Local Government Association

Drummond MacFarlane

Improvement

Services shared: costs spared?

An analysis of the financial and non-financial benefits of local authority shared services

Appendix 4: Review of Hoople Ltd, a shared services arrangement between Herefordshire Council, NHS Herefordshire Primary Care Trust and Wye Valley NHS Trust

Contents

Executive summary

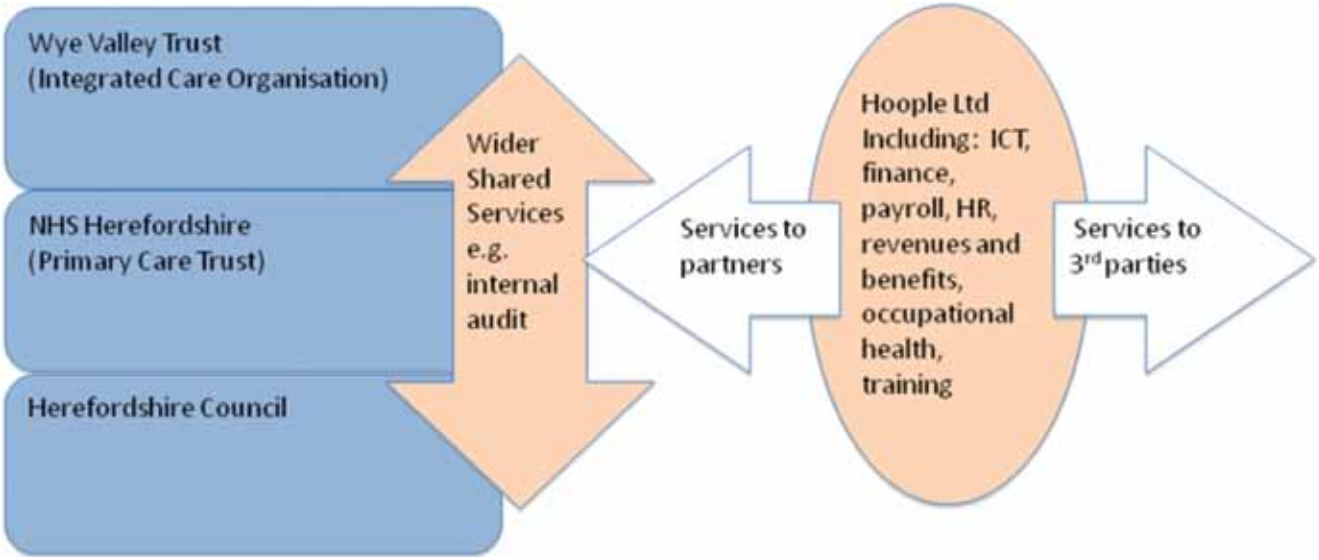
This report is a part of a wider research study commissioned by the Local Government Association (LGA) into the benefits that have been delivered from a selection of five local government shared service arrangements.

Hoople Ltd is making a significant contribution to financial savings in Herefordshire; over £619,000 on a turnover of £11.5 million in its first year of operation. Part of the much wider transformation and integration of public services in the county,

Hoople is an innovative Joint Venture Company (JVC) between three partners across local government and the National Health Service (NHS) which is improving service efficiency to release savings for front line delivery. Hoople is a limited company with a primary focus on the public sector.

Established in 2011, Hoople Ltd is a key part of a wider, comprehensive and complex shared services arrangement for the council (a unitary authority), and two NHS organisations (Wye Valley NHS Trust and Herefordshire Primary Care Trust (PCT)).

In turn this is part of a broader programme of integration and partnership working in Herefordshire including Wye Valley NHS Trust, the first provider of acute community services and adult social care in England.



Work to integrate all back office services for the three organisations began in 2008 and this continues as part of a wider approach to streamlining the way services are delivered and supported. Savings through shared back office and support services now run alongside work to rationalise office buildings, improve strategic procurement and integrate IT systems.

An initial 2009 business case considered a wide range of back office services and the outcome has been to cluster them into two groups. The first is those services within Hoople:

- finance
- payroll
- human resources
- purchasing
- training and development
- occupational health
- revenue and benefits and
- Information and Communication Technology (ICT).

The second wider group of shared services across Herefordshire, which includes: internal audit, asset management and property, transport, communications, public relations (PR), emergency planning and legal services, is being managed in a variety of different ways, including outsourcing and one partner becoming the lead provider.

The functions within this second wider group are summarised in the Appendix.

The set up costs for the whole review and transformation of all back office services (i.e. Hoople Ltd and those other services shown in the Appendix) was £1 million over the period 2009/2011. In addition a substantial investment in the Agresso IT system was made.The overall shared service reform is planned to deliver £33 million savings over ten years, with Hoople contributing £12 million. Savings for the remaining £21 million will come from the functions included within Appendix 1 and procurement. In 2011/12 these 'non Hoople' back office services have delivered savings of £576k (including for example £113,000 from the outsourcing of audit contracts; savings of 90,000 from integration of legal services; £209,000 from the rationalisation of accommodation). There have also been additional savings of 300,000 from procurement.

As well as saving costs primarily through staff reductions, the move to shared services is driven by a desire to improve service quality and to retain, and then grow, local jobs. Staff joined the JVC from the council in April and from the NHS in November 2011. Hoople Ltd is consolidating and rationalising three different staff groups into one new organisation in its first year of operation. It plans to redesign its processes around customers in 2012/13, to transform the business and to win new customers. In addition, Hoople may also seek more partners. The desire to make a significant contribution to the local economy is strong.

The ambitious nature of the vision was supported by a strong partnership of officers, elected members and non-executive directors. The initial investment included start up funding from Regional Improvement and Efficiency Partnership (RIEP) and contributions from partners for a detailed business case.

This provided a well-evidenced roadmap to reducing costs, improving service quality and taking a more strategic approach to services ranging from emergency planning to payroll and ICT. This strong foundation was important in getting approval for what is a complex set of cross-sector arrangements, covering many services within three organisations.

An important development in the first year was establishing the Hoople name and brand identity. Hoople Ltd is actively planning to generate third party income and potentially expand its range of partners. This new identity is an important element of this plan, as well as uniting staff in a new organisation.

This strong partnership commitment has been vital in the face of many challenges arising from competing national policy priorities, which have not helped integration at a local level. Hoople Ltd was established alongside a radically changing NHS, with significant future implications.

The policy goal of integrated services across health and social care is being realised in Herefordshire through the integrated care organisation but integration of the back office has not been straightforward. A new business model and eventually a move to a fully competitive market is the plan for NHS back office services (commissioning support services). However, in the interim, the current national policy is to centralise services into larger clusters, which cuts across local arrangements such as those established in Herefordshire.

Establishing Hoople required clarity of purpose, determination and lobbying at a national level due to the innovative cross sector nature of the proposed arrangement. This included whether or not staff would be allowed to stay within their original local government or NHS pension scheme (they were) and whether or not the partners had the authority to establish a JVC.

Hoople Ltd board members include some officers, councillors and NHS non-executives who lobbied for the new arrangements and have shown a long-standing commitment to integrated public services in Herefordshire. They clearly articulated the need for a locally tailored approach to public services, the importance of back office integration to support front line services and the need to retain public sector jobs in the county.

There is not yet clarity on the new health arrangements that are evolving to produce Clinical Commissioning Groups, so it is not yet clear what these new arrangements may mean for the allocation of shares to the partnership.

The disappearance of the PCT mean that identical shared arrangements to Hoople will not be replicated. However it is likely that the strong partnership commitment between health practitioners and the local authority will ensure that it is well placed to win new business and work closely with GP practises and the emerging NHS commissioning services. It is likely that there will be ongoing lessons for local government from the Hoople approach as the health reforms are implemented.

Introduction

The purpose of this LGA research project is to substantiate, but not audit, a selection of five established and successful local government shared service arrangements. The research provides the sector with important evidence and numerical based analysis on the success of the projects in terms of financial returns and service delivery. The main themes explored were: the impact of shared services on customer satisfaction and outcomes, the set up costs and timescales for delivery, the efficiencies achieved so far and the extent to which the outcomes have varied from initial business cases.

Herefordshire's shared services are of particular relevance and interest because of their breadth and because they are a cross sector approach between the council and their NHS partners. In addition, the model chosen, a joint venture company, is unique amongst the five shared service arrangements reviewed as part of this study. Furthermore, alongside the establishment of the shared service arrangement, the partners have established an Integrated Care Organisation (ICO). The shared service organisation will support the ICO in delivering its management cost savings. A broader change programme, known as Rising to the Challenge, continues to reshape public service provision in Herefordshire through 5 key workstreams. Hoople Ltd is central to that transformation.

This analysis was based on documentation provided by Hoople Ltd from the partnership, including Cabinet papers, the initial business case (and its subsequent independent review), as well as the project closure report. This was supported by interviews with:

Chris Bull
Chief Executive, Herefordshire Public Services (Council and PCT)

Alan Curless
Non-executive Board Director, Hoople Ltd

Anne Donkin
Interim Director of Performance, Wye Valley NHS Trust

Mike Dearing
Managing Director of Hoople Ltd

June French
Chair of the Non-executive Board, Hoople Ltd

Alan Homes
Shared Services Project Manager

Howard Oddy
Director of Resources, Wye Valley NHS Trust

Anne Phillips
Head of Finance, Hoople Ltd

Councillor Phillip Price
Non-executive Board Director, Hoople Ltd

Dean Taylor
Deputy Chief Executive, Herefordshire Council

Shared services background

The need to cut costs and redirect funds spent on back office or support services to front line delivery drove the desire to share services in Herefordshire between the three key partners – Herefordshire Council, Herefordshire PCT and Wye Valley NHS Trust. It was also prompted by the need to rationalise and improve services, and to retain valuable public sector jobs in Herefordshire, one of the most rural and sparsely populated counties in England.

The aims of the partnership approach to shared services are to:

- enable the three partners to work in full partnership i.e. focus on their priorities, such as achieving a better quality of life, and improved health and wellbeing
- revitalise public services to help them become more efficient, joined up, customer focused and responsive
- pool resources, such as human resources, information technology, finance, and purchasing across organisations
- strengthen investment in new ways of working, so that employees are supported by modern systems, training and development and services are designed around the needs of individual people
- boost employee skills, achieve best practice, increase capacity and flexibility and improve collaboration between organisations and service areas.

A Shared Services Programme Board with representation from the three partners was established in May 2008. It was envisaged that analysis and options appraisal would be undertaken in 2009 and implementation would begin in 2010. PA Consulting developed a business case in May 2009 and approval for the joint venture company was given in March 2010. This was ratified by full council in November 2010. The length of time taken is explained by the complexity of the task, by governance arrangements and the changing national political environment.

A range of models for the partnership was considered including a community interest company and a strategic private sector partner. The decision was taken that one approach for all back office services was not appropriate and instead a combination of models would be needed to deliver savings across all the shared services functions. Delivery models to best suit the nature of each support service, rather than one-size fits all was the chosen approach.

Hoople Ltd is a Joint Venture Company (JVC) established as the delivery vehicle for the vast majority of the finance, ICT, HR payroll and expenses, revenues and benefits occupational health, training and development functions. It also includes purchasing but not all procurement for the partners. All services considered by the Programme Board but not included within Hoople area shown in Appendix 1.

The JVC is led by a board of directors with equal representation from each of the three partner organisations and an independent chair.

Hoople Ltd was established in April 2011 with 315 staff joining from the Council at the outset and 134 staff from the two NHS partners joining in November 2011.

Herefordshire Council was initially the sole owner and shareholder of the JVC. It then made a gift of shares to NHS Herefordshire and Wye Valley NHS Trust. The benefits of the company are distributed on the basis of the contribution to the company's initial estimated revenue (currently 62per cent council, 17per cent PCT and 21per cent Wye Valley Trust). Any distribution of the surplus would be based on this split, although there is an expectation that initially surpluses would be retained for reinvestment in the business. The wider savings that were set out in the original plan are based on discussions about the changes needed to modernise and streamline services. The cost turnover for 2011/12, the first year of organisation, was £11.5 million. This is less than the baseline costs of £14.5 million as the NHS staff did not joint until over half way through the year.

The Council successfully applied for 'admitted body' status to allow Council employees who were TUPE transferred to Hoople Ltd to continue membership of their current Local Government Pension Scheme (LGPS).

Hoople Ltd, as the admitted body, and Herefordshire Council, as the letting authority, worked with Worcestershire County Council, as the LGPS administering authority, to finalise the signed and sealed Admission Agreement to ensure council staff retained their LGPS membership following their TUPE transfer to Hoople Ltd on 1st April 2011. Hoople Ltd sought and successfully obtained 'direction body' status from the Department of Health which allowed staff employed by the NHS to continue membership of their current NHS Pension Scheme when they transferred to Hoople Ltd.

The key performance indicators (KPIs) for Hoople Ltd in year one of operation included the financial savings agreed in the business case, and operational performance indicators to show that services to the customer were being delivered as expected.

For year 2 and beyond however, a wider set of KPIs is being developed, relating to the overarching objectives of the JVC, encompassing customer satisfaction, service level improvements and impact on the local economy. Hoople Ltd can demonstrate a reduction in a number of its unit costs in year one, due to the reduction in primarily staff costs that it has made and a continuation of service delivery at pre-existing levels. However, the unit cost figures for Hoople are commercially sensitive and so we are unable to share them in this report.

Hoople Ltd provides services for its three owners and a range of other clients, including academies and GP practices and a small number of non-public sector trading companies.

The JVC is Teckal compliant, and wholly owned by the partners. This means European procurement rules do not apply because the company is controlled by public sector partners and its activities are primarily focused on those partners.

The vision and values of Hoople Ltd were developed by its employees. It aims to 'be the first choice business services provider through innovation and excellence'. Their values are customer focus, passion for excellence, integrity, professionalism and mutual respect.

Hoople Ltd's KPIs in its first year of operation were not rationalised or revised; the merging services brought their measures with them. It is agreed that these are not fit for purpose and they will be substantially revised for 2012–13, with a clear focus on customers.

Set-up consolidation benefits

The key benefit so far from combining separate activities to form Hoople Ltd has been a reduction in costs, in part relating to streamlining the management structure. The original business case suggested the functions had excessive resources for the services being delivered, compared with upper quartile performing functions. The original business case suggested that a successful transformation programme, reviewing processes bottom up, could also realise savings in the range of between 10 – 25 per cent depending on the current staffing and efficiency profile. The largest savings anticipated were through head count reductions in repetitive or routine transactional work.

Hoople Ltd's savings will come from some consolidation of staff, but also from service redesign. Consolidation savings totalling £619,000 have been delivered during its first year of operation (2011/12). This is Hoople Ltd's contribution to an anticipated £2 million saving across the wider shared services programme for 2011/12. The broader savings programme is planned to deliver £33 million from 2010/11 to 2019/20 i.e. over 10 years. Hoople Ltd's share of this is £12 million.

The set-up process started with the development of terms of reference and establishment of the partnership board in mid-2008. PA Consulting developed and delivered the final business case in August 2009. This was approved and then followed by soft market testing, after which a decision to opt for a Joint Venture Company was approved by the partners' boards and cabinet in March 2010. An external review of the business case was conducted by Capita in October 2010 to demonstrate the robustness of the project. Approval for the Joint Venture Company was given by full council in November 2010. Total costs for this process including set up of the JVC were £1,052,000 net (i.e. after contributions of £175,000 from the West Midlands Improvement and Efficiency Partnership).

The JVC was established in March 2011 and was at first known as 'The Shared Services Partnership Ltd' and all staff were transferred by November 2011. The company is now known as Hoople Ltd. The set-up process involved significant negotiations with central government due to the cross-sector nature of the arrangement. This included whether or not staff would be allowed to stay within their original local government or NHS pension scheme and whether or not the partners had the authority to establish a JVC and to hold shares.

The savings attributed to the PCT (which will cease to exist from the end of 2013/14) have in part been transferred because they related to the former provider arm of the PCT (i.e. community services). Wye Valley NHS Trust have taken over this function as part of the integrated care organisation.

The baseline costs of the newly formed JVC are essentially the staff and staff related costs and overheads. No property or equipment assets were transferred.

Table 1 Hoople Ltd's Estimated Turnover (Baseline costs) and Year One savings

	Year 1 2011/12	Year 2 2012/13	Year 3 2013/14
Turnover (£'000)	£11,500	14,170	14,804
Savings to partners (£'000)	£619	£438	£340
Cumulative Savings (£'000)	£619	£1,057	1,397
Notes:	**Only part year costs for NHS as staff not transferred until November 2011**	**These figures are likely to be refined**	

The original business case set out costs and benefits over a ten year period but in practice, partners are monitoring the delivery of the benefits focusing on immediate targets over the next three years, when the bulk of the benefits are expected.

Table 1 shows savings from Hoople in its first year of operation are set to be nearly £620,000 – a saving of 5.5 per cent of turnover.

A further £438,000 is due for 2012/13 which has been identified from service budgets already, and then £340,000 in 2013/14 through new business opportunities.

Table 2 shows how savings from Hoople Ltd and from the wider shared services shown in appendix 1 are allocated across the partnership,

Table 2 – Savings for the wider partnership from shared services 2010/11 – 2013/14

Costs and Savings (£'000)	Delivered 2010/11	Projected 2011/12	Forecast 2012/13	Forecast 2013/14	Total
Council					
- Hoople	**311	467	413	340	1531
- Other	328	843	1758	0	2929
- Total	639	1310	2171	340	4460
Partners					
- Hoople	-	152	25	-	177
- Other	456	626	285	129	1496
- Total	456	778	310	129	1673
Total					
- Hoople	311	619	438	340	1708
- Other	784	1469	2043	129	4425
- Total	1095	2088	2481	469	6133

Note: ** these savings were delivered from back office services, but pre Hoople set up

Wider business change benefits

Non-financial business change benefits have not been quantified but some are already happening e.g. reduction in unit costs due to reduction in staffing costs with no reductions in volume transactions. There are no reported changes to the quality of service. Hoople Ltd is in its first year and is still at the consolidation phase. Some of the changes underway include:

- Improved ICT support. An area identified by the original business case as needing significant improvement. Helpdesk response times have significantly improved
- Provision of new services e.g. a new recruitment service for schools and online Criminal Records Bureau (CRB) checks
- Provision of 'one stop shop' for business support services
- Examples of innovation e.g. facilitation support and lean process analysis to partner organisations.

Changes that will be in place for Hoople Ltd in year 2 of its operation include:

- More appropriate Key Performance Indicators – in year 1 Hoople Ltd was working with a variety of inherited KPIs – focused on customer needs, satisfaction and quality. For 2012/13 Hoople is developing a small set of KPIs more appropriate for its business needs and more focused on evidencing customer experience.
- A clear strategic plan linked to KPIs, risk and performance management
- Delivering the marketing plan
- Targeted Service Level Agreements supported by a better understanding of the client manager/account manager process
- Improvements in location of staff and more efficient use of accommodation and flexible working
- Continued reductions in management and staff costs and increased cost control
- Use of lean methodology and approaches to streamline processes and deliver efficient ways of working
- Improved staff appraisal rates due to increased internal focus on HR.

In Year 1 (2011/12) Hoople Ltd focused on consolidating staff from three different organisations, reducing costs, with no reported negative impact on the service received by partners or customers. They also had to embed a change of culture with the staff, and engaged them in delivering the business plan vision and renaming of the company.

The company has started a change programme known as 'MakeOne' which is streamlining the management structure, improving systems and processes, and aligning staff terms and conditions.

Customer satisfaction has not been formally measured and there are expectations that a significant improvement from the current baseline of performance will be required for Year 2. This is for two key reasons: the first is that some areas, for example ICT, were identified as operating below expectations before transferring to Hoople and the second is that Hoople Ltd wants a reputation for good performance as a platform to develop further business. It also knows that as well as improvements to the services offered, partners need to invest in relationship management to get the best value from their stake in the partnership.

The key benefits from these business changes, in addition to reduced costs, are:

- Increased visibility and hence transparency of performance, which in itself has been a driver for improvement. This has significant potential to drive transformative change
- Increased flexibility and scope for staff to make changes and identify business and innovation opportunities
- Greater consistency in approach to performance management within and between services within Hoople Ltd
- Cultural change focused on cost recovery and income generation.

Broader business benefits include increased focus on and commitment to local partnership working, and delivering savings to be re-invested in front line services. Hoople, whilst reducing headcount, is focused on retaining jobs in Herefordshire and attracting third party income into the area as well.

Third party services

Currently Hoople Ltd provides services to GPs and academy schools as part of the services that were transferred into the JVC and provide training facilities which is in part government funded, alongside a small non-public sector customer base.

Four per cent growth has been modestly forecast. This estimate will be reassessed to mirror the vision in the key strategies and marketing plan. It is expected growth will mainly be delivered through the public sector opportunities, whilst exploring opportunities with the third sector.

Work is underway to develop awareness of the Hoople Ltd brand and the company's range of services. A new website has gone live, and some sales activity has been undertaken to take new and existing services to new markets.

This has already shown that the company's low cost base, and the knowledge and expertise of its staff are assets to be maximised. It has already secured additional work in payroll, recruitment and CRB checking activity for academies and GP practices and a small number of non-public sector trading companies.

Hoople Ltd's partners benefit from the delivery of third party services in two ways: one is through payment of an operating surplus at year end, the other is that surpluses generated by third party services could be reinvested to support the growth and development of the business.

There are no arrangements as yet for the impact of a 'failed third party contract' on the delivery of the shared services to the partners.

Strategic developments and lessons learned

The key focus for development in year 2 will be:

- Strengthening quality and consistency of service delivery
- Managing partner relationships and expectations
- Growing the business to deliver income growth.

Hoople Ltd has the potential to increase the range of services it offers, to expand or consolidate its current services (e.g. procurement) and to increase the number of customers, either through work for third parties or by growing the number of partners. As well as providing services that are better value for money, the potential benefits from Hoople are retaining and potentially increasing the number of jobs in Herefordshire, and implementing cost reductions and quality improvement through more streamlined and standardised processes and through innovation.

In order to deliver the anticipated benefits Hoople Ltd needs to:

- Successfully complete its consolidation from three into one and realise the transformative nature of this plan
- Ensure Year 2 delivers well managed services of a higher quality in such a way that partners and customers can see and experience the benefit
- Secure additional income from third parties
- Implement and monitor universal KPI's to ensure that satisfaction increases for Hoople Ltd's customers.

There are some key risks for the partnership, notably:

- Internally – the continuing need to manage relationships and deliver on expectations
- Externally – the changing NHS environment. A key partner, the PCT, is disappearing but there are also opportunities to win new business in General Practitioner (GP) practices and the emerging NHS commissioning support services.

The partners experienced significant difficulties due to the cross sector nature of their plans, and because they wanted to establish a joint venture company. Key issues were:

VAT and formalising arrangements to ensure health partners did not incur vat on supply of services from senior officers in the council

Ability for health partners to hold shares and trade – In setting up the JVC it was determined that local government and the NHS have different trading powers. They operate under different legislative frameworks, which resulted in the creation of a JVC. Other options may have been possible if they were both able to trade.

The Audit Commission was involved in approving the external auditor for Hoople and challenged health's legal standing to hold shares in the JVC which delayed audit approval.

There is no clarity to the new health arrangements that are evolving to produce Clinical Commissioning Groups, and it is not clear what these new arrangements may mean for the allocation of shares to the partnership.

Ensuring Teckal compliance whilst developing a wider business focus

Finally the Department for Communities and Local Government (DCLG) was championing shared services and the efficiency agenda but other government departments were not as committed to this view and in some instances had policies cutting across the shared services agenda.

Appendices – shared services in herefordshire

Appendix: Summary of Herefordshire Shared Services not provided by Hoople

Activity	Shared Service Partnership
Audit Services	Outsourced through a joint procurement exercise to KPMG.
Legal Services	Herefordshire Council the lead provider to NHS partners
Transport	Under review – initial proposals due Summer 2012 including other public sector providers and community transport
Asset Management and Property	Specification is being developed and informal market testing will take place in 2012 to establish the market interest in these functions.
Emergency Planning	The Council is now providing some services to the NHS partners and Hoople.
Communications	The Council is now the lead provider for the communications service across the three partners
Corporate Transformation	The Corporate transformation team provides an ICT project management service to WVT, and an options appraisal is underway to determine the appropriate delivery option for the services – one option is to transfer this to Hoople
Information Governance	A shared service managed by the Council
Customer Services	An options appraisal is to be developed to determine future delivery for the partnership.

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