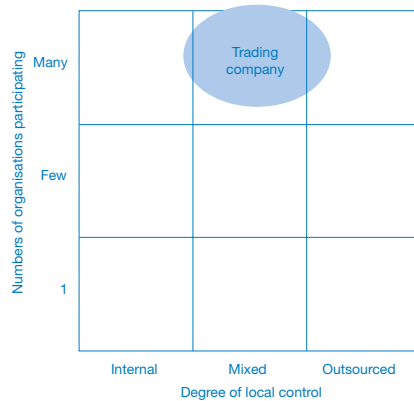
EDS is the prime contractor in the ATLAS consortium, with tier 1 partner Fujitsu Services, and key sub-contractors General Dynamics, EADS Defence and Security Systems, and LogicaCMG. With the MoD acting as lead client, communications with the suppliers should simply flow through the lead contractor.

The private sector is very familiar with the prime contractor approach, and there is a substantial body of experience in how to make the back-to-back contracts work.

Capability': the ability to transform the capability of the armed forces through a single network. Anticipated savings amount to £600m over three years: equivalent to 20% of the defence ICT budget.

DII(F) will extend into the operational arena, interfacing with battle-space systems and improving shared information between headquarters, battlefield support and the front-line. DII(F) will also enable greater interoperability between the MOD and its allies, allowing significantly more effective operational support than currently available.

## 5.11 Trading company



Outsourcing any operation to the private sector involves issues concerning the EU rules on employment protection (TUPE). Organisations tackle these issues more or less successfully in their own ways. The supplier who will take over the service will be concerned that it does not inherit a disaffected workforce. When multiple employers are involved, the risks of conflicting, or at least contradictory, approaches increase. For some councils (and more employees), transferring jobs to the private sector is unpalatable. Consequently, there is interest in setting up a vehicle such as a local authority company to employ the transferred personnel and deliver the shared service. This approach has considerable benefits in preserving the conditions of service for those employed in the undertaking, but only at the cost and complexity of setting up the legal entity.

The prime objective in setting up a trading company is to grow the market for its services. Just because the trading company is owned by the public sector, there is no absolution from EU procurement regulations. Potential clients still have to run a proper competition for their business, unless they 'piggy-back' on to another procurement process that has specifically issued advertisements and written contracts stating that this will happen.

# Section 6

## Shared services in action

Creating a shared services arrangement is likely to be a complex and lengthy undertaking. It is vital to think about the many impacts of the procurement process in order to turn ideas into reality. We look at the practical steps necessary to make shared services happen.

# 6 Shared services in action

## 6.1 Procurement

The investment required to initiate a shared service will mean that many groups of organisations will wish to involve the private sector. Here we update our previous advice from *A marriage of convenience?*

### Creating a market

Commercial organisations keep a close eye on the public sector agenda and the trends emerging from it. They are well aware of the drive from central government for both partnership working and shared services. There is a limit to what they can do without tender invitations to respond to. Similarly, public sector organisations will be cautious of casual engagement with potential suppliers because of the constraints of the EU procurement rules.

Opportunities exist at industry events such as Socitm conferences and seminars to discuss emerging ideas without commitment. It is extremely unlikely that any supplier would subsequently raise an objection about unequal treatment, because to do so would certainly risk their position in the marketplace. However, if public sector organisations wish to cover themselves, they can issue a **prior information notice** (PIN) in the European Journal (OJEU). This alerts the market to the opportunity, and allows potential suppliers to contact the client. Some organisations are nervous about the volume of work that might stem from this action, but there is no compulsion to pursue any lead that materialises.

However, since January 2006, there has been the alternative of the **competitive dialogue** approach to procurement. In most cases, this will remove the need for a PIN, and provide the organisation with a

more flexible procurement procedure than the **negotiated tender** that Socitm previously advocated. (Some organisations have the requirement to go through the PIN route written into their contract standing orders).

In practice, shared services procurements are too complex for the open and restricted tender approaches. Organisations need the competitive dialogue approach in order to examine and weigh up alternative approaches. This allows the private sector to contribute innovative ideas.

### Engaging small and medium-sized enterprises

Some respondents were concerned not to exclude small and medium-sized enterprises (SMEs) from the shared services marketplace. Our subscribers have found that SMEs are more likely to offer innovative and flexible approaches. However, they would be unlikely to progress beyond the qualification process of the restricted tender procedure purely upon the basis of their size and perceived financial strength. The competitive dialogue procedure retains the pre-qualifications stage, and we would encourage organisations to set their threshold requirements so as not to exclude SMEs at this early stage. It is essential that the client does not stick to any preconceived ideas about the means of future service delivery. What really matters is to know what is required, not how to provide it.

The DTI is driving public sector clients to use the [www.supply2.gov.uk](http://www.supply2.gov.uk) website as a portal for low value (non-EU) procurements. In order to see opportunities outside their chosen location, suppliers must pay for the service, and this may disadvantage some SMEs.

### The voice of experience

Hampshire CC offered six pragmatic points from its long experience of partnership working. From our case study research and discussions with those involved in making shared services happen, we endorse these views:

### Right level of engagement

You need to ensure that people representing their organisation in a partnership have the necessary authority to take decisions and to represent the partnership in their organisation at the appropriate level.

### Resources

Partners representing larger organisations need to be aware that what they might consider to be trivial levels of resource (money/people/time) are very important levels of resource for smaller organisations. What might be a 'small change' payment for a larger partner might be the subject of an elected-member decision in a small shire district.

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## 6.2 Qualification

In *A marriage of convenience?* we stressed the importance of engaging with a qualification process used by private sector suppliers. Subsequently, particularly in relation to research for this publication, suppliers have endorsed our views. It is important to dispel the myth that suppliers have almost unlimited funds and will chase after any opportunity that the market provides. Most suppliers, even the very large ones commonly associated with big public sector contracts, have limited, and tightly managed pre-sales budgets. The cost of competing for a large contract, such as some of the examples in this report, can easily approach, if not exceed £1m. Suppliers will not commit these funds lightly. When they do commit, they will continually monitor the procurement competition, asking themselves if they are still amongst the top three bidders. They aim to win at least one in three competitions. If they feel that the tender is more likely to go to another competitor, they will cut their losses and exit as gracefully as they can. It is the client's job to maintain a competition until the final decision. If you are left with just one or two bidders, this is hardly a good result, and may involve complications with contract standing orders. Good clients will ensure that the third placed bidder will have no hint of this until the final decision. However, when there are many participants from the client side talking to the bidders, it is difficult to maintain this position. Remember also that commercial suppliers do talk to one another, even if not directly competitor to competitor. With multiple clients in a shared services bid, if even one client is taking the lead on behalf of others, there are far more possible sources of clues for the bidders as to how they are doing. It needs only a casual or unguarded comment to cause bid managers to worry.

## 6.3 Licences and leases

Sharing services could bring complications over software licences, and leases for capital equipment and premises. It may be necessary to novate these to the shared service, or the legal vehicle used to deliver the service. This is particularly true where the new service uses a 'best of breed' previously adopted by one of the partners. Hopefully, the sharing will provide an opportunity to rationalise the number of licences in use. However, organisations should not simply piggy-back onto existing contracts. To do so risks losing potential economies of scale, and using the increased buying power to reduce costs. The price for a bulk purchase should be considerably less than the cost for individual members approaching the supplier individually. Subsuming new clients into a new contract, or transferring an undertaking to a new supplier should not be an excuse for charging new licence fees.

### Formal arrangements

Although it may appear to be overly bureaucratic, there are considerable benefits in having a formal memorandum of understanding or other document setting out the rights and obligations of being part of a partnership.

### Priorities

Where a partnership relies on participation by all its members, it is advisable to get a clear indication of the availability of each of the partners and their organisations' employees when you are planning to use those resources in the work of the partnership.

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## 6.4 Due diligence

This is the process that a prudent and sensible organisation or individual would undertake in order to check the integrity of a proposed course of action in order to minimise risk. For example, if you were to have a builder construct an extension to your property, you would take up references with previous clients and visit to check the quality of the work. In partnership working, the private sector supplier checks that they understand the full scope of the work. This involves drawing up or checking inventories of the capital assets involved, or the extent of the services required.

Due diligence is too often left to the private sector partner. As we saw in *A marriage of convenience?* it is often left far too late in the procurement process, and poorly done. We found that the later organisations tackle the process, the larger the number of problems reported post-contract. We suggest that public sector organisations share the 'due diligence' work with their preferred bidder, checking the thoroughness of the work. If the organisation has not been through the process previously, it is worth employing experienced personnel or contracting for specialist help. The cost recovery comes from avoiding problems later on. It is not in the client's interests to find later that the supplier has made mistakes. At best, suppliers will operate on reduced margins, possibly leading to disaffection with the contract. At worst, they may decide it would be better to withdraw despite the penalty payments.

The public sector organisation has some 'due diligence' activities to perform, too. It is quite normal for the finance function to check the financial standing and business status of the preferred bidder or those left on the shortlist. However, a simple finance check is insufficient. Too many partnership deals have failed because the private sector partner has made bad assumptions about the business or the market conditions. If the partner withdraws from the contract, which has happened in at least two high-profile cases, the public sector organisation still has the responsibility to deliver the service. True, they may have some penalty payments, but they will re-inherit a probably disaffected workforce, and have the costs of either re-establishing the internal service, or tackling another expensive and time-consuming procurement.

We advise particular care where the supplier predicates the deal on the hope of obtaining further business locally. Does the potential supplier really understand the complexity of the undertaking? Does it think that if it demonstrates capability for your services, this will lead to additional business of the same type, and therefore it is offering an excellent price now in the hope of getting economies of scale later? It is sensible to pose many questions of the 'What if...' type. In short, if a price seems too good to be true compared with existing in-house costs, then it probably is. Experience shows that the view that the private sector is able to look after itself is flawed.

The voice of  
experience  
(continued)

### History

In local government people have long memories, so you need to be aware of any 'history' that might make it difficult for the partnership to function — including old scores that need to be settled or controversial political decisions that were made in the past.

### Variety

The larger the partnership, the more likely it is that there will be differences in the way partners transact business. Sometimes minimising the number of ways of working is a more realistic approach than getting a single solution that fits all.

## 6.5 Handing over

This is a critical point in the process. Those delivering the service will change employer, and their new employer will be anxious to inherit a workforce who have not been demotivated by their treatment. The new employer usually arranges a special event to welcome the new team, and to explain how it intends to operate. Those transferring will be concerned about their conditions of service. Whilst the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006/246) (TUPE) should safeguard their rights and conditions of service, the operation of TUPE is still subject to considerable case law and interpretation. During negotiations, clients will want to get the best deal possible, but they should remember that the workforce delivering the service will remain largely the same, and that it is not in the client's interest for them to feel aggrieved at the settlement.

Sourcing teams from multiple organisations places an additional burden on the supplier. They not only have to assimilate a significant number of new people into their operation, but simultaneously accommodate and modify several potentially differing cultures. There is limited experience of doing this.

Usually, both parties try hard to make the new arrangements work in the period immediately around handover. It is when the honeymoon is over that problems start. Many issues relate to inadequate 'due diligence' work, or to inadequacies in the contract managers or account managers employed. From the client perspective, contract managers need a high level of authority in order to be flexible with the supplier when it is appropriate to do so. They also need the maturity, competence, and wise judgement to know when to exercise that flexibility so that the partnership develops rather than ends in the divorce court. We reiterate our advice that those who seek the security of remaining with the client organisation should automatically disqualify themselves from the job!

## 6.6 Benefit realisation

### Overview

Attention to business benefit realisation is increasing rapidly. Too often, services have turned to the ICT function when ICT-enabled projects appear not to have delivered the anticipated benefits. This is especially important in a multi-organisation context, where the issues about the delivery of the solution and working together may take centre stage. Let us be clear: ICT can deliver solutions, it cannot ensure day-to-day usage, or the necessary changes to behaviours and cultures in the operating environment.

Project management methodologies identify the role of the project owner as the person responsible for delivering the promised benefits. Unless the project is for the benefit of the ICT function, this person will be from the service that uses ICT. The technical solution on its own does nothing. It is the people in the service who make it work, so make those capable of realising the benefits responsible for delivering them.

### Stages in benefits realisation

There are three stages of benefit realisation within the project lifecycle:

- Planning
- Enabling
- Delivering

### Planning

Planning for benefit realisation occurs in parallel with project scoping and an outline logical design. It is at this stage that the project manager should ask the project owner: 'How are you going to make this work?' The point is: how acceptable will the changes be to the team in terms of revised operational practice and consequent changes in culture? For example, the ICT service might deliver a diary management system, but, if shared diaries do not fit the organisational culture, it is unlikely to deliver any benefit. Extrapolation of these considerations to a multi-organisational approach only compounds the scope for problems. At the planning stage, it is critical to determine the proposal's applicability and acceptability to all parties. From this point, the organisations can begin to assemble their business case.

Rigorous business cases enable thorough post-implementation review and evaluation of business benefits actually delivered. The problem is in estimation. Research suggests that managers are inclined to understate the costs and over-value the benefits. This merely stores up problems for later. It is said that Brunel's approach to assessing requirements was to double his initial estimate, then add 10%!

### Enabling

The enabling stage is where the ICT function plays the greatest part in benefits realisation. At this stage, we compare system capability as installed with the original intention as defined in the requirement specification. It is quite common, of course, for requirements to change during the implementation, and unless there were adequate change-management processes in place, this will cause problems. In a shared service perspective, the only additional complexity will stem from any differences in the implementation demanded by separate clients. We suggest strong resistance to any hint of this sort of change.

### Delivering

The delivery phase is when the service has the opportunity to use the new tools. Teams will require training support, and there will be a start-up period when performance will rise from a sub-optimal start, as users become familiar with new processes and procedures. It is at this stage that the service managers take the helm in benefit realisation. Clearly, there is some judgement required to determine the point at which the organisation can realistically evaluate benefit delivery. This judgement is made easier if the initial project justification included a quantified pay-back profile. The role for ICT is to check whether practical usage matches the agreed intention.

## 6.7 Risks

### Bureaucracy

Collaborating organisations must share the costs of the shared service, and will explore charging according to usage. Charging inevitably brings an element of bureaucracy. It is important that this is kept to a minimum. It is counter-productive if accounting for the shared services makes a significant contribution to costs, either directly or indirectly by provoking time-consuming disputes over bills. Therefore, choice of an appropriate operating model is essential.

### Loss of focus

Sharing involves compromise. Yet it is difficult for everyone whose job is affected by the sharing proposal to be consulted on all the details. This is particularly true for internal customers of support services. Unless they feel involved in the service design and the new service level agreements, they may feel that the service is too remote, provides less or offers a service that is less personal than before. Even if you cannot consult them all, it is important that customers understand the logic behind the new arrangements, and what was agreed. It is imperative to manage their expectations.

The emphasis upon performance management and customer satisfaction is such that it is unlikely that modern sharing arrangements will become remote. However, it is still important to engage with the customer, to understand their changing needs, and try to meet them as far as possible within the service agreement. Failure to do so will lead to charges of inflexibility.

### Procurement risks

Procuring a shared service runs similar risks to outsourcing. However, sharing brings the additional dimension of multiple clients bringing different perspectives and priorities. In *A marriage of convenience?*, we reiterated the standard advice 'never outsource a problem'. Some organisations may want to enter sharing arrangements because they have internal issues with the service delivery, and know that peers perform better. If the organisation predicates its sharing proposal on getting the better performance that a partner in the collaboration enjoys, then it must be very clear about how this improvement will come about.

When engaging the private sector, we advised client organisations to avoid prescribing solutions, to engage with the qualification process, and to ensure rigorous completion of the 'due diligence' work.

### Pre-conceived solutions

It is difficult to persuade colleagues who have supplied a service for years that others might have a better way of doing it. However, we strongly believe that as a part of the procurement process, organisations should open their thinking to new approaches.

We know that the difficulty in getting agreement amongst potential collaborators is the principal reason that many sharing proposals are still-born. Getting agreement to the procurement approach, particularly if one party is advocating inviting innovative solutions from outside, could well be an obstacle. It is important that to remember that the competitive dialogue procedure under the EU procurement regulations aims to facilitate uncovering innovative solutions. We again urge clients to take an open-minded approach, and listen to the experience of leading suppliers, particularly where they have world-class experience to offer.

### Coping with change

*A marriage of convenience?* noted that most contracts had inadequate provision to cope with changes. We were particularly concerned at the popularity of long contracts because during their lifetime the service environment could change radically. One has only to think back to the situation in, say, 2000 to recognise how dynamic the business of the public sector is. Our earlier report, *A marriage of convenience?*, contains a list of change control items that contracts must cover.



# Section 7

# Conclusions

We summarise our advice by identifying the key findings from this research. These all point to the conclusion that a shared services undertaking is likely to be both complex and time-consuming because of the many parties involved. We provide a maturity grid to enable readers to assess the readiness of their own organisation for sharing services.

# 7 Conclusions

## 7.1 Readiness to share

**Note: whilst we show these stages as a chronological sequence, it is possible to skip some stages.**

Charts 4 and 5 provide maturity grids to help those who are about to start, or who want to develop their thinking about shared services, to help them to assess their readiness, or that of their potential collaborators. We think that services in the 'low' category of Chart 5, which engage in shared service proposals are running significant risks, particularly if the intention is to procure an external commercial provider. Without comparative information to provide a basis for assessing new proposals, the client organisation risks the new provider making profits at their expense. If current performance is poor, the organisation should at least have a good understanding of the issues and underlying causes before proceeding.

## 7.2 Key findings

We now summarise the key points from our research into shared services, with particular reference to the ICT service.

- There are plenty of cases from the long history of shared services to learn from, but few of the ICT examples have survived into the PC era.
- Superficially, the case for shared services based upon economies of scale is compelling, but it is far from being so simple. We have local government and local services for good reasons (eg to reflect different local priorities). Sharing must be compatible with those reasons.
- Sharing is highly vulnerable to changes in the political environment.
- Shared ICT could lead to impressive savings in infrastructure, software, development and training. Being out of the political spotlight, it could be easier to achieve than many front-line services, and might set the model for the rest of the organisation to follow.
- Central government is committed to the economies of scale argument, but to date seems to lack leadership, advice about implementation, and ideas to take sharing forward in a pragmatic way.
- Shared management and delivery means making compromises. Agreement to compromise in the 'storming' phase provides a foundation for longer-term agreement, but lasting partnerships require appropriate management structures in order to achieve anything more than initial success.
- There are many structures and governance styles from which to choose. Our advice in Section 4.6 will help you to make an informed choice.
- There will be resistance from teams required to transfer from supporting individual services into a common support service within a single organisation. Transferring teams from multiple organisations will be more problematic.

- When engaging the private sector, our advice from *A marriage of convenience?* applies, particularly concerning:
  - engaging with the qualification process
  - working to avoid a disaffected workforce
  - completing 'due diligence' thoroughly and well before contract signature.

We know from experience that setting up long-term partnerships and outsourcing deals takes time, maybe up to two years from the start of the process. In the case of shared services, the arrangements are likely to be even more complex and take longer, especially if a private sector supplier is involved, because there are many more parties to the arrangement. Sharing services effectively requires a maturity in partnership working, a sharing of priorities and a clear understanding of what clients wish to share. Organisations should not expect this to be a quick solution to an opportunity or a problem. The journey to achieving the goal of a shared services contract might not be an easy one.

Stage of sharing	Characteristic		
	Relationship with potential collaborators	Economies of scale/customer service benefits	Choice of service processes, procurement and governance model
<b>1 Awareness of potential</b>			
Aware of the agenda, but not knowing where or how to start	Participates in appropriate forums, but the topic is not discussed in depth or productively. Alternatively, does not participate in discussions with other organisations or have the sort of relationships that might produce suitable opportunities.	Understands the logic, but lacks the forum or relationships with others to get started.	Legacy of existing service processes. Probably unaware of procurement and governance issues.
<b>2 Open to proposals</b>			
Willing to participate if another organisation provides the opportunity and drive	Participates in appropriate forums where the topic is discussed. Unwilling to take the initiative, but willing to discuss in-depth and possibly participate, so long as another organisation takes the lead.	Recognises some potential economies of scale and potential for service improvements, but consciously or unconsciously feels that the benefits are not worth the effort and energy required to drive an initiative.	Significant ownership of existing service processes. Any challenge or compromise will be a test of the organisation's commitment to the initiative and confidence in the economies of scale. Probably unaware of procurement and governance issues.
<b>3 Driving interest</b>			
Identified the opportunity, and building interest in potential collaborators	Committed to the benefits from shared services, and actively seeking collaborators to partner with at a service level. Prepared to take the lead and provide the leadership required to other less committed organisations.	Understands the potential for economies of scale and improved customer service. Trying to make the case to others.	Understand that partnership working with shared services may mean compromising on service delivery processes that are firmly entrenched in the organisation, but see this as a bridge to cross in the future.
<b>4 Incorporated in corporate strategy</b>			
Top management team determined to make it happen and to reap the benefits	Elected members aware of concept, and buy-in to its implementation. Concept fully owned by the chief executive and the top management team, who are in discussions with other management teams locally, sub-regionally or through other associations. Medium term budget plans predicated upon anticipated savings.	Potential economies of scale quantified and factored into medium range financial planning. Possibilities for improved customer service discussed with elected members.	Choice of service approach, governance and procurement looming as issues that will test the strength of the partnership.
<b>5 Leadership</b>			
Organisation uses shared services for most back office and some front office activities. Certain that it is reaping economies of scale, confident about choice of business practice	Practising a shared service approach at least for its own back office support services, and probably in partnership with other organisations for services such as revenues and benefits, CRM/contact centre and ICT. Looking for new partners to join the service.	Beginning to reap the benefits of economies of scale. Probably early days in terms of customer feedback.	The issues over procurement and choice of service are settled, and the partnership is stronger for having the issues discussed openly (and probably with some emotion). Governance agreed in principle, but probably not tested against any practical issues.

**Chart 4 Shared services maturity grid**

Note: whilst these stages are shown in a chronological sequence, it is possible to skip some stages.

Characteristic	State of preparedness		
	Low	Medium	High
Strategic alignment	ICT function builds the ICT strategy in isolation. May not align to corporate strategy, indeed organisation may not have a clearly defined corporate strategy.	ICT function consults user community about strategic intent when building strategy. However, there is insufficient engagement by the services to identify technology opportunities.	ICT strategy flows from an in-depth dialogue between the ICT function and the users services. Users understand technology potential, and share service aspirations. Strategy is jointly owned.
Governance	ICT dictates policies and procedures about ICT usage. ICT decides between competing bids for new projects, or users have a budget and pay for what they want.	There is an ICT governance board with user representation, but attendance is from technical people rather than senior management. Board lacks the ability to make and enforce policy decisions. Services challenge development priorities after board agreement.	Strong ICT governance function with senior representation from all user communities. Priority and policy decisions made and enforced. All participants take 'cabinet responsibility' for decisions even when these go against local interests.
Performance management	The ICT function is aware of the Socitm KPI set, but only collects information about a limited sub-set. There is little evidence for any management action stemming from the KPI data.	The ICT function collects and reports upon the Socitm KPI set, but as yet has been unable to drive up performance, or may be unaware of how it performs vis-a-vis its peers.	Service level agreements in place with performance against these and the Socitm KPIs monitored. Action taken to keep KPIs in line with agreed targets.
Customer care	Customers receive the best service that management can deliver within the constraints of the budget, the personnel available and their own management competence.	ICT service publishes performance statistics and newsletters. It may have conducted a customer satisfaction survey in the past, but has no plans for one currently.	ICT service conducts customer satisfaction surveys or benchmarking at least every two years. Liaison people or 'account managers' maintain the relationship with users, understanding and responding to their needs at both a tactical and strategic level.
Awareness of standing against peers	Only anecdotal comments.	Limited understanding from comparing KPI data.	Regular benchmarking activity.

**Chart 5 Maturity of the ICT service**

# Appendix

# 1 The Tuckman model

Tuckman's model of people learning to work in teams mirrors the experiences of many sharing proposals. Awareness of the stages helps keep people with the project through the times when reaching agreement and compromise seems elusive.

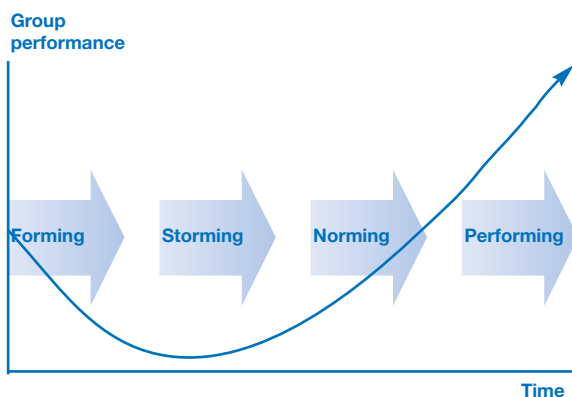


Chart 6 The Tuckman model

## Forming

At this stage, the leader sets the aims, and the team is highly dependent upon the leader for guidance and direction. The individual roles and responsibilities remain unclear, and the leader must be prepared to champion his or her views, and to answer probing questions about the group's purpose, objectives, and external relationships. Group processes may be undefined, and, even if they are, group members will often ignore them as they test tolerance of the system and leader. At this stage, the leader has to adopt a directive style.

## Storming

Initially, the group finds decision-making difficult. Group members vie for position as they attempt to establish themselves in relation to others and the leader, who might receive challenges. Clarity of purpose increases, but many uncertainties remain unresolved. Cliques and factions may form and there may be power struggles. The leader must focus the group on its goals to avoid distractions created by relationships and emotional issues. Progress requires compromise, and the leader must switch to a coaching style.

## Norming

The group will only reach this stage if they can make accommodations to resolve the problems from the storming stage without breaking up. It was difficult for our research to quantify the proportion of potential sharing arrangements that fail at this hurdle, but anecdotal data suggests that it is high. Once the 'storming' is over, the group usually finds that reaching agreement and consensus happens through rational debate, even when faced with significant or strategic choices. A level of trust emerges from the journey through the storming phase, and the group may well delegate individual members to take action on its behalf. The group behaves as a cohesive unit with clear roles and responsibilities that everyone accepts. They are committed to a defined goal. For example, in the Partnerships in Parking case, individual councils lead on separate initiatives to deliver the complete programme. The group discusses and develops its processes and working style.

At this stage, the leadership facilitates and enables processes. There is general respect for the leader, and the team shares some leadership tasks.

## Performing

The team group knows what it is doing and why. There is a shared vision, and most activities occur without input from the leader. There is a focus on over-achieving goals, and the group takes most of its decisions against agreed criteria. When disagreements occur, resolution is constructive, and the group makes any necessary changes to processes and structure. The group works towards achieving its goal, and also attends to relationship, style and process issues along the way. Individual group members look after one another.

The role of the leader at this stage becomes that of a manager, ie to delegate and oversee activities.

# Further information

Connected Cumbria

[www.connectedcumbria.info/ConnectedCumbria/ConnectedCumbriaHome.do](http://www.connectedcumbria.info/ConnectedCumbria/ConnectedCumbriaHome.do)

Dorset for you

[www.dorsetforyou.com](http://www.dorsetforyou.com)

Hampshire Single Non-Emergency Number

[www.hampshirepoliceauthority.org](http://www.hampshirepoliceauthority.org)

Your London

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

EU Directive 2004/18/EC provides for the competitive dialogue as a procurement approach in public sector procurement. 2004/17/EC applies to contracts from public utilities.

Tuckman model

<http://en.wikipedia.org/wiki/Forming-storming-norming-performing>

TUPE

[www.cipd.co.uk](http://www.cipd.co.uk)





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