

# REPORT FOR: **CABINET**

---

<b>Date of Meeting:</b>	18 February 2016
<b>Subject:</b>	Proposal to share HR Services with Buckinghamshire County Council
<b>Key Decision:</b>	Yes
<b>Responsible Officer:</b>	Tom Whiting, Corporate Director of Resources and Commercial
<b>Portfolio Holder:</b>	Councillor Kiran Ramchandani, Portfolio Holder for Performance, Corporate Resources and Policy Development Councillor Sachin Shah, Portfolio Holder for Finance and Major Contracts
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	Yes
<b>Wards affected:</b>	All
<b>Enclosures:</b>	Appendix 1 - Opportunity for Shared HR Service, Business Case

## **Summary and Recommendations**

This report sets out proposals to enter into a shared service with Buckinghamshire County Council for the provision of HR Services to Harrow Council and Buckinghamshire County Council.

### **Recommendations:**

Cabinet is requested to:

Delegate to the Corporate Director of Resources & Commercial, following consultation with the Portfolio Holder for Performance, Corporate Resources & Policy Development and the Portfolio Holder for Finance & Major Contracts, authority to execute an agreement with Buckinghamshire County Council and take any other necessary actions to give effect to the proposals for a new shared HR service detailed in the report.

**Reason:**

The creation of a shared HR Service will support the Council in meeting its MTFS savings targets. It will also allow the development of a resilient and cost effective HR Service to both Councils.

## **Section 2 – Report**

### **Background**

2.1 On the 15<sup>th</sup> January 2014 Cabinet received a report on Project Minerva, which set out, analysed and evaluated the options for achieving cost reductions within the Resources Directorate revenue budgets for 2015/16 onwards. Cabinet resolved to:

- authorise the Corporate Director of Resources to continue exploring the potential for a shared service arrangement with suitable partners; and
- approve the launch of a two-year cost reduction programme aimed at achieving a savings target of 17% (i.e. £2.0m per annum) identified from the options analysis (*which involved specific service areas including Human Resources and Organisational Development*).

2.2 The Corporate Director had a range of discussions with possible shared service partners, and Buckinghamshire County Council ('BCC') expressed interest in exploring a range of opportunities including Organisational Development (OD) and Legal Services and also, more recently, Procurement.

2.3 Previous experience at Harrow and elsewhere is that sharing services across authorities can deliver the following benefits:

- A greater range and depth of expertise;
- Greater capacity from similar resources;
- More flexibility in response to Council demands;
- Reduced cost;
- Improved career opportunities for staff;
- Reduced reliance on external advice;
- Improved ability to recruit and retain the best staff; and
- Greater resilience.

### **Recent Developments**

#### **HRD Service Review & Transformation Project**

2.4 In order to achieve the cost reduction savings target for HR & OD, in 2014 a service review was undertaken and a transformation project implemented to deliver a new HR & OD Service.

2.5 External bodies were commissioned to support the review, which was jointly undertaken by the Chartered Institute of Personnel Development (CIPD) and the Institute of Employment Studies (IES).

## **HR Service**

2.6 The review recommended a new, more cost effective operating model and as a result the following changes to the HR Service model and roles performed within it were made:

- Introduction of an HR Service centre to improve and standardise processes for access of HR services.
- Revised key HR Policies and a redesign of the HR intranet to improve front-end usability and making it easier for users to navigate and to access HR information.
- An integrated Case Management System (CMS) and workflow system for entering, administering and tracking requests for HR support and transactions providing a single source of records.
- Enhanced SAP (HR) systems configuration and functionality to enable effective HR operations and self-service.
- Deployment of a new telephony system to effectively manage and handle HR requests and transactions received by telephone.

## **OD Service**

2.7 The review had also identified the need to improve the capability of the OD Service. However, as the project progressed it became clear that this capability could not be delivered through the transformation. As a consequence, in March 2015, Cabinet received a report on 'Shared Services Developments'<sup>1</sup>, which set out developments in the relationship with BCC and asked Cabinet to welcome the opportunities which a closer relationship with BCC might offer and support the development of a shared OD Service.

2.8 Following Cabinet's agreement an Inter Authority Agreement (IAA) was developed which delegated authority to BCC to deliver the OD Service to Harrow.

## **Project Outcomes**

2.9 The project successfully delivered:

- Achievement of full year savings of £494k from 1st April 2015:
- Delivery of the transformation on time, to agreed quality standards and within budget;
- A smooth transition to the new delivery model;
- Effectively managing the impact and transition for affected staff: and
- Enhanced HR and line management skills and capability aligned to the new service delivery model.
- The shared OD Service with BCC has been successfully operating since April 2015.
- A platform for delivering further savings in the future (2016/17) and beyond).

## **Business case for a shared HR Service**

---

<sup>1</sup> The same report also sought Cabinet's support for shared Legal Services with BCC and following Cabinet's agreement an IAA was developed to effect the part time secondment of the Director of Legal & Governance Services to BCC. Another report elsewhere on this agenda addresses the development of the shared Legal Service.

2.10 Building on the success of the shared OD Service, a project team was established to consider the opportunity for a shared HR Service to include:

- HR advice & guidance/employee relations (casework, policies, change management etc.)
- HR transactions/administration
- HR corporate learning and development
- Payroll & transactions
- Technical payroll
- Teachers pay and pensions

2.11 The project team, which was sponsored by Harrow's Corporate Director Resources & Commercial and the Managing Director Business Enterprise & Business Services for BCC, considered a range of options and has recommended a shared HR Service managed by BCC.

## **Options considered**

### **Do nothing**

2.12 This was not an option given that BCC and Harrow have significant budgetary pressures. This means that their current models will not be viable in the future, with the levels of savings required. With both looking at having to make cuts to their services, the result would be significantly reduced services that would be unable to maintain the capacity and capability to meet future Councils' needs. It is for these reasons that the option to 'Do nothing' or continue operating as today, is not a viable solution.

### **Outsourcing**

2.13 This would require a procurement exercise and for the purposes of the HR Shared Service outsourcing to an external provider was not considered as the way forward as it would limit the savings potential. The findings from Project Minerva were that outsourcing would not generate the savings required. It would also limit the ability to include other councils in the arrangement at a later stage. Additionally, both Councils considered retaining staff with local authority experience and ethos a significant benefit. This effectively ruled out this option, and no further analysis is provided.

### **Shared Service**

2.14 This is where one or more organisations collaborate to provide the same or similar services to each other and/or other organisations; or where one organisation assumes responsibility for running services for others. This would have the benefits of increasing the size of the team, pooling skills and resources, enabling greater resilience and the ability to achieve economies of scale.

2.15 Where one local authority assumes responsibility for running services for others, it means that the lead authority would be the service provider and other authorities would delegate their service delivery to that lead organisation. As a delegation to another public sector organisation there would be no requirement to undertake an expensive and lengthy procurement exercise.

2.16 In all shared services the drawbacks include possible political issues about governance and control of the shared service and opposition from staff, especially around potential transfers of employer and relocation.

2.17 Four options for a shared service were considered through an options appraisal, which evaluated each option against the following objectives:

- Deliver savings
- Create efficiency, capacity, resilience & career opportunities for colleagues
- Maintain or improve customer experience/ satisfaction
- Maximise return on commercial work
- Better use of technology & self-service
- Future proofing

#### Option 1 – Shared Service jointly managed by both Councils

This option and option 3 below offered the best potential to deliver savings and closely meet the other objectives. As a consequence it was decided that this option should be taken forward in developing a Business Case.

#### Option 2 – Shared Service managed by LBH

For Harrow to host the service, a significant increase in the scale of operation (and the corresponding financial investment) would be needed. A key example of this is the payroll service: Harrow currently provides payroll for 48 schools and would need to upscale to take on an additional 187 BCC schools and academies, plus a number of charities and arms-length organisations that BCC currently provide for. This would have significant costs associated with SAP development and other ICT costs. As a consequence it was decided not to take this option forward.

#### Option 3 – Shared Service managed by BCC

This option and option 1 above offered the best potential to deliver savings and closely meet the other objectives. As a consequence it was decided that this option should be taken forward in developing a Business Case.

#### Option 4 – Establishing a trading organisation to provide a shared service

This option offered the best potential to meet all the non-financial objectives. However, the additional time and resources (costs) involved in setting up a Trading Organisation and the larger management team that would be required to operate a trading service meant that this option offered potentially lower savings than options 1 & 3. As a consequence it was decided not to take forward this option at this time, but to consider re-visiting the option at some future point, in the event that both Councils decided to establish a shared service.

2.18 Therefore on the basis of research and taking into account the requirements of both organisations, options 1 and 3 were considered to be the most viable options. Further investigation of these two options was undertaken in order to develop the Business Case and the outcome was that option 3, a shared service managed by BCC, was considered to be the best option and this option is being recommended to members for implementation.

Further information is set out the Business Case attached at Appendix 1.

## **Governance and Service Arrangements**

2.19 The governance and service arrangements for the shared HR Service would be set out in an Inter Authority Agreements (IAA), which will delegate authority to BCC to deliver the shared HR Service to Harrow.

## **Benefits**

2.20 The principle benefit of entering into a shared HR service arrangement is the reduction in cost and additional capacity that this will provide. By entering into a shared service both local authorities are able to benefit from a larger pool of resource and are better able to flex that resource to meet current and future organisational requirements.

2.21 The proposed shared service will also will also facilitate delivery of the savings built in to the MTFS for 2017/18 and 2018/19.

Further details of the benefits are set out in the Business Case at Appendix 1

## **Longer Term Benefits**

2.22 Like many local authorities, Harrow and BCC have invested heavily in technology to deliver efficiencies and optimising the use of IT systems was a key element in Harrow's HR service transformation. Consequently, in developing the HR shared service business case, the potential to generate benefits through sharing IT systems was a major consideration.

2.23 Both Councils currently utilise SAP as their enterprise resource planning (ERP) system which, in addition to supporting HR, also supports the Finance and Procurement functions. The initial evaluation of the cost of integrating the HR elements of SAP indicated that, on its own, this would not support a business case to move to a shared system. However, both Councils consider the potential for longer term savings may be significant and have therefore agreed to jointly review their ERP systems and develop an options appraisal, including consideration of shared IT systems, during 2016.

## **Staffing**

2.24 Establishment of the shared HR & Payroll service would commence with the creation of a new shared management team, which will be employed by BCC. There will be a reduction in the overall number of management posts and amongst the posts that will be deleted is the Harrow post of Divisional Director of HR & OD, which will be replaced by a new post that will lead the shared service for both Councils at divisional director level. Both Councils agree TUPE will apply and affected staff will be formally consulted on the transfer to BCC and on the proposed management structure for the new shared service.

2.25 Current post holders whose posts are deleted and who are not appointed to posts in the new shared service will be at risk of redundancy and, if there is no suitable alternative employment that may be offered as redeployment, those employees would be redundant.

2.26 A second phase, expected by early 2017, would see the transfer of relevant Harrow HR staff to BCC. Again TUPE will apply and affected staff will be formally consulted on the transfer. Staff will transfer on their Harrow pay, terms and conditions and with their continuity of service protected. It is

anticipated that the majority of Harrow staff who transfer would continue to be primarily based at Harrow and staff would be able to work flexibly to meet their own and service needs. Staff would be consulted on any proposals affecting their future working arrangements.

2.27 Any new staff employed in the shared HR service will be employees of BCC and subject to their term and conditions of employment.

## **Implications of the Recommendation**

### **Resources, costs**

As lead authority BCC will be liable for the staffing, infrastructure and support costs of the HR service, which will be recovered from Harrow. At the time of writing the estimated ICT implementation costs have not been fully determined; any decision to proceed with the agreement will be subject to the full costs being confirmed.

### **Performance Issues**

The proposed agreement will include detailed provisions to ensure a quality and timely service is provided.

### **Environmental Implications**

Both Harrow and BCC operate a flexible working model to minimise staff travel, and hence the impact of their operation on the environment. This will be supported in the proposed agreement, through e.g. the provision of hot desks.

### **Risk Management Implications**

These will be dealt with in accordance with provisions in the agreement governing the proposed shared service.

## **Legal Implications**

The shared services arrangements will be documented in an Inter Authority Agreement to be entered into by Harrow and BCC. Under s101 of the Local Government Act 1972 Harrow can arrange for the discharge of its functions by another local authority and there is also a legal basis for the sale and purchase of services between local authorities using s1 of the Local Authorities (Goods and Services) Act 1970.

## **Financial Implications**

The 2016/17 budget report includes total savings of £250k in relation to this proposal (£140k in 2017/18 and a further £110k in 2018/19). The proposed arrangements will enable Harrow to access greater capacity within the reduced budget and enhance the services' ability to exploit future commercial opportunities.

The Business Case proposes that the costs and savings associated with the proposals are shared between Harrow and BCC on a pro rata basis calculated on base costs equating to approximately 40:60 (Harrow:BCC).

The table below is derived from the financial analysis in the Business Case and shows the projected net expenditure and (savings) for Harrow based on the above ratio

	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
	£000	£000	£000
	149	(126)	(267)
Cumulative	149	23	(244)

The financial analysis allows for a tolerance of +/- 20% on both costs and savings.

The 2016/17 costs of £149k will be funded from in year salary savings arising from the creation of the new shared management team, and a reduction in the overall number of management posts.

Provision of £100k has been made within the 2016/17 Capital programme to meet Harrow's share of the estimated ICT capital implementation costs. The estimated revenue costs will be met from existing budget provision.

Harrow's share of the cost of redundancies will be met from the MTFS provision.

There will be pension transfer implications of Harrow staff, in the Local Government Pension Scheme, being transferred to BCC. The standard procedure in such cases is for each Pension Fund to value the cost of transfer in accordance with their own Valuation assumptions. Any difference will be subject to negotiation and there is the option to seek a third party independent valuation, the results of which are binding. The cost of pension transfer is currently being considered. If the pension transfer value is agreed at a rate that is higher than the value held by the Harrow Pension Fund, the cost will have to be met by the Resources budget. Alternatively consideration will have to be given to officers remaining employed by their current employer within the shared service arrangement.

## **Equalities Implications**

Overall, the profile of the affected HR staff in scope is broadly similar to that of the Council workforce i.e. the workforce is primarily female (83%), a small minority declare themselves as disabled (3.5%) and a significant proportion are BAME (38%). The proposed structure is likely to result in a small reduction in posts across both councils, creating a risk of redundancy affecting all HR staff in scope and this may lead to a possible adverse impact on the numbers of staff with specific protected characteristics.

Positive action will be taken to ensure all the affected staff are able to access information and appropriate support throughout the consultation and implementation phases of the project and any selection process will be fair and transparent and in line with the Council's Protocol for Managing Organisational Change.

Any potential impact will be mitigated through consultation with affected staff and their trade union representatives and there is a commitment to supporting

staff throughout the change programme. The EQIA will be reviewed and updated throughout the project

## Council Priorities

The Council's vision:

### Working Together to Make a Difference for Harrow

The Council wants to be a modern, efficient Council, able to meet the challenges ahead. It aims to protect frontline services by delivering support functions in the most cost effective way, including collaborating with other local authorities on shared services and in doing so contribute to the effective delivery of all the Council's priorities.

- Making a difference for the vulnerable
- Making a difference for communities
- Making a difference for local businesses
- Making a difference for families

The recommendation supports the Corporate Plan 2015-2019 – Work with our partners and other councils to explore further opportunities for integrated and shared services.

## Section 3 - Statutory Officer Clearance

Name: Sharon Daniels	<input checked="" type="checkbox"/>	on behalf of the Chief Financial Officer
Date: 19 January 2016		
Name: Matthew Adams	<input checked="" type="checkbox"/>	on behalf of the Monitoring Officer
Date: 12 January 2016		

<b>Ward Councillors notified:</b>	<b>No</b> , as it impacts on all Wards
<b>EqIA carried out:</b>	<b>Yes</b>

## **Section 4 - Contact Details and Background Papers**

**Contact:** Jon Turner, Divisional Director of HR & OD

**Email:** jon.turner@harrow.gov.uk

**DD:** 020 8424 1225

### **Background Papers:**

Cabinet, 15 January 2014 – Report on Project Minerva

<http://www.harrow.gov.uk/www2/documents/g61435/Public%20reports%20pack%20Wednesday%2015-Jan-2014%2018.30%20Cabinet.pdf?T=10>

Cabinet, 19 March 2015 – Report on Shared Services Developments

<http://www.harrow.gov.uk/www2/documents/g62361/Public%20reports%20pack%20Thursday%2019-Mar-2015%2018.30%20Cabinet.pdf?T=10>

<b>Call-In Waived by the Chairman of Overview and Scrutiny Committee</b>	<b>NOT APPLICABLE</b>  <i>[Call-in applies]</i>
--	---