

# **Shared Services Programme Addendum to Detailed Business Case**

**DRAFT  
Version 0.1**

**15<sup>th</sup> December 2008**

Copyright: Three Rivers District and Watford Borough council

This addendum provides the financial business case that forms part of the Detailed Business Case for Shared Services (V0.6 dated 9<sup>th</sup> December 2008). Once approved, it will be incorporated into the relevant section of the Detailed Business Case and reissued as a single document.

As such the financial information provided in this document is based on the Shared Services operating model and implementation approach described in the Detailed Business case.

### 3.3 Financial Savings

Sharing services will generate approximately £1.6m per annum once the new arrangements are fully operational, an overall improvement on the baseline costs used in the business case by 19%.

Service	Benefit £000	% reduction on baseline
Human Resources	324	29%
ICT	472	24%
Finance	297	14%
Revenues	76	5%
Benefits	466	29%
Client Side	-56	
<b>Total</b>	<b>1578</b>	<b>19%</b>

This is mainly through the

- reduction of posts through management consolidation, sharing of specialists and economies of scale
- reduction in expenditure on purchased goods and services e.g. corporate ICT infrastructure through joint procurement
- reduction in service systems licence costs through harmonising systems
- transfer of some functions which are currently contracted out to the shared service without increasing headcount or potential contracting out of other functions currently done in-house e.g. payroll

The following savings have not been quantified for the business case:

- Accommodation costs: Although there will be less space required by the shared services team, the business case has not shown savings in accommodation costs as it is assumed that in the short term councils are not able to release that space to generate additional revenue savings.
- Out of scope services' systems and process harmonisation: It should be easier to share further services between the two councils, particularly as the technical and systems infrastructure will be established as part of this programme. However the potential benefits through sharing other services currently out of scope has not been included as part of this business case.

## 5.6 Implementation Costs

The shared services implementation is expected to cost approximately £3.9m, an expected increased of £866,000 from the costs previously estimated. The differences in the implementation costs from the approved Business Case in Feb 08 and the reasons for this are described in Section 6.4.

Cost Item	Costs, £, 000	Description
Programme Management	1,327	This includes the cost of all internal and external resources, any specialist advisors and other programme office running costs.
Transition support in Finance	507	This is an additional cost that reflects the transitional consultancy support required in Finance due to the delay of systems harmonisation.
Change Mgt/Office	210	These include one off costs relating to <ul style="list-style-type: none"> <li>- selection/recruitment</li> <li>- training &amp; communications</li> <li>- staff support (e.g. outplacement)</li> <li>- office move/accommodation</li> </ul> Systems specific training is included in the systems implementation costs. The office move costs include the configuration of existing office space, as well as any costs for moving of furniture, files, disposal, etc.
Employee transition	167	These costs include an estimate of potential relocation allowances which staff that have to relocate may be given. It also includes potential salary protection costs that will arise where staff move to posts with a salary that is lower than their current salary.
Redundancy & Pension Strain	839	The redundancy costs include an estimate of redundancies arising from a reduction in posts. Pension strain costs are expected where staff may leave on early retirement and where pension costs have to be paid out as a lump sum per FTE. There is an option to spread pension strain over several years, although there would be an associated interest cost.
Technology & Systems (Capital)	889	These are capital costs that relate to all one off investments in harmonising technical infrastructure, the purchase and implementation costs of harmonising service systems (including any related technical consultancy and systems training). Ongoing maintenance costs are captured in the future operational costs (i.e. revenue).
<b>Total</b>	<b>3,940</b>	

It should be noted that any additional implementation costs arising to each council due to council specific decisions to deal with any people management issues separately have not been included in the above figures.

## **6 Financial Business Case**

### **6.1 Structure of the financial business case**

The financial business case shown on the following page compares the current cost of operating the four services to the cost of sharing services over seven years, which was the timescale presented in the original Strategic Business Case of January/February 2007. Each of the components of the business case are summarised below.

#### **Current costs (Original Business Case)**

The current costs provide the original baseline against which shared services costs were compared to derive the benefits. The 0708 costs are shown as nil and the expected FY0809 costs across both councils were initially used as the baseline across years 2-7. This is as presented to the councils in Feb/Mar 08 when the programme was approved.

#### **Changes in current year**

The current costs, which were the basis of comparison for Shared Services, were provisional 0809 budget figures provided by both councils at the time of the initial business case for the two councils. Since then, there have been a number of changes to these costs as a result of the final agreed budget for FY0809 at each council and in year changes. This has resulted in an overall reduction in the current costs of £606,590 across both councils. Some of this is due to realisation of Shared Services savings in the current year, others due to other corporate efficiencies, changes in scope and accounting alignment to ensure that a consistent approach is used across both councils. A breakdown of this is provided in Section 6.4.

#### **Inflation**

The respective finance departments have prepared three year medium term forecasts for each of the in-scope services based on existing operations. These take into account inflation which has now been incorporated into both the combined current budgets and the shared services costs.

#### **Combined Current Budgets (with inflation)**

Unlike previous versions of the business case, this business case has been updated to take into account inflation so that it can be used to inform the budget setting processes at both councils. The combined current budgets including a 3 year forecast till FY1112 has been incorporated to form the basis of comparison of shared services costs. It is recognised that the inflation estimating assumptions for both councils are slightly different. Years 6 and 7 of the business case are unchanged from Year 5 as the budget forecasting is based on a three year period.

#### **Shared Services Costs**

The future Shared Services operating costs are based on changes to the costs in the following areas:

- Reduction in employee costs through staffing reduction in the services in scope
- Changes to travel costs estimated based on predicted levels of travel between sites
- Reduction in costs through harmonising the way certain functions are delivered, particularly where functions are contracted out by one of the councils
- Reduction in corporate costs of ICT infrastructure and training

- Changes to annual licence and maintenance costs of harmonised service systems for HR, Finance and Revenues and Benefits
- Client side costs such as Joint Committee costs and the cost of a client function of one FTE at Watford Borough Council

In line with the principles applied for purposes of forecasting current budgets, shared services employee costs have been inflated at a rate of 3%, as agreed with both Directors of Finance. All other costs are assumed to be cash limited going forward.

### **Total benefits**

The benefits are split into those that are yet to be realised, which is based on a difference between the combined current budgets and future shared services costs. However, the benefits that have already been realised in the current year have been added to show the full benefits of shared services.

### **Implementation costs**

These are the expected implementation costs of the programme including revenue and capital.

### **Net Cost/Benefit**

The net cost and benefit of Shared Services shows an annual and overall cost/benefit position; shown also excluding capital expenditure.

## **6.2 Overall Financial Summary**

The financial summary shows that, taking inflation into account, there are annual operational savings of **£1.6m** across both councils, all of which will be delivered from April 2011 (year 5). **£0.2m** of this has already been achieved in the current year separately by each council; £89,000 by Watford and £91,000 by Three Rivers. The programme provides a total net saving of **£3m** over the 7 year timescale taking into account all implementation costs, or **£3.9m** net revenue saving. There will be a positive cash flow from FY1011.

### Financial Summary

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	Total
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Current Cost (Original Business Case)</b>								
<u>Operating Cost</u>								
Human Resources		1,226	1,226	1,226	1,226	1,226	1,226	
ICT		1,874	1,874	1,874	1,874	1,874	1,874	
Finance		2,156	2,156	2,156	2,156	2,156	2,156	
Revenues & Benefits		2,722	2,722	2,722	2,722	2,722	2,722	
<b>Total Current Costs</b>		<b>7,978</b>	<b>7,978</b>	<b>7,978</b>	<b>7,978</b>	<b>7,978</b>	<b>7,978</b>	
<b>Less Changes in Current Year</b>								
Shared Services Benefits realised		-180	-180	-180	-180	-180	-180	
Other Savings		-196	-196	-196	-196	-196	-196	
Changes in Scope		-139	-139	-139	-139	-139	-139	
Accounting Alignment		-92	-92	-92	-92	-92	-92	
<b>Total Changes in Current year</b>		<b>-607</b>	<b>-607</b>	<b>-607</b>	<b>-607</b>	<b>-607</b>	<b>-607</b>	
<b>Add Inflation</b>			<b>202</b>	<b>409</b>	<b>617</b>	<b>617</b>	<b>617</b>	
<b>COMBINED CURRENT BUDGETS (with inflation)</b>								
Human Resources		968	996	1,025	1,055	1,055	1,055	
ICT		1,754	1,823	1,867	1,908	1,908	1,908	
Finance		1,834	1,857	1,907	1,959	1,959	1,959	
Revenues & Benefits		2,816	2,896	2,981	3,067	3,067	3,067	
<b>Total Combined Budget</b>		<b>7,372</b>	<b>7,573</b>	<b>7,780</b>	<b>7,988</b>	<b>7,988</b>	<b>7,988</b>	
<b>SHARED SERVICES COSTS (with inflation)</b>								
<u>Operating Cost: Shared Services</u>								
Human Resources		968	737	755	775	775	775	
ICT		1,754	1,838	1,446	1,479	1,479	1,479	
Finance		1,834	1,728	1,711	1,755	1,755	1,755	
Revenues & Benefits		2,816	2,837	2,544	2,524	2,524	2,524	
<b>Total Operating Cost</b>		<b>7,372</b>	<b>7,139</b>	<b>6,457</b>	<b>6,533</b>	<b>6,533</b>	<b>6,533</b>	
<u>Operating Cost: Non-shared</u>								
Client Side costs			67	68	70	70	70	
Corporate Training benefit				-13	-13	-13	-13	
<b>Total Client Side Cost</b>			<b>67</b>	<b>55</b>	<b>56</b>	<b>56</b>	<b>56</b>	
<b>Total Future Costs</b>		<b>7,372</b>	<b>7,206</b>	<b>6,512</b>	<b>6,589</b>	<b>6,589</b>	<b>6,589</b>	
<b>Benefits</b>								
Financial Benefits to be realised			367	1,268	1,399	1,399	1,399	
Benefits already realised		180	180	180	180	180	180	
<b>Total Benefits</b>		<b>180</b>	<b>547</b>	<b>1,448</b>	<b>1,578</b>	<b>1,578</b>	<b>1,578</b>	<b>6,910</b>
<b>Implementation Costs</b>								
Programme Manager		480	847					
Transitional operational support			358	149				
Change Mgt/Office		114	97					
Employee transition			58	66	42			
Redundancy & Pension :		93	258	487				
Infrastructure		124						
Service systems		175	589					
<b>Total Costs</b>		<b>986</b>	<b>2,208</b>	<b>703</b>	<b>42</b>			<b>3,940</b>
<b>NET COST/BENEFIT</b>		<b>-807</b>	<b>-1,661</b>	<b>745</b>	<b>1,536</b>	<b>1,578</b>	<b>1,578</b>	<b>2,970</b>
<b>NET COST/BENEFIT (excluding capital)</b>		<b>-507</b>	<b>-1,072</b>	<b>745</b>	<b>1,536</b>	<b>1,578</b>	<b>1,578</b>	<b>3,859</b>

## 6.3 Affordability for each council

### 6.3.1 Calculation of benefits and costs to each council

It has been agreed that benefits to each council should be calculated by allocating future costs to each council on the basis of workload measures and taking account of complexity of workload. The future cost of shared service to each council is then compared to the current cost of the service to derive the benefit of shared service. This also best reflects the true cost of these services to local tax payers at each council.

The apportionment ratios have been updated to take account of current workload profiles and have been agreed by both Directors of Finance as shown below.

Service	Watford	Three Rivers
HR	68%	32%
Finance	60%	40%
ICT	60%	40%
Revenues	61%	39%
Benefits	57%	43%

The implementation costs of the shared services programme have been apportioned based on the relative size of the councils as most of the costs relate to the “people” elements of change such as resources, staff support, redundancy, employee transition. This results in 69% of the implementation costs being funded by Watford and 31% by Three Rivers.

It is proposed that the application of the apportioned costs is effective from 1<sup>st</sup> April 2009 and the necessary adjustments are made to each councils’ budgets to take into account the net cost or benefit.



### 6.3.2 Councils Specific Business Case financials

The table below shows the annual operational saving to each council by service on full implementation.

	Benefits, £000		
	Total	Watford	Three Rivers
<b>Benefits to be realised</b>	<b>1399</b>	<b>1019</b>	<b>380</b>
Human Resources	280	284	-3
ICT	429	220	209
Finance	204	130	73
Revenues	76	58	18
Benefits	466	375	91
Minus Client Side	-56	-48	-8
<b>Benefits Realised</b>	<b>180</b>	<b>89</b>	<b>91</b>
<b>Annual operational savings</b>	<b>1578</b>	<b>1108</b>	<b>470</b>
<b>As % of baseline used in bus case</b>	<b>19%</b>	<b>22%</b>	<b>15%</b>
<b>Net Revenue Benefit/Cost over timescale</b>	<b>3859</b>	<b>2756</b>	<b>1102</b>

In line with the principles of calculating benefits and costs described above, the benefits for each council detailed summarised above and detailed on the next page show that:

- Watford will reduce operating costs by £1.1m pa and have a net revenue benefit of £2.8m over the timescale
- Three Rivers will reduce operating costs by £0.47m pa and have a net revenue benefit of £1.1m over the timescale.

Financial Summary for Watford Borough Council								
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	
	£000	£000	£000	£000	£000	£000	£000	Total
<b>Current Budget Forecast</b>								
HR		725	761	786	810	810	810	
ICT		996	1036	1071	1107	1107	1107	
Finance		1083	1114	1148	1183	1183	1183	
Revenues		841	864	887	911	911	911	
Benefits		917	953	985	1017	1017	1017	
<b>Total current budget</b>		<b>4561</b>	<b>4727</b>	<b>4877</b>	<b>5029</b>	<b>5029</b>	<b>5029</b>	
<b>Shared Services Costs</b>								
HR		725	501	514	527	527	527	
ICT		996	1103	868	888	888	888	
Finance		1083	1037	1027	1053	1053	1053	
Revenues		841	875	859	852	852	852	
Benefits		917	799	648	642	642	642	
<b>Total Shared Services Cost</b>		<b>4561</b>	<b>4315</b>	<b>3915</b>	<b>3962</b>	<b>3962</b>	<b>3962</b>	
<b>Client Side Costs</b>			58	46	48	48	48	
<b>Benefits</b>								
Benefits to be realised			355	916	1,019	1,019	1,019	
Benefits Realised		89	89	89	89	89	89	
<b>Total Benefits</b>		<b>89</b>	<b>444</b>	<b>1,005</b>	<b>1,108</b>	<b>1,108</b>	<b>1,108</b>	<b>4,862</b>
<b>Implementation costs: 69%</b>		<b>681</b>	<b>1523</b>	<b>485</b>	<b>29</b>			<b>2,718</b>
<b>Net Benefit/Cost</b>		<b>-592</b>	<b>-1,080</b>	<b>520</b>	<b>1,079</b>	<b>1,108</b>	<b>1,108</b>	<b>2,143</b>
<b>Net Benefit/Cost excl capital</b>		<b>-385</b>	<b>-673</b>	<b>520</b>	<b>1,079</b>	<b>1,108</b>	<b>1,108</b>	<b>2,756</b>

Financial Summary for Three Rivers District Council								
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7	
	£000	£000	£000	£000	£000	£000	£000	Total
<b>Current Budget Forecast</b>		<b>2810</b>	<b>2846</b>	<b>2903</b>	<b>2959</b>	<b>2959</b>	<b>2959</b>	
HR		243	235	240	245	245	245	
ICT		759	787	795	801	801	801	
Finance		751	743	759	775	775	775	
Revenues		523	533	548	563	563	563	
Benefits		535	547	561	576	576	576	
<b>Total current budget</b>		<b>2810</b>	<b>2846</b>	<b>2903</b>	<b>2959</b>	<b>2959</b>	<b>2959</b>	
<b>Shared Services Costs</b>		<b>2810</b>	<b>2825</b>	<b>2543</b>	<b>2571</b>	<b>2571</b>	<b>2571</b>	
HR		243	236	242	248	248	248	
ICT		759	735	579	592	592	592	
Finance		751	691	685	702	702	702	
Revenues		523	559	549	545	545	545	
Benefits		535	603	489	485	485	485	
<b>Total Shared Services Cost</b>		<b>2810</b>	<b>2825</b>	<b>2543</b>	<b>2571</b>	<b>2571</b>	<b>2571</b>	
<b>Client Side costs</b>			9	8	8	8	8	
<b>Benefits</b>								
Benefits to be realised			13	352	380	380	380	
Benefits Realised		91	91	91	91	91	91	
<b>Total Benefits</b>		<b>91</b>	<b>103</b>	<b>443</b>	<b>470</b>	<b>470</b>	<b>470</b>	<b>2,048</b>
<b>Implementation costs:31%</b>		<b>306</b>	<b>684</b>	<b>218</b>	<b>13</b>			<b>1,221</b>
<b>Net Benefit/Cost</b>		<b>-215</b>	<b>-581</b>	<b>225</b>	<b>457</b>	<b>470</b>	<b>470</b>	<b>827</b>
<b>Net Benefit/Cost excl capital</b>		<b>-122</b>	<b>-399</b>	<b>225</b>	<b>457</b>	<b>470</b>	<b>470</b>	<b>1,102</b>

## 6.4 Key Differences to the approved version of the Business Case

In January and February 2008, Watford and Three Rivers councils approved the business case and agreed to proceed to implementation. The key changes in this updated business case are summarised below with an explanation of the reasons.

### Changes to the current year costs of both councils

The current costs, which were the basis of comparison for Shared Services, were provisional 0809 budget figures available from both councils at the time of the initial business case for two councils. Since then, there have been a number of changes to those costs as a result of the final agreed budget for FY0809 at each council and in year changes. This has resulted in an overall reduction in the current costs of £606,590 across both councils. The table below explains the reasons for the reduction.

Reasons for reduction in costs	Value £
Shared Services Benefits Reduction of salary costs due to vacancy management.	-179,680
Other Savings Efficiency gains due to other corporate initiatives or restructure	-196,025
Changes in Scope Separating the client and shared services costs and inclusion of NNDR.	-139,015
Accounting Alignment Correcting for allocation of costs to the right service and applying the same principles across both councils.	-91,870
<b>Total 0809 Adjustment</b>	<b>-606,590</b>

The impact of this on the overall benefits is that £180,000 shared services savings has already been realised individually by each council; £89,000 at Watford and £91,000 at Three Rivers. Other changes do not have any impact on the business case or the councils' net budgets since they have been deducted from the original baseline costs, the current forecast budgets and the shared services costs.

### Reduction in benefits

There has been a reduction in benefits due to the following changes to the estimated running costs of shared services.

- There are an additional 2.8 FTEs within Revenues & Benefits following further analysis of the income and sundry debt processing done at Watford Borough Council. The apportionment of Revenues cost has been adjusted to take this into account.
- Additional costs of the Joint Committee are included on the client side for each authority, including audit fees.
- Reduction in client side cost for Three Rivers due to the decision to not have a dedicated role to manage client side of shared services

## **Increase in implementation costs**

There has been an overall increase in the implementation costs of £866,000. This is due to

- An increase in capital costs £236,000 due to updated assumptions on systems implementation and technical infrastructure costs. There has been an increase in the implementation cost of the HR system based on costs provided by the preferred supplier of the hosted HR system. The estimates for both Finance system and R&B have been updated to reflect more accurate quotes from potential suppliers. The IT infrastructure costs include changes to the proposed IT infrastructure solution which is based on a more robust scalable solution. The IT infrastructure will provide the basis for any future services being shared.
- An increase of £108,000 in salary protection and relocation costs which has been updated to reflect the change management proposals and more up to date analysis. For example, the relocation costs are based on post code analysis of home to work distance of staff expected to relocate. Salary protection costs are based on average differences between spot salaries used in the business case and current salaries.
- An increase in redundancy and pension strain figures of £128,000 to reflect the latest profile of staff impacted by the change e.g. years service.
- An additional operational cost of £507,000 in Finance of consultancy resources to address current gaps in experience within the combined shared service as the implementation of the new system has been delayed to April 2010. This additional capacity will ensure any disruption to finance operations during the transition period is minimised. This approach has been agreed with the Directors of Finance and the Shared Services Head of Finance.

There has been a reduction in programme and change management costs of £113,000 to reflect agreed approaches and this has had the effect of reducing the overall impact of the increase in costs.

## **Delay in full benefits realisation**

The full benefits of shared services have been delayed by a year, due to the following slippage in implementation dates.

- Implementation of HR system and payroll provision has slipped from Feb 09 to April 09 – June 09.
- Implementation of Finance system has been delayed by a year from April 09 to April 2010 due to the decision to conduct a full systems evaluation and given the capacity of the Finance teams at both councils.
- Implementation of the R&B system has slipped from August 09 to November 09 due to the decision to conduct a full systems evaluation and taking account of capacity
- Delay in introducing staffing changes to management and the rest of service restructures due to complexities in harmonisation of Terms and Conditions, HR policies on consultation, job evaluation, pay and grading.