

PLYMOUTH CITY COUNCIL

Subject: Strategic Options for Corporate Support Services

Committee: Cabinet

Date: 25 July 2017

Cabinet Member: Cllr Darcy, Cllr Jordan and Cllr Riley

CMT Member: Andrew Hardingham and Dawn Auger

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Ref:

Key Decision: No

Part: I

Purpose of the report:

This report recommends to Cabinet a shared services strategy for back office services based on a strategic outline business case. It presents the proposed outcomes sought by the Council from the delivery of its back office/support services and the options considered to best achieve these outcomes. The report then describes the analysis performed to compare the options and proposes the creation of a shared services operation. The final section of the report is to apply a five case analysis to the option of a shared service, to consider it from multiple perspectives in order to confirm the recommendation.

The vehicle for delivering the strategy is recommended as Delt, noting that Delt will require expansion for this to be possible. The report also recommends the services to be considered for migration, subject to adoption of the strategy proposed.

The Corporate Plan 2016 - 19:

The business case shows how the recommendations deliver our Pioneering vision through supporting the themes:

1. Balancing the books – through the delivery of savings and income
2. New ways of working – through a new model for service delivery
3. Best use of Council assets – though using these services further integrate with partners and develop a platform for economic growth
4. Working constructively with everyone – through supporting greater integration across partner organisations

It supports our Growing vision through supporting the theme:

- Quality jobs and valuable skills – through developing a shared service organisation with growth potential

It supports our Caring vision through supporting closer integration with health partners in order to indirectly enable all the themes.

It supports our Confident vision through supporting the theme:

- Setting the direction for the South West – through creating an innovative new vehicle to deliver integration across the public sector building on the success of Delt's IT service offering.

**Implications for Medium Term Financial Plan and Resource Implications:
Including finance, human, IT and land:**

The recommendation in this report sets the strategy for the delivery of the savings target in FY 18/19 for back office services. The report also proposes the transfer of up to 410 staff to Delt, the transfers would occur in phases and over the course of the next 2 years.

The transferred staff are recommended to be TUPE transferred to Delt. Over the next 6 to 9 months Delt are undergoing a project of organisational development which will further cement their ways of working into an operating model ensuring a consistent service delivery capability regardless of which member of staff was involved. In this way they will be able to professionally induct transferred staff with a view to ensuring new staff are given clear expectations of how to conduct themselves.

Subject to approval of the recommendations in this report subsequent cases will be advanced to describe the transition of services over the course of the next 18 months to 2 years. Each service will have its own case for change made to Cabinet and decisions on these papers will determine whether they are transferred or not.

Other Implications: e.g. Child Poverty, Community Safety, Health and Safety and Risk Management:

These implications will be given more consideration in the detailed business cases for each phase of transition. At this stage there are no implications for these outcomes anticipated despite the potential for Health and Safety and Risk Management possibly being subject to transfer.

Equality and Diversity:

Has an Equality Impact Assessment been undertaken? Yes/No

Recommendations and Reasons for recommended action:

That Cabinet approve the proposal to develop business cases and service specifications for services that might be transferred to Delt. These cases will be reviewed by Scrutiny and Cabinet for approval before a transfer takes place. Any services approved for transfer would expand the services offerings that Delt can demonstrate to other prospective partners and clients.

Recommendations made by the Place and Corporate Overview and Scrutiny Panel are included in this report with recommended responses.

Alternative options considered and rejected:

The following options have been considered and are rejected as a result of the approval of the recommendations made in this report:

Services to remain in house

Transfer services into joint venture with a private sector partner

Transfer services into an outsourced operation with a private sector operator

Published work / information:

Treasury guidance for public sector investment

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/469317/green_book_guidance_public_sector_business_cases_2015_update.pdf

Cabinet report creating Delt :

<http://democracy.plymouth.gov.uk/documents/s49832/ICT%20Shared%20Services%20DELT.pdf>

Delt company vision and values: <http://www.deltservices.co.uk/about/visions-values>

Background papers:

Title	Part I	Part II	Exemption Paragraph Number							
			1	2	3	4	5	6	7	


Sign off:

Fin	<u>AKH</u> <u>1718</u> <u>.105</u>	Leg	lt/289 79/15 09	Mon Off	lt/dvs/ 2897 9/150 9	HR		Assets		IT		Strat Proc	
Originating SMT Member Andrew Hardingham and Dawn Aunger													
Has the Cabinet Member(s) agreed the content of the report? Yes / No													

1.0 Introduction

1.1 This report presents a Strategic Outline Case (SOC) based on the guidance published by the Treasury using the five case model to set out the arguments. The scope of services considered within the report is as follows:

Services considered in scope



- **HR**
 - Payroll (now in Service Centre)
 - Recruitment (now in Service Centre)
 - Organisation Development
 - Health and Safety
 - HR Advisory
 - HR systems team (now in Service Centre)
- **Finance**
 - Assurance services
 - Procurement
- **Transformation**
 - Portfolio Office
- **Customer Services**
 - Digital team
 - Service Centre
 - Contact Centre
 - Shop
 - Service Improvement
- **Legal**
 - Operations
 - Business Services (in Service Centre as of 1 Sept.)


This represents a maximum number of just over 400 Full time equivalent staff

All the above would be subject to Full business cases

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As noted above the maximum number of staff in scope would be just over 400 full time equivalents. Details on the specific sections within these departments proposed for consideration are included in Appendix I of the report. The budget represented by these services is shown below:

Financial Case



	2017/18 Budget (£)
Expenditure	
Employee costs	14,131,349
Building costs	8,747
Vehicle costs	37,254
Supplies costs	1,565,337
Support Services costs	967,734
Total Expenditure	16,710,421
Income	
Grant income	-1,633,047
Recharges	-2,357,666
Revenue & other Income	-2,153,677
Total Income	-6,144,390
TOTAL	10,566,031

Direct cost of services considered in scope £15.7m

 £2.1m of earned income

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1.2 The conclusion reached is that our existing back office services would provide more value to PCC and Plymouth through them being delivered via a public sector shared service provider and Delt is recommended as the best-fit. Based on that conclusion the recommendation is that functions are considered progressively and individually as candidates for migration to Delt

over the following 18 months to 2 years. This consideration to take the form of a detailed business case for each of the services, requiring political approval before any transfer takes place.

- 1.3 The context for this analysis involved a number of complex factors. Firstly, savings delivered from back office services are likely to be the product of:
- scale
 - automation and
 - productivity

these drivers are all made more achievable by moving the services to Delt where growth is part of the business plan, technology is the current core business and investment in people with a highly engaged and motivated workforce is part of the offer.

- 1.4 Secondly, the Sustainability and Transformation Plans (STPs) across the NHS are currently being clearly focused on delivering savings through shared services. In Devon this work is following parallel process to this case with Chief Executives of the major NHS commissioning bodies and providers considering their case for shared services in June. By default, the most obvious services to share would be those of other NHS service providers, however the opportunity to share services between health and local authorities offer access to additional value drivers for them and us which should be explored. The directive to the STPs suggests they need to have set these shared services up by April 2018 in order to start delivering savings thereafter.

- 1.5 The Delt business plan responds to the request from PCC and (the CCG) to describe an intention to grow the services it offers to partners and clients and the intention to bring new clients/partners into Delt. This intention is based on the expectations established in the business case that led to the creation of Delt. In turn the business case was based on a desire to develop more high value jobs within the economy in Plymouth, something Delt have succeeded in delivering.

- 1.6 The MTFs includes a budget saving in FY 18/19 of £2.17m, of which £500k is to be delivered from services in scope of these proposals, with a further £0.42m already projected in FY 19/20. Savings on this scale, coming on top of significant previous efficiency savings will require scale, automation and productivity to be raised in order to achieve that level of efficiency.

- 1.7 The challenges faced by the health sector are also leading to proposals that could see the realignment of the major service provider organisations and the commissioning bodies. These changes could mean that the New Devon CCG who are currently a co-owner with PCC in Delt could be consolidated into a new structure. In which case this will raise questions about whether Delt should provide services for the new structure or whether the new structure should review its suppliers for ICT services and potentially source away from Delt.

- 1.8 Delt has proven over the last 2 years to be both a capable and sustainable service delivery vehicle delivering a range of outcomes and benefits to the Council and Plymouth, including:
- The most recent set of financial results (to March 31st 2017) shows that turnover of £14m delivered an operating surplus of £1.5m. As a result the company has been able to declare a distribution to shareholders of £600k, one year ahead of expectations in the original business plan. PCC's share of that distribution is £480k.
 - Budget savings of nearly £400k on the service charge for operating the IT systems for the Council between FY 16/17 and FY 17/18.

- The ROCE of the £1.5m operating surplus is 54%.
- Investment of £250k in 3rd party cyber security monitoring – helping minimise the impact of the recent (WannaCry) ransomware attack that hit the NHS in May 2017
- Extended opening hours from 8am – 5pm to 7.30am – 7pm at no additional cost
- In deploying shared care records across NEW Devon, 90% of GP Practices across Devon with 665,000 health records are now available to out of hours clinicians.

1.9 For all these reasons there appears to be an opportunity to migrate services into Delt in order to show the way to either Health or other peninsular based local authorities. In this way PCC would hope to move Delt from an organisation being ready to provide shared services to actually delivering shared services. This proposal would also support the commercial strategy by moving services into a vehicle with the support and motivation to maximise the commercial value of those propositions that are marketable.

1.10 The proposals made in this report were discussed at the Place and Corporate Overview and Scrutiny Panel on the 6 September 2017. The panel made a number of recommendations, which are detailed below alongside a proposed response:

Scrutiny Recommendation	Proposed Response
1/. That the Scrutiny Committee support the mandatory outcomes as set out within the report, but with the addition of “Jobs and investment being retained on the peninsula”, and “that partners are based in the public or VCS sectors” as mandatory rather than desirable outcomes	<u>Noted</u> , the Council will encourage Delt to continue to focus on public and VCS sector partners and to deliver jobs and investment on the peninsular (consistent with Delt’s constitution and business plan ¹) but wishes to avoid attempting to place an absolute restriction on Delt’s future business by suggesting this is mandatory at this stage
2/. That Plymouth City Council to work with DELT to achieve Trade Union recognition before proceeding to business case and service specification development	<u>Accepted</u> , the consideration of business cases or service specifications will not be undertaken before engagement between Delt and Trade Unions has taken place. The Council are committed to finding an effective and scalable mechanism to safeguard the interests of staff working to deliver services for the Council
3/. That Subject to recommendation 2, that a cross-party working group be established to consider the of business cases as they are developed	<u>Accepted</u> , business cases and service specifications for services to be considered for transfer will be brought to the working group for pre decision consideration.
4/. That Trade Unions in the council continue to be involved in the process through the Joint Strategic Consultative Forum	<u>Accepted</u> , the Council remain committed to involving the Trade Unions throughout the process
5/. That the Scrutiny Committee will further consider business cases and service specifications as and when they are developed	<u>Accepted</u> , business cases and service specifications for services to be considered for transfer will be brought to Scrutiny for pre decision Scrutiny
6/. That officers address the issues of future influence of councillors and future public sector ownership of DELT	<u>Accepted</u> , officers are researching options and structures to be put in place to ensure that Councillors are able to engage with and have some oversight of Delt and other arm’s length organisations delivering services on behalf of the Council
7/. That when considering which services to move to business case the Scrutiny Committee asks that Cabinet work within the principle that transactional services are considered first	<u>Accepted</u> , the first phase of services considered for transfer will focus on transactional services.

¹ See links for more details:
www.deltservices.co.uk/about/visions-values
www.deltservices.co.uk/about/business-plan

2 Outcomes

- 2.1 Any change toward a different model for delivery of back office services will be required to demonstrate service improvement and savings/budget reductions where possible. Understanding and defining these outcomes is critical to our ability to evaluate the suitability of options. The following outcomes are proposed to be mandatory for any shared service model:
- 2.1.1 Customer/patient experience
Through selecting partners appropriately, the shared service would be able to simplify and improve the experience delivered to their service users. This could take the form of rationalising contacts between different agencies as a result of better sharing of data – for example alignment of assessment processes for benefits, care and health. It could also provide opportunities to present a single front door to more services through co-location or even multi skilling and shared service provision. For internally focused services, such as payroll queries, the same logic would apply that a single front door for staff across the organisation would offer the opportunity for savings and/or service improvement. It is also important that the organisations contracting the shared service need to know that their customers are receiving a service level that is acceptable to them.
- 2.1.2 Delivery of savings through 'lowest' net cost per transaction/service
Whilst delivery of savings is not the only driver for a solution it is expected that any recommendation for change should be demonstrably as cost effective as any other alternative service delivery mechanism (with the exception of an off shore service provider). In this way it should be impossible for an outsource proposition to sustainably deliver a lower cost per service / transaction than the proposed true shared service solution that Delt could deliver.
- 2.1.3 Resilience
Services that have been reshaped over recent years, in response to austerity, are now vulnerable (to the point of failure) to the loss of one or two skilled resources. This outcome would require that solutions are assessed to ensure they provide some inherent improvement in the level of resilience of services provided. Through raising the scale of operation from supporting just one client to supporting multiple clients it will become possible to afford to employ more than one specialist in each field, such that if required there is cover for resources who have become a single point of failure.
- 2.1.4 Delivery of savings through 'lowest' annual cost to serve
This outcome recognises that partners in the shared service should also be able to see how their combined scale and combined services can be leveraged to reduce the cost to serve each customer. It requires that the shared service is able to manage the services it provides with a view to maximising the value of each interaction and so reducing the overall number of interactions in order to reduce the cost to serve. For example, combining assessments for Housing Benefits with other social care and/or health needs assessments or simply having one payroll system/provision for a range of partners.
- 2.1.5 Provide service in line with agreed parameters
Delt was established with a view to facilitating greater integration between public sector partners in the South West, by so doing the first 2 years of operation have proven that this way of working can also deliver savings. Within this context the implication of this outcome is that service standards can be agreed with the organisations contributing to the shared service

and that the cost of increasing the standards or the savings from reducing them can be modelled, shared with a client and an optimum cost to serve point agreed.

2.1.6 Positive business case – cashflow profile (NPV) & payback

Any investment made in pursuit of a shared service model needs to be considered as a formal business case with the payback period on the investment and the cashflow profile (net present value or otherwise) both deemed acceptable.

2.2.2 The following outcomes are proposed to be desirable for any shared service model:

2.2.1 Jobs and investment retained in the region

Retaining high value roles within the region is proposed as a desirable rather than mandatory outcome. If a proposal was explored that offered say £1m savings on the basis that much of the work currently delivered in Plymouth was moved to Middlesbrough, for the sake of example, the prospect of being able to reinvest £1m back into front line services would require careful consideration. The impact of moving substantial numbers of jobs and the supply chain impact of this on the local economy would also have to be balanced against this.

2.2.2 Partners in the shared service are based in the public sector or social/voluntary sector and also share the same customers or conduct the same business

This outcome proposes that our best partners will be those who understand the demands of a public sector service provider and either:

- Service an overlapping group of customers as other partners in the shared service, for example PCC and Derriford hospital, or
- Do the same thing in different geographies, for example Derriford hospital and Royal Devon and Exeter hospital.

The benefits of overlapping customers are that this should help us combine customer service functions to reduce the overall cost to serve. The benefits of partners doing the same thing is that economies of scale and common operating procedures should increase resilience in the service provision and reduce costs.

2.2.3 Income generation

The ability to sell services to additional 3rd parties would be of benefit in at least 2 ways, firstly it would provide demonstrable evidence that the shared service model could achieve a market competitive cost to serve level. Secondly, the additional income and margin achieved on this could be used to invest further in the shared service model to reduce costs further.

2.2.4 Note: assuming Delt is the delivery vehicle for income generation there are some limits on the extent and source of external revenue generation. Firstly as currently constituted PCC benefited from Delt being established under a “Teckal exemption” which allows public bodies to avoid the full extent of public procurement laws. This shortens the time and reduces the effort/cost of set up for a local authority. The exemption limits, to 20% of total turnover, the revenue generated from business outside of the public sector partner's. The exemption also demands that PCC would retain control over the service delivery similar to the level of control that it retains over in house service delivery. Secondly, the generation of additional revenue will be constrained by the investment Delt are able to make in sales and business development efforts. It is believed that currently the limited capacity on these functions are best spent focused on attracting business from other public sector clients/partners.

¹ Note: increasing the service revenue in Delt from PCC would increase the absolute amount that Delt are able to generate from commercial activity. Under current ownership arrangements 70% of the profit from this work would accrue to PCC.

- 2.2.5 One outcome specifically not included as either mandatory or desirable is the status quo on ownership of Delt. It is understood that for substantial organisations such as the major health providers to consider transfer of services to Delt they may require more control than a service specification and contract offers. In these cases PCC would be open to the option of considering options around future ownership models provided any future owners/co-owners honoured existing obligations such as Teckal and remained committed to the [Delt vision and values](#).

3 Delivery Options

- 3.1 The following list of delivery options have been considered:

3.1.1 **Remain as is - PCC (Transactional) Service Centre**

Specifically this option would deliver the development of the transactional service centre through the consolidation of HR Business Services with the Transaction Centre in Finance and the back office functions in Customer Services. The services would be managed consistently, with a single telephony platform, consolidated MIS and a restructure implemented to standardise spans of control and exploit economies of scale in support functions.

3.1.2. **Optimise PCC Service Centre (add specialist services)**

This option would look to co-locate the services consolidated in option 1, it would also look at the case for transferring specialist services and business partners into the service centre. Essentially it would be seeking to extend option 1 without requiring a major investment to replace systems.

3.1.3. **Optimise & move to new ERP/Systems solution**

This option builds on options 1 and 2 with an additional investment in replacement/enhancement of systems to enable more efficient processing through automation and productivity improvements.

3.1.4 **Joint Venture**

This option requires PCC selecting and contracting with a 3rd party private sector partner with whom we would agree to develop a joint venture to provide services to PCC, with a view to expanding the scope of the operation in time to other customers/partners in the venture.

3.1.5 **Outsourcing**

Under this option PCC would select and procure a provider of outsourcing services covering the back office. PCC would pay a fixed fee (likely to decline over time) for a defined set of outputs/outcomes from the services in scope. Changes to the required outcomes/outputs would be managed by change control to the contract.

3.1.6. **Single partner shared services**

PCC would find a partner organisation who wanted to share services in pursuit of similar outcomes. This option is illustrated by Delt which is the delivery vehicle for IT shared services with the CCG. Just as has been the case with Delt the shared service is then likely to seek additional customers/partners.

3.1.7 **Multi partner shared services**

PCC works with multiple other organisations who want to share services in pursuit of similar outcomes. This option is illustrated by Orbis in Surrey and LGSS where 3 partner organisations (Cambridgeshire, Northamptonshire and Milton Keynes Council) have formed a

multi partner shared service model and deliver services to the partners as well as a number of other public sector customers.

4 Initial Conclusion

- 4.1 The conclusion drawn from assessing these options against the identified criteria is that the best fit is likely to be the option of shared services with Delt as the starting point for the vehicle into which PCC places its services. This conclusion echoes the analysis and conclusion drawn when Delt was created and since then Delt have proven themselves as a capable and sustainable delivery vehicle for ICT services to both PCC and CCG. This report provides a more substantial justification for this conclusion through a recognised public sector business case to explore the arguments for and against this option in order to confirm or eliminate it from consideration. The balance of this report explores this analysis using the Treasury's 5 case model.

5 The 5 case model

- 5.1 Treasury guidance on how to justify public sector investment proposes 5 cases are explored in order to fully consider all elements of an investment decision such as this. The 5 cases are as follows:
- 1 The strategic case – describes the support the proposal provides to the strategic direction for the Council and our partners.
 - 2 The economic case – describes the impact the proposal would have on the local economy.
 - 3 The commercial case – explains how the procurement process would work and how the arrangements will be structured to ensure a good deal.
 - 4 The financial case – explains how the proposal represents an affordable and funded deal structure.
 - 5 The management case – describes how the work to deliver the proposal will be delivered and controlled.

A link to the [guidance issued by the Treasury](#) to explain the use of these cases is included in the related documents section of this report.

- 5.2 Each case is detailed and presented as a series of arguments and analysis proposing the changes, the risks and counter arguments for the change will also be described alongside mitigations. These sections are included as appendix A3 to A7 to this report.

Appendix I – Proposed phasing and scope of services to be transitioned

Scope of shared services operations - by organisation			
Department	Function	Phase	
HR	Payroll	1	
	Pensions	1	
	Recruitment	1	
	iTrent System Admin	1	
	Health and Safety	2	
	Business Partners	3	
	Organisation development and talent	3	
	HR Specialist Services	2	
Finance	<u>Transaction Centre</u>	1	
	Civica System Admin	1	
	Procurement	1	
	Financial Advisors	Not to be moved	
	Hard FM	Separate case	
	Soft FM	Separate case	
	Treasury management operations	2	
	Treasury management strategy	Not to be moved	
<u>Assurance services</u>	2		
Commercial Enterprise	Not to be moved		
Financial Planning and Reporting	Not to be moved		
Integrated Finance	2		
Transformation Financial Analyst	Not to be moved		
Customer Services	Academy System Admin	1	Separated out from Customer Services in order to align all system admin in one place
	Customer Services	3	
	Digital Services	1	
	Registration	Not to be moved	
Libraries	Not to be moved		
Legal	Coroner	Not to be moved	
	Professional legal services	3	To a new vehicle with appropriate articles and ABS
	Electoral Services	Not to be moved	
	Operations	2	
Transformation	Portfolio office (all staff)	2	0

**Appendix 2 - Shared Service Options
Evaluation**

Assessment criteria		Option 1 - Create a transactional centre for PCC	Option 2 - Optimise a PCC service centre	Option 3 - Move to new ERP/systems	Option 4 - Create a joint venture	Option 5 - Outsourcing	Option 6 - single partner shared service	Option 7 - Multi party shared service
Mandatory	Customer/patient experience	1	1	1	1	1	1	1
Mandatory	Transaction costs	1	1	1	1	1	1	1
Mandatory	Resilience	1	1	1	1	1	1	1
Mandatory	Cost to serve						1	1
Mandatory	Service levels	1	1	1	1	1	1	1
Mandatory	Business case	1	1	1	1	1	1	1
Conclusion		Possible staging not a destination	Possible staging not a destination	Possible staging not a destination	Possible staging not a destination	Possible staging not a destination	Pass	Pass
Desirable	Jobs and investment	5	5	5	4	3	4	4
Desirable	Partner fit						5	5
Desirable	Income generation	1	1	2	3	3	4	5
Desirable	Cross party support	5	5	3	2	2	5	5
Desirable	Duration to deliver	5	4	2	3	3	3	2
Desirable	Affordability of solution	5	3	1	3	3	3	3
Desirable	Benefits of solution	1	2	3	2	2	3	4
Total (unweighted)		22	20	16	17	16	27	28

Mandatory criteria require at least a score of 1 to pass

Desirable criteria scored out of a maximum of 5 (higher score more attractive)

1 = Very poor fit with desired outcome

2 = Limited fit with desired outcome

3 = Partial fit with desired outcome

4 = Good fit with desired outcome

5 = Optimal fit with desired outcome

A3.1 The Strategic case

A3.1.1 There are a number of strategies/statements of direction that are supported by the proposal made in this case; specifically 5 are covered in this analysis:

- The Sustainability and Transformation Programme (STP) plans in Health
- The Joint Local Plan
- The Delt business Plan
- The Transformation and Change vision for the directorate
- Appeal of Delt to other public sector partners/customers

A3.1.2 The Sustainability and Transformation Programme (STP) plans in Health

A3.1.2.1 All STPs across the country have recently received guidance on the target savings expected from them and in the case of New Devon, the strategy to deliver these savings is to focus on combining back office services into shared services operations. The magnitude of the savings expected and the timescales are demanding - £5m in FY 17/18 followed by an additional £12m in FY 18/19 across a system that is estimated to cost £65m pa by that date (this is a saving of over 18%).

A3.1.2.2 Subject to approval of this case, when PCC start migrating services such as Payroll (for example) to Delt, this will demonstrate Delt's ability to operate as a true shared services provider (as opposed to an IT shared service provider). On that basis if partners in health provision are also convinced to move their services to Delt this will create scale and potential to automate which will contribute to the STP savings target and help improve customer/patient service provision through closer binding of across the health and social care system.

A3.1.2.3 Beyond the potential for sharing services to reduce costs if Delt can be positioned as a provider of back office services for the Council and Health providers it will enable closer integration of service delivery to citizens/patients/clients (whatever language best describes service users). For example, if HR advisory services for health and social care providers could be shared then it could present significant opportunities to integrate role profiles for staff from these organisations to remove existing duplication and create deeper specialisations. This could become evident to service users through easier access to the service and reduction in the number of visits and forms to complete.

A3.2 The Plymouth Plan / Joint Local Plan

A3.2.1 The proposed growth in shared services for Delt provides greater opportunity to develop high quality jobs for people in Plymouth and its travel to work areas. The breadth of opportunity for people in developing these skills is significant and has a linear benefit for the City in such areas as increased council tax receipts, reducing housing benefit payments with the wider value to both public care and health services.

A3.2.2 An independent socio-economic report commissioned by Delt in 2016 highlighted, in comparison to a simple outsourcing model, the £7.5m of GVA generated by Delt in Devon whilst supporting 153 full time posts in the County. The significant majority of these roles are based in Plymouth.

A3.3 The Delt Business Plan

- A3.3.1 Delt was created by the CCG and PCC with an overarching objective to build flexible, progressive and connected services for its customers that increases opportunities for collaborative working. This not only influences the transformation agendas in both health and social care; the delivery of a sustainable, cost effective shared service(s) contributes positively to the City and regional economy through the retention and development of quality jobs. The prevailing culture and ongoing aspiration of the company (aligned with its values) is a focus on employees who actively contribute and engage with wider society.
- A3.3.2 Analysis by Delt as part of the development of its business plan also suggests that the market they were created to operate within is undergoing a period of intense change with austerity impacting the system of Health and local authorities. The response to the pressure this is creating is to explore shared services which means that now that the original rationale for creating Delt enables the company to fulfil its objective or for other vehicles to emerge which will out compete Delt. As both co-owners of Delt and leaders in the health and social care system PCC have a vested interest in promoting the broader adoption of Delt across multiple partners in order that the system benefits as was intended when Delt was originally conceived.
- A3.3.3 Delt's business plan therefore talks about the need to achieve both horizontal and vertical service growth. Horizontal service growth would be for customers to adopt Delt as the delivery vehicle for additional services – which is what this case argues PCC should be doing. Vertical growth would be for Delt to acquire new customers for ICT and/or other services, which is what this case argues PCC should be promoting with other partners on the peninsular.
- A3.3.4 A Company employing up to 550 people (which is the approximate headcount Delt would reach on the basis of transferring the HR, Finance and Customer Service operations from PCC) would require a focus on organisational development to manage current and future skills requirements. Delt are working closely with education providers across Plymouth to develop a pipeline of skills for technical and professional roles. They will be one of the first employers in Plymouth to work with Plymouth University on the new school leavers degree apprenticeship for Digital Skills. This focus on quality jobs and skills supports the wider wellbeing of employees and consequently their families with the connected benefits of a reduced reliance on local health and social care services.

A3.4 The Transformation and Change vision

A3.4.1 The Directorate has developed the following vision statement: “making things more efficient and simpler for staff and customers”. In combination with the Transforming the Corporate Centre programme It has also identified the following 4 strategic aims:

- Think Digital
- Think Customer
- Think Smarter
- Think Simpler

Together these components are setting the direction for project work and business as usual.

A3.4.2 The proposal to migrate services from PCC to Delt is entirely consistent with the goal of efficiency and simplicity for customers and staff. Assuming additional partners can be attracted to the shared services model the scale of operation will allow for efficiency through economies of scale. Simplification will be enabled through the extra investment possible in automation. There is also an opportunity to align roles in order to reduce the number of

contacts a customer requires in order to connect with services across what are currently separate public sector agencies.

A3.4.3 Moving back office services into Delt will also bring them closer to a management team with a current focus on technology capabilities. This should allow easier development of digital development in order to support customer service improvement.

A3.5 The appeal of Delt to other potential partners and customers

A3.5.1 The ability to demonstrate operation of the full range of back office services by Delt makes it a more attractive proposition to potential future partners and customers. This is partly because where a customer/partner wanted to use Delt for IT and say HR it wouldn't be forced into multiple contracts (or have to award a single contract to someone else on the basis that Delt couldn't demonstrate credibility on HR). It is also made more attractive because additional services add additional income streams and strength to the balance sheet, something that has been a concern of other potential customers in the past.

A3.6 Strategic risks

A3.6.1 No Council or other strategies have yet been found that contradict this proposal, however there are still risks at a strategic level that need to be considered. Firstly the risk that other partners won't be willing to join the shared services arrangement and secondly the risk that sharing requires compromise and a dilution of control/financial benefits. There is clearly a limit on the ability of PCC to mitigate the risk of partners not joining, the decision will be made by other organisations, all we can do is to specify our outcomes and principles to confirm a fit and then make partnering with us easy as possible. Senior officers from PCC and Delt are building relationships and understanding outcomes sought for each of the target organisations on the peninsular.

A3.6.2 The risk associated with the dilution of control and benefits is philosophical one at this stage, until the specific terms of a deal for shared services have been developed for consideration it is not possible to mitigate this risk, without establishing another strategy for reducing costs that doesn't involve other parties. PCC would however seek assurance from any potential new owner or co-owner of Delt that they would honour existing commitments such as Teckal and continue to support the vision and values of the organisation.

A4 The Economic Case

- A4.1 The economic case for this proposal will be based on consideration of the impact of the proposal, and alternatives on the local economy². This section of the case presents the options analysis that has focused our analysis down to the option of migrating PCC services to Delt. It then considers the economic impact of different models for shared services based on their location.
- A4.2 Section 3 of this case details the list of service delivery options considered as a long list of candidates to achieve the outcomes described in Section 2. Assessing the best fit option(s) to meet the outcomes has been done by considering how well each option might support the outcomes sought. The method was to score each option against the outcomes sought on the basis of 1 to 5 where 1 was either a pass mark for the mandatory options or the lowest score for the desirable outcomes and 5 was the highest score i.e. assessed as capable of meeting the outcome fully. The results of these option assessments are appended to this report in Appendix 2.
- A4.3 The outcome from this assessment is clear, the clear top scoring option is that of shared services either with one or more additional parties. On that basis consideration was given to what shared service vehicle could be used. Delt emerged as the favoured vehicle on the basis that it already exists, it is trading sustainably and was set up as a shared services organisation at the outset.
- A4.4 What the analysis also shows is the relative unattractiveness of options involving private sector partners, where a margin on the turnover of the business would be taken out of the public sector.
- A4.5 Settling on Delt as a vehicle for shared services delivery can then be compared against other choices in order to confirm the economics make most sense for Plymouth. For the sake of this case the following options have been modelled to try to predict the economic impact:
- Continue with a service centre – PCC only
 - Transfer PCC services to Delt
 - JV with a commercial partner to create a Plymouth/local service hub
 - Outsource to UK based (off peninsular) service hub
 - Outsource to global service hub
- A4.6 In order to model the economic impact we have had to make some assumptions to support the calculations:
- The number of staff (max) that could be involved in the services defined in scope
 - The % of these staff who live and contribute to the local economy
 - % of staff mix that could be moved out of Plymouth if the provider model hosted service delivery outside Plymouth
 - £ savings on the budget for the services that could be delivered by each of the options
- A4.7 On the basis of these assumptions we can compare options for service delivery based on the following outcomes:
- Assumed additional sales revenue delivered
 - Estimated budget savings based on efficiencies delivered
 - Modelled GVA impact on local economy

² The Treasury advice focuses on impact on the UK economy as a whole due to the remit of UK government.

- Estimated jobs impact on the local economy

A4.8 Comparing options for service delivery against these outcomes highlights the differences in the different service delivery options we would consider (all financial outcomes annual):

Option	Sales revenue	Budget savings	GVA impact	Jobs
Continue with the service centre (PCC only)	£0	£200k	£0	-7/8 FTE
Transfer to Delt	£100k	£570k	+£420k	- 19 to 23 FTE
JV creating a local hub	£100k	£570k	+£10k	No changes
Outsource to other UK hub	£100k	£570k	-£10.6m	-320 FTE
Outsource to global hub	£100k	£1.4m	-£10.6m	-320 FTE

Notes:

1. These figures are presented to support comparative analysis not as a basis for setting targets for this work.
2. The budget savings figures are gross and don't include any estimate for increased costs to manage the contract and relationship with Delt and other partners that PCC would also have to support.
3. GVA modelling assumes that the GVA impact of back office services overall is the same as for IT services alone.

A4.9 The conclusion from these estimated outcomes is that the GVA impact, which would follow from moving jobs off the peninsular, significantly outweighs the direct budget savings likely to accrue from these options. It is also clear that the option of retaining the services within PCC neither fails to address integration across organisations to achieve the maximum customer experience improvement nor does it deliver as much financial benefit as other options. This leaves the option of transferring to Delt and the option of creating JV around a Plymouth or local hub. Whilst there are relatively modest differences in the financial outcomes of these two options, the JV hub option would guarantee to protect jobs but extract profit from the public sector and likely the local economy. At this stage the option of a JV has been set behind transfer to Delt on the basis that the primary outcome sought by a commercial partner will be their profit, not the outcomes we have set out. It is believed that this fundamental misalignment is one of the reasons that deals like the BT/Cornwall deal and SouthWestOne have either failed or been significantly reduced in ambition and scope. In contrast public sector shared service models like the one between Northamptonshire, Cambridgeshire and Milton Keynes (LGSS) are growing whilst delivering savings to the organisations that participate in them. These are the same outcomes that Delt is being positioned to achieve through the proposals in this paper.

A5 The Commercial Case

- A5.1 Delt was setup with exactly this type of shared service expansion in mind. Whilst it delivers only IT shared services at this juncture, it is not an IT shared service company. It is a legally constituted vehicle created to enable its shareholders to migrate and share services over time. The Teckal arrangement provides the ability for an ease of transition for new services as partners do not need to enter extensive procurement processes, Delt was created to ensure ease of transition for future services. This means that legal risks around company set up and operation are minimised through building on the existing capability in Delt.
- A5.2 Delt has delivered a breadth of significant benefits for all stakeholders in its very short existence and continues to drive benefits as it matures aligned to its vision of being better, faster and cheaper.
- a) The most recent set of financial results (to March 31st 2017) shows that turnover of £14m delivered an operating surplus of £1.5m. As a result the company has been able to declare a distribution to shareholders of £600k, one year ahead of expectations in the original business plan. PCC's share of that distribution is £480k.
 - b) Budget savings of nearly £400k on the service charge for operating the IT systems for the Council between FY 16/17 and FY 17/18.
 - c) The ROCE of the £1.5m operating surplus is 54%.
 - d) Investment of £250k in 3rd party cyber security monitoring
 - e) Extended opening hours from 8am – 5pm to 7.30am – 7pm at no additional cost
 - f) In deploying shared care records across NEW Devon, 90% of GP Practices across Devon with 665,000 health records are now available to out of hours clinicians.
- A5.3 The original vision for Delt will allow for the transfer of services with a level of transparency and expediency that wouldn't exist in any commercial outsourcing arrangement. The ownership structure of Delt also ensures that value created in Delt is retained in the local public sector rather than transferred to the private sector.
- A5.4 Whilst there remains an option to setup another company this would be time and cost prohibitive in light of that in depth preparation already being completed in setting up Delt. For reference, the investment required to create Delt amounted to around £1m and took a year to complete this work, with considerable management time and attention diverted from other priorities to achieve this. The use of Delt as a vehicle for PCC and other organisations to deliver services through could save this amount of time and money.
- A5.5 The commercial case for the migration of specific services from PCC to Delt will need to be subject to more detailed analysis. This would include cost and activity benchmarking to substantiate claims over the value for money of such proposals. Key to this analysis will be the specification of outcomes required from the service regardless of how it is delivered. On the basis of the service specification Delt can price for the delivery of service and PCC can assess the extent of the gap between the "as is" service delivery capability and the required specification. The more extensive the gap the more care should be given to whether the service is suitable for transfer. In some case it may pay us to consider investment in a service before then looking to transfer it.
- A5.6 The development and consideration of the commercial case for each service will therefore require input from across the organisation to ensure that users of the services are involved in specifying what they require. The management case in section 10 of this document describes the governance arrangements that will support the commercial controls required.

A5.7 The main risks associated with the commercial case are that the expectations of the organisation are not adequately described in the service specification. If that occurs Delt will either deliver services that are not valued or required by PCC and/or the service provided by Delt would be insufficient to meet PCC's needs. This type of issue is frequently a problem for any change to the delivery vehicle for a service where informal expectations on the service are translated into a form of contract. This risk is best mitigated by active and ongoing contribution to the specification of clear service outcomes by responsible representatives from across the business.

A6 The Financial Case

- A6.1 The use of Delt as a vehicle for service delivery to PCC and ultimately shared service delivery if other parties can also be persuaded to join will accelerate the delivery of benefits. The alternative for PCC would be to create another vehicle to deliver these services, which would be likely to require at least a year of set up effort. In addition to the sunk cost of time spent on staff consultation and general logistics, the directly attributed setup costs for Delt totalled £1.0M, a cost shared between PCC and the CCG. Whilst this was offset by a £500k government grant, there is still a significant cost required in creating a new vehicle when one already exists.
- A6.2 As discussed in Section 8 above each service for possible transfer will be considered as a separate case. The financial elements of these cases will comprise at least a 5 year projection of the following:
- Current revenue budget to provide service
 - Future recurring revenue budget to provide service
 - Future non recurring revenue budget to provide service
 - Current capital expenditure to enable service delivery
 - Future capital expenditure to enable service delivery
- In addition the financial case will also need to consider the transition costs such as the cost of consultation, the cost of pension shortfalls at the point of TUPE and the cost of any additional client function necessitated by the move of the service.
- A6.3 Each subsequent case will also have to address the issue of how to manage residual overhead costs. These issues will materialise in questions of how to manage the reallocation of corporate recharges if the Transformation and Change Directorate is reduced to nearly nothing and can't in future pay its share.
- A6.4 Subsequent service specific cases will also have to include the costs (and benefits) associated with the division of responsibilities between client and supplier. PCC will retain roles such as the Section 151 and Monitoring Officers – these are responsibilities and accountability that cannot be transferred. In addition, it will also retain a set of small strategic functions able to direct Delt based on agreed strategy defined by PCC. These functions would also be used to formalise and filter service requests going into Delt, something we do little of today as requests to Finance for example are unfiltered and can bypass the business partners going straight to parties with whom the business have had long standing relationships. Formalising the routes for IT service requests into Delt and filtering them to make sure they are clear about what they want and are asking for capability not already paid for by PCC has contributed to the £400k pa reduction in the unitary charge from Delt to PCC.
- A6.5 The retained strategic function requires a skill set that may or may not be currently present within PCC. Where it isn't available to us, some of the savings in the service specific business cases will be used to recruit externally to source these skills. For the purpose of this case it is assumed that the cost of these roles would be borne out of the savings they will deliver and therefore no incremental cost has been shown in this analysis.
- A6.6 In order therefore to determine the appropriate way to client Delt for both ICT and other services PCC need to decide whether or not to treat Delt as an outsource provider or a partner (A40% owned). The opportunity is for PCC to reduce to a minimum the cost and time that would be needed to manage a commercial contract by holding Delt to account for service delivery as it does any other internal service – via line and performance management. This would require changing the mindset that services in Delt are outsourced though. At this

point it might be helpful to consider other language to describe the PCC's strategy with regard to Delt, instead of outsourcing it could be cross or shared sourcing.

- A6.7 The main risk to the Financial case is that PCC seek to recruit an excessive strategic function, attempting to manage Delt as an outsource provider. Whilst PCC will require some strategic function to be retained around each service transferred, it should be remembered that Delt is partially owned by PCC making contract management less onerous than would be the case in dealing with a private sector provider. This is the difference between outsourcing and cross or shared sourcing. Adopting this mindset and achieving cross organisational support to the construct of service specifications will mitigate this risk.

A7 The Management Case

- A7.1 As outlined in this case (if approved) is a precursor to more detailed analysis required to define the services for potential transfer to Delt and the benchmarks etc to be achieved. It is proposed that the governance for the development of proposals for services to transfer would sit with the Transforming the Corporate Centre Programme (TCC), and the final decision on transfer of services would be recommended by CMT to Cabinet.
- A7.2 In order to minimise the time spent on decision making and the analysis to support this transfers of service are being considered over 3 tranches. Tranche one would be aimed for during 2017 and would consist of “pilot” services considered to have well defined service specifications and manageable gaps between their as is state and the state defined in the service specification, they would also need to be readily and cheaply separable from other services retained in PCC. These services might be transferred on the basis of secondment initially in order to prove the concept and in recognition that Delt are in the process during 2017 of developing a Delt operating model and culture that would allow for large scale induction of additional staff. Until this work is concluded secondment would be the only viable way of managing a transition of staff, with TUPE subsequently implemented when Delt is ready and PCC are comfortable with the results of the pilot. At this stage, multiple services are being considered in this tranche – Payroll/Pensions, systems admin functions, Customer Services, financial transactions and Procurement. Appendix I shows the services allocated to each tranche for consideration to transfer.
- A7.3 The investment required to deliver the transfer of services would cover the following:
Business change capacity to support consultation of staff and transition management
Specification of service outcomes and benchmarking/target setting
The business change requirement has already been recognised as critical for the TCC work and is factored into costings for this programme, no additional costs are proposed to support business change as part of this proposal. The service specification and benchmarking will require project management support and some BA resource as well as commitment from across the business to participate in specification and review sessions on the service specifications. This work is an additional call on resource capacity within Transformation and across the organisation. At this stage an order of magnitude assessment of this capacity has been made as follows:
1 x Project manager for 2 years
1 x Business analyst for 2 years
At least 20 hours business stakeholder input per service proposed for transfer
- A7.4 The organisation design of one or more client functions to oversee PCC’s interests in the delivery of services transferred to Delt needs more work before this case can be completed. This section needs to describe the role(s) and accountabilities that will ensure that the public sector investment represents good value to tax payers.
- A7.5 Delt are preparing for growth of services through undertaking an organisational development programme which will allow them to induct high volumes of new staff from 2018 onwards. As previously noted in this case, this work is vital to create a sense of what Delt is and how it operates so that staff transferring know what Delt offers them by way of career and personal development opportunity. It is also vital so that Delt “professionalise” their service delivery which is inconsistent currently, dependent upon the staff member handling the request. This needs to be changed so that there are consistent service standards that all members of staff working for Delt follow and that PCC and Delt’s other clients have helped define.

- A7.6 The other implication associated with the approval of this case is that PCC need to ensure that our commitment to Delt as a shared service delivery is used to encourage other partners to join in too. This is effectively a sales campaign to attract more business for Delt. It will require agreement on which potential partners we target and whether we prioritise efforts within this list.
- A7.7 The key risks to the management case are that the investment of resources across the organisation can't be supported. This risk will be resolved through prioritisation. In addition there is a risk as noted to the strategic case that partners cannot be persuaded to join Delt. If there is no appetite from Partners to join Delt, then PCC would have to look at whether the services then provided to it from Delt could be migrated (or Delt merged with) whoever was supplying the same services to other partners.