June 2011

Clyde Valley Shared Services

UNISON Scotland

BARGAINING BRIEFING

Introduction

This briefing sets out UNISON Scotland's initial response to the outline proposals for shared services by the Clyde Valley Councils. We focus on the support services workstream that proposes sharing finance, payroll, revenues & benefits, human resources, IT and customer services across seven councils in the Clyde Valley area.

Despite the claims that this is "the most ambitious shared service project currently being taken forward in the UK", it has been developed in conditions of secrecy without proper input from the staff who deliver the service and their representatives. Despite Sir John's own approach and the recommendations in his report, it is typical of the 'top down', consultant led approach that has led to many of the worst examples of poor project management in Scotland and the UK.

Shared Services Approach

UNISON is not opposed to public bodies sharing services. In fact we have argued that it is one of the benefits of the collaborative Scottish public service model. What we are opposed to is the creation public service factories for so called 'back office' services. This is an outdated approach that has been widely criticised as a flawed model. Most recently in the Christie Commission report that states:

"4.47 Engaging staff in the design of services is reflected in the concept of systems thinking. In this approach service providers study demand to find out what works for users. Systems are designed against that demand and improvements achieved by managing demand and flow. The cost of a service is in flow, not transaction. Failure demand represents poorly designed flow which organisations can control. Studies show that as much as 80 per cent of transactions handled in traditional call centres relate to failure demand.

The systems approach to designing the housing benefits service teaches that sharing back offices will lead to high costs and poor service; having a back office itself is a design mistake. Housing benefits is best designed as a front-office service. Whenever people turn up to get the service, they should be met by someone who can help them through it. As soon as you create a split between front and back office, you also create waste. To do the same on a larger scale is to mass produce it.

Systems Thinking in the Public Sector - John Seddon"

Sir John Arbuthnott in the Clyde Valley Review highlighted that only 15% of costs are in the 'back office' and his inverted triangle model illustrated that the focus should be elsewhere. He said "A good deal of time and resource had been spent on this area but with little benefit evidenced or delivered…" It is therefore strange that this ends up as the major proposal by the lead councils.

The business case states that this approach will drive improvements "achieved by other successful shared service operations". While there are plenty of <u>projected</u> successes, there are few actual examples of delivery success. There are many more where they have failed, most notably in Liverpool where the council's own internal audit showed that BT overcharged by some £10m per annum.

Financial assumptions

The report makes sweeping financial assumptions but does not provide any background evidence to support these assumptions. In the 'summary of key conclusions', a range of financial projections are made suggesting at one extreme that savings on a cumulative basis could be up to '£240 m over a ten year period' in exchange for an investment of between £29 m and £32 m. Even the return on investment ratios are poor in light of the National Audit Office criticisms of shared service proposals. The investment route is not detailed and there are no satisfactory calculations as to where the subsequent savings would be made. UNISON would therefore question these figures.

Is it assumed that savings will be from reductions in staffing, assets, transaction costs or reduced demand? What is the proportion of assumed savings to arrive at these seductive savings figures? In advance of seeing much more robust detail, and a breakdown of how savings would be arrived at, UNISON could not support the financial assumptions. Indeed there is a more realistic view that such savings would not be achievable.

For example, £16m for systems and infrastructure is hugely optimistic given the range of different systems (council tax, housing benefit, finance etc) councils in the Clyde Valley current operate. The (suspiciously) exact same amount for staff release costs also looks very low when measured against the actual cost of comparable early release programmes in the Clyde Valley councils.

This type of shared service also has a strong tendency towards hiding the real costs by displacing expenditure to operational departments. UNISON has considerable experience of this approach in the private sector and the results show that while paper savings are made in support functions, operational staff simply end up performing many of the tasks, often badly, at greater cost, and at the expense of front line delivery.

The work done by Vanguard (systems thinking, see above) on these functions across the UK has shown that as much as 80% of the transactions in these back office arrangements are dealing with failure demand. That is an unforgivable waste of public money in the current environment.

Creating a public –public arms length organisation is the best option for taking the shared service forward

The report suggests that 'creating a public – public arms length organisation is the best option for taking the shared service forward', and goes on to say that this should be facilitated through a wholly owned trading company. UNISON has serious concerns about this suggestion. Firstly, there is scant consideration of other workable shared service models. For example the highly successful Tayside Contracts shared service arrangement has generated considerable savings, and indeed dividends to its member authorities, without the need for a formal company structure. There are numerous examples throughout the UK of effective shared service delivery being carried out through delegated authority to a shared committee or joint board, without the complexities of a company structure. This approach is reflected in the Scottish Government shared services guidance.

The trading company model raises a number of issues including:

Taxation analysis: Within local authorities there are potential taxation advantages in relation to VAT on both capital and revenue streams, which have not been explored in relation to a Trading Company model. What impact would a company model have on VAT? The Trading Company also raises the spectre of corporation tax to which generally local authorities are not liable. Again there is no analysis of this issue.

Public procurement: A further issue is that of exposure to unnecessary public procurement exercises. Whilst generally there are 'Teckal' exemptions allowing the award of local authority contracts to wholly owned companies UNISON would like a legal appraisal of the procurement / outsourcing risk of contracts being awarded to the company. We need assurances that the company structure proposed would not lead to disadvantageous and expensive competitive tendering processes for the award of local authority work once the company was in operation.

We also believe that the role of the private sector is being played down in the business case. There are already long contracts with private sector suppliers for parts of these services in several councils and it is unclear how these are to be addressed. We suspect that "necessary private sector expertise and innovation" is cover for more extensive involvement than is being admitted.

Workforce matters

The business case is almost silent on workforce matters, other than massive job losses without any evidence as to how these are to be achieved. Issues like harmonisation of terms and conditions, equal pay etc are ignored. In addition there is no Equality Impact assessment, a statutory requirement.

The report assumes a pot of some £16 m (from an overall pot of £32 m) would be set aside to deal with staffing reductions including redundancy. This is based on assuming losses of around 25% (or 800 jobs) of total jobs some of which are predicated on a belief that existing staff turnover levels will continue. All of the current evidence points to a slowing down of staff turnover due to the uncertainties in the wider jobs market and the impact of recession. Therefore UNISON questions the adequacy of the set aside pot of £16m to address staffing issues.

On the issue of pensions, whilst all the authorities have existing rights to the LGPS scheme, there are no references to any future new starters to the contract being accepted as new entrants to the LGPS scheme, as required by s52 provisions, and again UNISON would need to be assured of this approach.

Local economic impact

Research by APSE, which is an independent not for profit organisation, has indentified an economic return of between £1.64 and £2.00 for every local authority pound spent in the local economy. The report does not identity the potential detrimental impact to local economies if services are aggregated and condensed into one or two 'super locations' to deliver the services. This could of course lead to 'jobs envy' between local authorities. The potential negative impact of supposed 'economies of scale' delivery models, could in fact provide adverse consequences for local economies, within local areas, of the member councils.

The proposed trading company could exacerbate these issues. Shared service platforms through an 'administrative model' (joint board or joint committee) would allow each local authority to take a lead in one of the identified areas, to share the 'economic spoils' more equitably amongst the member authorities. This model would also avoid the need for TUPE transfers of staff and expensive and complex company set- up arrangements.

Councils delivering 'right first time' services in local communities provide a better service and support the local economy.

Managing and minimising risk

On any trading arrangement where assumptions are made as to staff reductions and savings based on new technologies there are identifiable risks.

Staffing risk sits with the misapplication or both TUPE and redundancy situations as well as the miscalculation of the job numbers needed to fulfil contract operations. A trading company places all of this risk upfront, whereas, other models of shared services do not. It is perfectly possible under an administrative based arrangement to second staff into the shared service projects and allows fluidity between councils on staff and continuity of employment.

On a similar basis, as each of the authorities would be expected to take on an equitable share in a trading company model, that must be matched also by risk should there be a contract failure. Risk of costs overruns, liabilities and technological failure is placed on all the shareholders (the local councils) who are party to the company. Whilst this issue still exists with any shared service model, an administrative based model on pockets of services (as opposed to all services within one company), can be better spread and managed directly by the local authority as opposed to being removed from democratic governance arrangements on an arms length basis.

The UK government's welfare reform proposals include plans to incorporate housing benefit into the new Universal Credit. This could involve the transfer of this function to the DWP. There are also major changes planned for Council Tax Benefit. These risks do not appear to have been properly considered.

Conclusion

UNISON supports the development of some models of shared services in order to improve both service delivery and future sustainability of services and jobs. However, we are unable to support the current proposals in relation to Clyde Valley for the reasons indentified:

- Large scale 'back office' shared services is an outdated and flawed approach as highlighted in the Christie Commission and elsewhere across the UK;
- There are too many unquantified assumptions made as to future savings which are simply not evidenced;
- There are risks of significant and unfairly distributed job losses and inadequate funding for changes;
- The Trading Company model is not the most appropriate way in which to provide shared services;
- There has been no evidence of any taxation analysis or financial risk;
- There has been no exploration of local economic impact;
- There is no evidence of effective routes to democratic governance and accountability;

The top down approach to the development of this proposal is reminiscent of the worst examples of public service procurement in the Scotland. If councils in the Clyde Valley want to avoid another fiasco like the Edinburgh Trams, then a new direction is urgently required.

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