

CIPFA-SDCT Shared Financial Services Project

Consultation on a vision for shared financial services in district councils

24 November 2008

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Preface

This document has been prepared to support a consultation with district councils and related stakeholders on the role of service sharing in improving the efficiency and quality of district council financial services. The consultation forms part of a CIPFA¹-SDCT² initiative, supported by the Department of Communities and Local Government (DCLG) and the Regional Improvement and Efficiency Partnerships.

The initiative is focused on helping district councils move towards world-class standards of financial management, in terms of working methods, use of technology and access to specialist skills. It is also seeking to find ways of making major cost savings in delivering financial services. By taking time to read and comment on this document, you will be helping the project to move forward in the direction needed to make this happen.

The document draws on outputs from the first stage of the current project, which has been running since June 2008. It sets out a vision for shared financial services in district councils and proposes a blueprint for how roles and responsibilities might be divided between a shared service arrangement (SSA) and the retained finance function. In doing this the document explores the contribution shared services can make in helping districts achieve world-class performance standards.

The joint consultation

The current consultation is being led by CIPFA and the SDCT and has the backing of both the DCLG and West Midlands RIEP. Its purpose is to assess the validity of the project's conclusions to date and to ensure that work on the next stage of the project responds to the needs and priorities of those councils that wish to address shared finance issues.

In doing this, we are particularly keen to hear the views of district treasurers/directors of finance, as well as other relevant stakeholders, such as chief executives, elected member representatives and members of the supplier community. In particular, we would like to establish your views on:

- The links between service sharing and the World-Class Financial Management agenda
- Which options in terms of business models and organisational forms are seen as the preferred ways forward for shared finance
- Whether the suggested divisions of roles between councils and an SSA is acceptable and capable of delivering real benefits
- What tools, information and advice councils need in moving forward on the shared finance agenda.

Responding to the consultation

To respond to the consultation you are asked to complete the **online survey**. If you have not already received an email giving you details about this, please email us at shared.services@cipfa.org. We will then send you a link that will activate the survey tool. Please put the word "Consultation" as the subject of your email, to make sure it is dealt with promptly.

The consultation will be open until **5pm on Friday 28 November 2008**.

¹ Chartered Institute of Public Finance and Accountancy

² Society of District Council Treasurers

Comments and enquiries can also be sent by email to shared.services@cipfa.org. If you wish to phone, please call Kirsty Hardwick on 0208 667 8598.

All requests for confidentiality and anonymity in your responses will be dealt with accordingly. Personal data will also be handled according to our obligations under the Data Protection Act.

Consultation questions

There are two main sets of consultation question. The first 18 cover the main body of the document its and accompanying appendices. These are listed below and are also included at the end of the sections to which they refer. 12 further pairs of questions can also be found in the online survey and ask specifically about the outputs that have been proposed for stage 2 of the project.

Questions on the document:

- Q1** Are the shared service options set out in section 1.2 clear and comprehensive?
- Q2** Which options are most attractive to you – and why?
- Q3** Do you agree with the goal and vision for a shared service arrangement (as described in section 1.4)? What, if any, changes would you like to see to these?
- Q4** Which of the benefits of a shared finance arrangement are most important to you? Are any missing?
- Q5** Do you agree that shared services have a key role to play in delivering these benefits? Please elaborate.
- Q6** Does section 2 of the document accurately describe the drivers for World-Class Financial Management (WCFM)? If not, what's missing?
- Q7** Do you accept the analysis in section 2.2 of where district councils are now in cost performance terms? What observations would you make about this analysis?
- Q8** Is the description of world-class performance set out in sections 2.3 to 2.5 insightful and persuasive? What, if anything, is missing?
- Q9** Do you agree with the vision and principles set out in section 3 for how financial processes might be redesigned as part of a shared service arrangement? Please elaborate.
- Q10** Looking generally at section 4, do the divisions of roles between the shared service and the council look acceptable? What observations would you make these?
- Q11** What comments do you have about any specific processes set out in section 4? For instance, what would the implications of these changes be?
- Q12** Do you accept the general points made in document about the contribution shared services can make to improving district council financial services? Please elaborate.

- Q13** What general advice would you give to the project in planning for the next stage?
- Q14** Do you agree with the points made in Appendix 1 on the contrasts between conventional finance functions and world-class environments? Please elaborate.
- Q15** Do you agree with the points made in Appendix 2 comparing different organisational models? Please elaborate.
- Q16** Do you agree with the points made in Appendix 3 on the models of shared services? Please elaborate.
- Q17** Do you agree with the points made in Appendix 4 on the contrasts between green-field, brown-field and outsource arrangements? Please elaborate.
- Q18** Do you agree with the points made in Appendix 5 on the contribution of shared services to world-class performance, as described in the FM model? Please elaborate.

The online survey tool provides an easy to use way of providing feedback on all the consultation questions, as well as a way of registering to receive more details about the project.

Outcomes from the consultation

It is anticipated that the outcomes from this exercise will be released via the SDCT's General Meeting on 5 December 2008. A summary of results will also be circulated soon after this to all respondents that have completed the online survey.

Executive Summary

This document sets out the vision and purpose of a shared service arrangement (SSA) that could enable district councils to move towards World-class Financial Management (WCFM). It is the key output from the first stage of the CIPFA-SDCT Shared Financial Services Initiative and forms the basis of a consultation exercise supported by the Department of Communities and Local Government and the Regional Improvement and Efficiency Partnerships.

The document recognises that districts face a range of pressures on their financial services. These include budget tightening, lack of access to state of the art technology, and difficulties in attracting and retaining skilled staff. Compounding this are challenges (due to their limited size) in accessing the skills and investment capital needed to achieve genuinely world-class performance.

In responding to this situation, councils are presented with a range of options in the areas of shared services and outsourcing. Depending on the council's business need, partnership preferences, access to investment funds and approach to risk, the business models and organisational form adopted will vary.

Evidence collected during the project suggests that world-class performance in finance is highly correlated with the existence of shared services, particularly around transactional processes. In addition, the ability to access technologies such as enterprise resource planning (ERP) systems - combined with best-of-breed processes and workflow and process automation tools - is frequently found to be the key foundation for top performance. Districts are unlikely to have access to these without pooling their investment overhead with other councils, and possibly with commercial partners.

In responding to this agenda, some councils may wish to adopt 'Public-Public' or 'Public-Private' collaborative arrangements, creating new, 'green-field' SSAs. However, these are likely to be more uncertain and higher risk options than turning to existing ('brown-field') offerings (using the services of existing SSAs) or outsourcing processes to third party providers.

In adopting either shared services or outsourcing, thought also needs to be given to the mechanisms by which councils will secure the standard of service they require. This will typically involve attention to commissioning, contact management and service level agreements (SLAs). However, where councils are partners to a shared service vehicle, they are also likely to have additional leverage as part of the organisation's governance structures.

In redesigning and sharing their financial services and processes, councils will see the numbers of finance and accounting staff reduced. Those that remain will play a key role in supporting executive decision-makers and service managers in understanding the financial implications of decisions and business plans.

Inside the shared service, roles will change and new jobs will be created. As a 'service organisation', efforts will need to be made in developing the relationship management roles that interface with council customers. As scale develops, competency centres are also likely to be created, allowing for specialist skills and advice to be available to council clients.

1. Background and overview: why shared services?

Since the summer of 2007, CIPFA and the SDCT have been working together to explore the opportunities presented by the shared services agenda. In March 2008, supported by funding from the Department of Communities and Local Government (DCLG) via the West Midlands RIEP,³ a two-stage project was conceived that would culminate in a detailed business case (DBC) for shared financial services.

The main aim of the project was not simply to build the case for shared services, but to understand what a World-Class Financial Management (WCFM) approach might look like in the world of district councils and to identify the role that a shared service arrangement (SSA) might play in supporting it.

1.1 Why a shared finance arrangement?

The sharing of corporate services – especially around finance and accountancy – has a number of potential attractions to district councils. At a time of fiscal tightening, districts face particular challenges in balancing budgets while also seeking to improve the services they provide. Significantly though, in examining the data on top performing finance functions worldwide, it is evident that shared services is a key variable in delivering highly efficient transactional processes, extending 'value-adding' services and gaining access to the latest enabling tools and technologies.

Working alone, few districts could afford the investment overhead needed for the latest enterprise resource planning (ERP) systems. Likewise, 'best-of-breed' processes are more likely to come where councils are able to pool their resources as part of collaborative improvement efforts. On the transaction processing side, an SSO offers additional gains though the ability to generate economies of scale through processing volumes.

Smaller councils also face particular problems these days in attracting and retaining trained finance and accounting staff. Shared services, through the creation of centres of excellence, offers a potential remedy here, with new career ladders for staff themselves and the opportunity for council customers to draw on a pool of experience and talent. Indeed, some approaches here stand in contrast to the more 'high-tech' approaches, as in the case of Internal Audit operating at a sub-regional level (see boxed example below).

Shared Internal Audit in Somerset

The South West Internal Audit Consortium undertake internal audit for the 5 Somerset Districts and County Council. Through the sharing of best practice and the ability for the larger team to specialise the overall quality of service is assessed as high by the external auditor. Attracted by its success, Dorset councils are expressing an interest in joining soon.

³ Regional Improvement and Efficiency Partnership

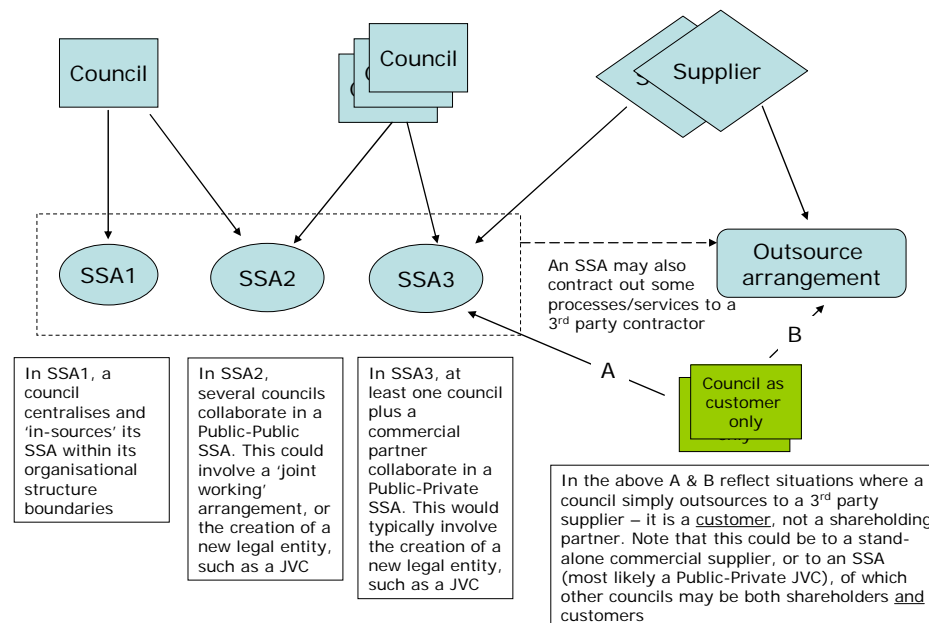
1.2 What shared service options do councils have?

Apart from the 'null' option of remaining how they are and resourcing improvement efforts in-house, councils have a number of routes by which they might improve their financial services using shared services or outsourcing (or a mix of the two). The chosen approach will depend very much on the challenges faced by each council, its level of ambition, the degree of partnership working it wishes to adopt, as well as its access to investment funds and its appetite for risk. Added to this there are choices around business models and organisational forms.

The 'in-sourced' SSA (SSA1)

As the diagram below shows, shared services come in several forms. At its simplest (SSA1), common processes and services inside the organisation are pulled together into an in-house operating unit. What differentiates this from run-to-the-mill centralisation is that the unit would be set up as a 'service organisation', complete with service level agreements (SLAs) and the development of 'relationship management' roles that would be the key business interface between the SSA and the service area.

Relationships that councils and suppliers have with SSAs and outsourcing arrangements



This option is more feasible, of course, in larger organisations, where there may be many – perhaps scores – of 'mini finance functions' – embedded within operating divisions or at different sites. This will not be the case for a district council, of course, although for a county or unitary council, the scale of operations may lend itself to this option.

One SSA studied during the project was the HM Prisons shared service, based at Newport. This now undertakes much of the Finance, HR and Procurement work that was previously performed locally by 130 different prisons. Given the scale of operations (the service has to deal with some 600,000 invoices a year), HM Prisons is a big enough service to make an in-sourcing arrangement an attractive solution.

Where in-sourcing can be done, it is clearly a reasonably straightforward approach, as external partners do not need to be brought on board and the council is able to determine how it wishes its services and processes to be designed without consulting others. On the downside, such arrangements will not benefit from pooling investment capital and other resources with other councils, and is unlikely to have the scale needed to achieve world-class performance.

The Public-Public SSA (SSA2)

For district councils the most meaningful shared services options begin with the Public-Public model. Here several councils (and perhaps other bodies such as fire authorities and PCTs⁴) set up their own SSAs. This might be done, for instance, using a 'joint working' arrangement between council partners. In such cases, it is likely that the services (and processes within them) would be located at one council site and provided to others. This would avoid setting up a new legal vehicle, with work simply re-charged to each council.

South Ribble Borough Council and neighbouring Chorley Borough Council are current operating a shared financial arrangement organised as a joint working arrangement, covering finance and procurement. Other corporate services, such as IT, are also being looked at as candidates for shared services.

South Oxfordshire and the Vale of White Horse now have a joint Director of Finance. He now operates with four reports: Two chief accountants (one for each Council), an Internal Audit Manager, and a Revenues and Benefits Client Manager (the Revs & Bens service being outsourced to Capita)

Joint working would be a possible model where only a few local councils are involved (such as within a county boundary) and where there are no immediate plans for expansion or for trading the SSA's services. Where this is not the case, or where there are more than just a few councils involved, a new entity may be needed, such as a Joint Venture Company limited by shares, or a Company Limited by Guarantee. Such bodies would be able to sell their services to other councils, some of which may prefer just to be customers instead of also being shareholding partners to the SSA.

By pooling resources between councils (and other public bodies) the SSA would be relatively free from commercial concerns (such as generating profits). Emphasis would be placed on bringing costs down and improving the quality of service delivered. Governance arrangements would simply involve the councils themselves, allowing for their needs as customers to be the main focus of effort. However, without a commercial partner, the SSA would also have less access to investment capital, as well as the skills, technologies and experience that a commercial partner might bring. This would limit its potential for delivering a significant change in the cost and quality of operations.

A Public-Public SSA may also involve a 'Greenfield' type organisation, with new infrastructure, processes and ways of working. On the plus side, this presents scope for significantly improving the cost and quality of

⁴ Primary Care Trusts

operations, as well as the culture of service delivery. On the other hand, because it is new and untried, it will normally have more attendant risks than, say, joint working based on existing council arrangements.

The Public-Private SSA (SSA3)

A variant on the above is a JVC arrangement that also includes a supplier organisation as a commercial partner. This might be a company that has experience in setting up shared service ventures, or possibly a technology company. Indeed, it might even involve a consortium that has both such partners.

A Public-Private SSA might look very much like its Public-Public cousin, but would have some important differences. For a start, it would also be able to tap into the expertise and capital resources of its commercial member(s). This could include, for instance, knowledge around best practice process designs and technology configurations. It might also involve the ability to access other infrastructure owned and run by a commercial partner, perhaps via an outsourcing contract.

Governance arrangements and business priorities would also be different under this option. There would, as a matter of course, be a commercial side to the arrangement, and the need to ensure profitability. That said, as shareholding partners to the venture, the councils would have a large degree of control, although this would depend on the amount of shares held and the way governance arrangements are established. There would also be contractual arrangements and SLAs, which would enable the councils (as customers) to demand a particular level of service.

While this option would probably again be a 'green-field' organisation (new infrastructure, probably at a neutral location), depending on the commercial partner, the risks associated with it would be lower. For example, where the partner has experience in setting up and running such ventures (with tried and tested process designs, technology configurations and management systems), the venture would involve familiar territory and known business issues.

A number of shared service organisations that were studied during stage 1 of the project fit into the Public-Private JVC model. This includes SBS, the shared financial service between the NHS and Steria; Customer Service Direct (CSD), the joint venture between Mid Suffolk District Council, Suffolk County Council and BT; and South West One, whose partners include IBM, Somerset County, Taunton Dean Borough Council and Avon and Somerset Police.

In most cases, SSAs set up as Public-Private JVCs are also intent on acquiring new customers (some of which may also become shareholders too). Such growth strategies offer potential future revenue streams, enabling the SSA to maintain investment over time and to establish itself on a sustainable scale. In doing this, the SSA3 may also act as a delivery body to which other councils may wish to contract on an outsourced basis, as we will see below.

Outsourcing and shared services

There is sometimes a thin line between a 'shared service' arrangement and an 'outsourced' arrangement. As the diagram on page 4 shows, where an SSA has been set up as a JVC – and with the intention of trading and growth – the services available may be of interest to councils that were not founding members. In some cases, new councils may be able to join the SSA as both a shareholder and customer. (As such, the arrangement represents a kind of 'brown-field' proposition.) However, other councils will also simply become customers to the service. (A comparison of the attribute of green-field, brown-field and outsourced arrangements is provided in appendix 4.)

Where a council is just a customer, it is effectively outsourcing its services/processes to the SSA. That the arrangement is also a shared service to which other councils are both customers and partners (able to influence strategy and operations through their shareholdings and governance structures) may be a source of confidence to new customers. In addition to this, the fact that such arrangements are not green-field (and thus have established a track record) will make joining the arrangement as an outsourcing customer a much less risky step.

Of course, where councils are not partners/shareholders to the SSA, they will not normally have a role in the governance of the organisation and thus be less able to influence its direction and priorities. Instead they will have to rely on contractual arrangements and the terms of SLAs. Nor will they benefit directly from new revenue streams or corporate profits.

This is also the case if a council goes straight to a third-party supplier to outsource its services. Here, risks may be relatively low where that supplier is experienced in delivering the service in question. However, for some councils, the lack of engagement of other local authorities as partners will make the 'brown-field' (SSA3) option a more attractive outsourcing body.

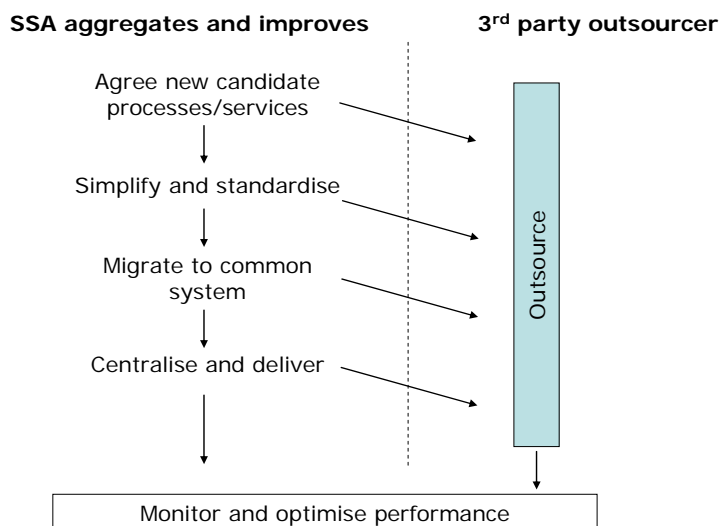
One authority visited during the project, Mendip District Council, has outsourced a range of services direct to Capita. These include Accountancy, IT and Revenues and Benefits.

A further factor that should be considered is that an SSA might itself choose to outsource some of its services and processes to a third-party provider. This is most likely with transactional processes, where an outsourcer has the advantage of scale in processing volumes, as well as use of advanced automation and workflow technology. Indeed, over time, we can expect all SSAs to consider which parts of their operations are core and which might benefit from using the services of another provider.

1.3 Shared service aggregation, improvement and optimisation

Whatever business model and organisational form is adopted, shared services offers the means of 'aggregating' or 'pooling' services/processes, and setting in motion a process of improvement. As the diagram below shows, this firstly involves simplifying and standardising the processes involved (removing waste and reducing variance in approach between different organisations). This is followed by the migration of the

customers' processes and data to a common system (shared with other organisations). Finally, operations (including, in some cases, people) are then moved to a given site. Once operational, the service/process is monitored against SLAs and steps taken to optimise performance over time. (See also section 2.6.)



SSA has responsibility for bringing processes and services together across an organisation or organisations. As well as improving and delivering them itself, at any point the SSA may also decide to outsource some or all of a service/process

At any step here, the service/process (or part of it) might be outsourced. As mentioned above, this is particularly the case where processes are well understood (particularly their costs) and it is felt that they are more likely to be optimised by a third party.

1.4 The role of this document in realising shared service benefits

In helping councils to address the issues above, the current project was split in two stages. This document (Product P2.0) is the key output from the end of the first stage. Its purpose is:

- To provide a vision and articulation of the role a SSA would play in improving district council financial management
- Explain how this would enable councils to move towards World-Class Financial Management (WCFM) approaches
- Describe the changes to processes and splits of responsibility between the SSA and the local financial arrangements in the council
- Set out the goal of moving towards the SSA and the benefits profile that would be associated with it.

The document is agnostic as to the means by which a shared service arrangement (or arrangements) might be achieved. The legal structure of any proposed shared services arrangement will follow an analysis of the form most suitable for district councils. Options are discussed in more detail in appendix 3 of the report.

The Goal and vision of a SSA

In taking this forward, the document also exists to communicate the goal of introducing a SSA for district councils and the vision and benefits associated with this. The goal can be stated as follows:

To improve significantly the performance of district councils' financial services, enabling better financial management, improved use of resources and greater support for corporate improvement, while also bringing down the costs of those financial services significantly.

The vision for the SSA can be stated as follows:

District councils will be able to adopt World-Class Financial Management principles, approaches and technologies, allowing for improved business performance while also bringing down the cost of financial services by 25-50%.

Benefits of adopting an SSA

The more specific **benefits** associated with the above include:

- Significantly lower operating costs
- Significant improvements in service quality (to finance staff and business users)
- Access to staff with specialist skills
- State of the art financial information systems
- Reduced problems in recruiting and retaining skilled/high calibre finance staff
- Improved investment and innovation opportunities
- The achievement of world-class financial management
- Ongoing performance improvement

In the next section we will look in more detail at why these benefits are needed and how a SSA will help to achieve them.

Consultation questions

- Q1** Are the shared service options set out in section 1.2 clear and comprehensive?
- Q2** Which options are most attractive to you – and why?
- Q3** Do you agree with the goal and vision for a shared service arrangement (as described in section 1.4)? What, if any, changes would you like to see to these?
- Q4** Which of the benefits of a shared finance arrangement are most important to you? Are any missing?
- Q5** Do you agree that shared services have a key role to play in delivering these benefits? Please elaborate.

2. Shared services and the World-Class Financial Management (WCFM) Agenda

As previously mentioned, the main goal for the current project was to enable councils to take advantage of WCFM principles and approaches. The particular focus has been the role that shared services might play in achieving this. As the sections below show, where WCFM has been achieved across the world this has typically involved the support of shared services.

2.1 The drivers for WCFM

A range of factors are forcing councils to think in terms of world-class performance. These include external drivers (particularly government policies and grant settlements) as well as internal pressures (such as the desire to improve the service to corporate customers).

Pressures on Finance budgets

In recent years, the Gershon Efficiency Review provided particular impetus to develop more efficient use of resources, while ensuring that any savings were not at the expense of service delivery. A range of service delivery targets kept a weather eye on front line delivery whilst demanding cashable efficiency improvements of 1.5% per annum.

This was followed by a more recent spending review target of 3% savings per annum. This is in the context of the local government finance settlement 2008/09 and provisional settlement for 2009/10 and 2010/2011, which provides an average district council with grant increases (revenue support grant and share of business rates) of 1.7%, 1.4% and 1.3%. For some district councils the minimum increases, i.e. the floor, will apply. These are 1%, 0.5% and 0.5% respectively.

These increases will struggle to meet the lowest inflationary increases and largely reflects the Government's priorities on education and personal social services. Indeed, with wage pressures of around 2.25% pressure will be on the generation of efficiency savings. In addition, for non-pay inflation, fuel price increases place further pressure on base budget spending.

What particular pressures might the Finance department face in this context? Analysis conducted by CIPFA (based on Annual Efficiency Statements) suggests that corporate services, such as Finance, are already bearing a significant proportion of efficiency savings. Of course, any 'salami slicing' of Finance budgets can only go on so long before more innovative approaches are needed, enabling costs to be reduced without compromising integrity, accuracy and service levels.

It is in the search for new approaches, particularly around corporate services, that much has therefore been made of the opportunities presented by shared services. This was a significant theme in the Gershon Efficiency Review and also forms a key plank of the Transformational Government strategy. Shared services advocates here posit the possibility of improved service coupled with cost reduction by pooling investment and operational expenditure, with a particular emphasis on achieving economies of scale.

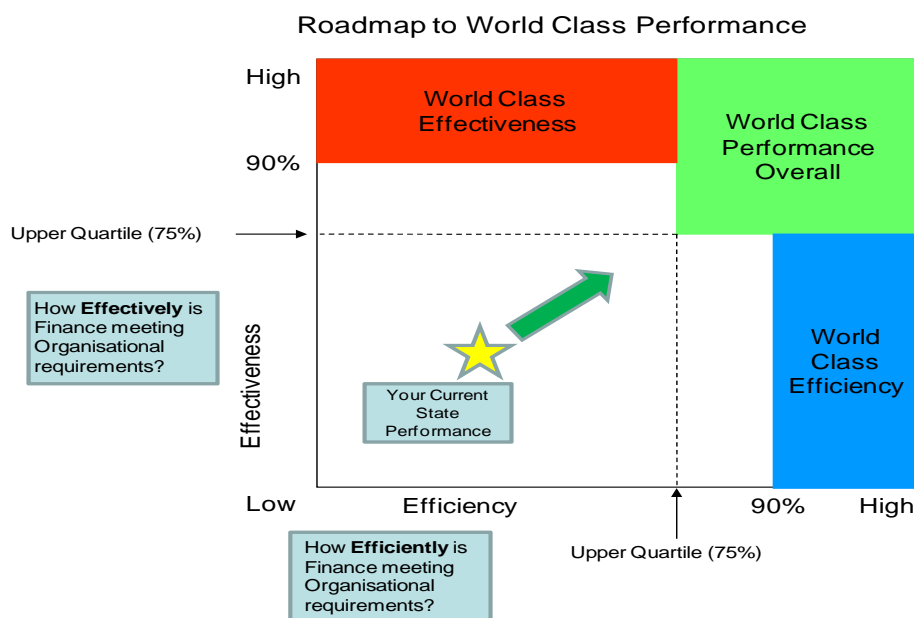
There is support for these ideas in developments around WCFM, of course, where evidence suggests that shared service practices are one of the contributing factors towards world-class performance.⁵

Indeed, in both the public and private sectors it is no longer seen as acceptable to have excessive duplication of effort, for example with replication of complete functions in each council, implementing and using inefficient systems and processes. As part of the effort to improve both efficiency and effectiveness shared services are therefore seen as means to access state-of-the-art IT system, implemented and deployed using best end-to-end processes.

Improving stewardship, supporting transformation

Of course the drivers for WCFM are not just about bringing down costs. Organisations seeking to emulate top performers in Finance are focused on delivering modern, customer focused services, backed up by the latest technologies and ways of working. Financial services, along with other support services, are increasingly seen as key vehicles for driving initiatives across the organisation. Improved financial information in particular can impact positively on the effective management of services and realise benefits beyond those directly associated with the Finance function.

CIPFA’s FM Model,⁶ for instance, articulates a host of best practice precepts, including the growing emphasis on Finance in supporting performance improvement and enabling corporate transformation. To provide the opportunity to deliver against financial and service objectives, a path towards greater efficiency and effectiveness needs to be clearly mapped out. The ultimate goal is a state of performance excellence, with a direction of travel towards top quartile – even top decile – standing, based on world-class standards. This is illustrated in the chart below.



⁵ Global benchmarking data collected by the Hackett Group make a particularly compelling case about the role of shared services in top performing Finance functions (see Tom Bangemann’s 2005 book, *Shared Services in Finance and Accounting* for a discussion of this data)

⁶ *Financial Management Model, Statements of Good Practice in Public Financial Management*, CIPFA, 2008.

The chart suggests that world-class organisations reside within the top 25 percent of achievement in both efficiency and effectiveness compared to peer group organisations. Whilst the precise percentage number may be debatable, it is important to identify and quantify the extent of the 'cost and quality gap' and understand practical best practice solutions that could be adopted to improve performance.

Practical solutions will begin with an examination of strategic options that are best able to meet the objective of world-class financial services. The criteria to use in determining the optimum solution can be quite complex but will include consideration of the traditional areas of organisational change, i.e. the underlying vision and objectives, the structural requirements, the alignment of processes with other services, and the role of staff and IT support.

Cambridgeshire's search for top performance

A low spending council, Cambridgeshire's average costs were deemed by members to be too high, and there was a desire to improve further on above average performance. Corporate Services therefore set out an ambitious vision for the future – to offer back office services at top quartile performance in terms of efficiency and effectiveness.

Quick win savings had been implemented as far as they could as a single council operating on their own. The investment required to make processes significantly more efficient could not be justified by the council in isolation. A radically different approach to finding these savings was needed to leverage the substantial sums invested in developing Oracle e-business suite over the years.

Sharing the underlying software and hardware with other councils was seen as a potential way of producing significant savings in support and development costs. At the same time each council would have teams of staff processing similar transactions – if these aspects could be shared it was felt that there would be significant savings in staff costs, productivity and quality improvements."

Cambridgeshire had for some time followed a policy of pragmatic outsourcing if it was clear that the private sector could offer services which were both of higher quality and more cost effective. However outsourcing all of corporate services was not an option that appealed to Cambridgeshire but the opportunity to tap into the transactional processing skills and knowledge in the private sector was thought to be worth pursuing.

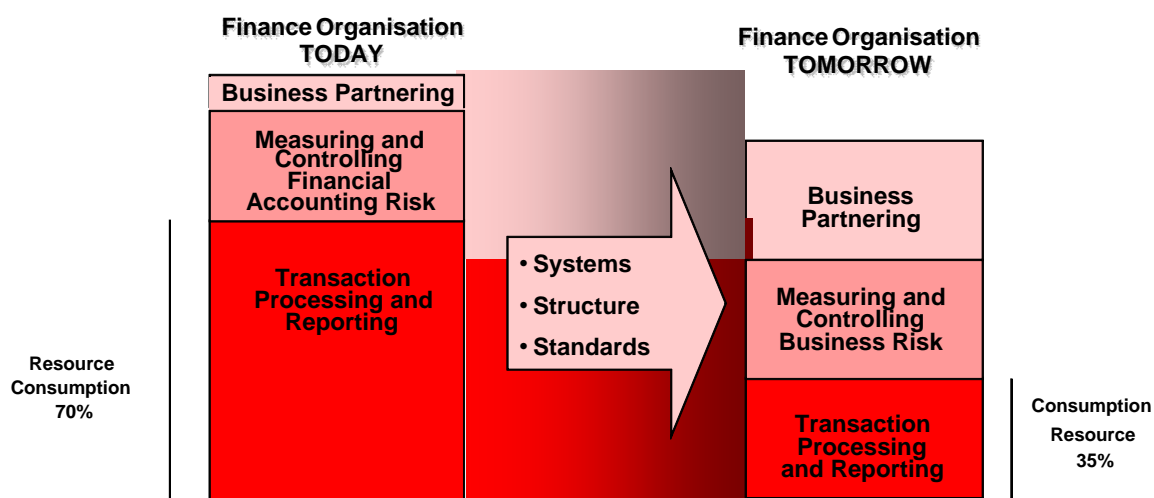
The idea of a commercial model was interesting as it offered the possibility of sustainable savings through economies of scale with other councils. In taking this forward, Cambridgeshire teamed up with Northamptonshire. The intention is that income and savings generated by the shared service solution will be re-invested in front line services.

The project will develop a new pioneering shared service, which will see back-office functions, like Finance and HR, delivered in partnership with other councils and engaging with a private sector partner. They have entered a groundbreaking partnership with Fujitsu Services in order to do this, which will enable the two councils to share the delivery of back office transactional services.

Improving service effectiveness at a time of budget tightening

Today then, internal and external stakeholders are generating new demands on Finance functions. New technologies are also opening up innovative ways to process and share information, for example, though intranet or internet delivery mechanisms or integrated ERP⁷ systems. To respond to these demands and opportunities, the Finance function needs to adapt its services can be provided responsively and reliably.

Using world-class approaches, all of this can be achieved at an overall lower cost, as illustrated below. The diagram shows that most of the Finance team's effort is currently expended on transactional related activities and very little time is left for added value business partnering activities (providing advisory services and enabling corporate transformation).



By adopting world-class best practices, a reduction in the proportion of effort spent on transactional processing - in absolute and percentage terms - can be achieved (the % of resource consumption shown above is typical of many case studies). Compliance activities should broadly remain the same and decision support/business partnering activities can be increased by releasing resources from transaction processing to better support the needs of stakeholders on the business side.

2.2 Where are district councils now?

In stage 1 of the current project, we offered a number of district councils the opportunity to engage in a benchmarking study to measure their current performance for finance processes versus "average" and "world class" performance.⁸ The purpose of this exercise was to provide some evidence of the gaps in current performance levels of district councils versus performance achieved by other organisations through adoption of the WCFM models and implementation of shared services.

⁷ Enterprise Resource Planning

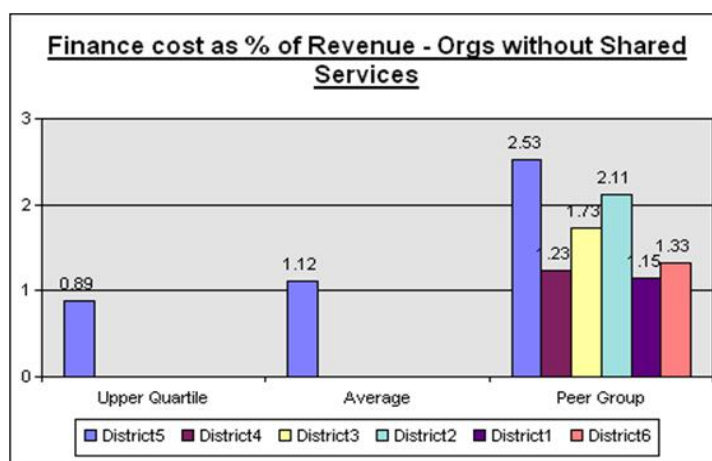
⁸ The data used to benchmark the Peer Group here is drawn from a range of global benchmarking sources. This includes data cited by the Hackett Group - the world leader in shared financial services benchmarking - and includes data on public and private sector organisations, as well as organisations with and without shared services. The data was collected by the project team and analysed by Perform World, a UK company specialising in shared service performance.

Some outputs from this exercise are shown below. The data from 5 councils is included here, plus a composite, sixth entity. The figures from the sixth represent the averages achieved among districts within a particular country. More analysis would, of course, be necessary to quantify savings opportunities in detail. Due to time constraints in data collection, further work would need to be performed to be absolutely sure there was a high level of accuracy and consistency regarding the figures submitted by each council.

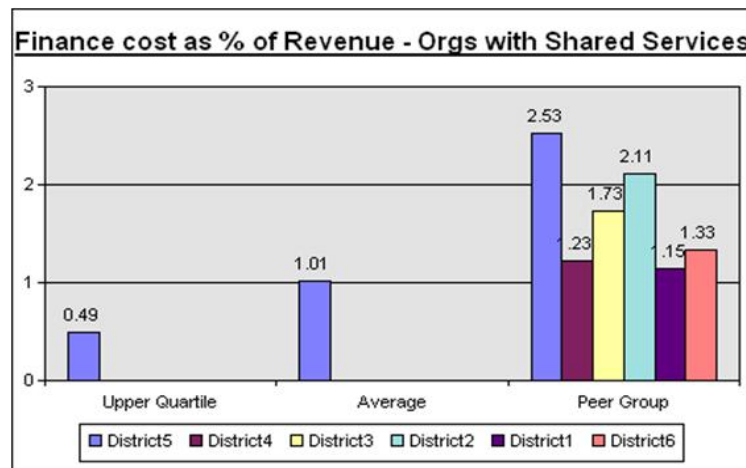
Findings from the benchmarking exercise

While bearing the above points in mind, we believe the initial benchmarking exercise provides some useful initial indicators that can be built upon and indicates there is a significant scale of opportunity for savings if a reasonable number of councils were to come together to adopt a WCFM model, including utilising a shared services organisation for transaction processing and “rules based” finance activities.

The following two charts compare the performance of district council participants for Finance cost as a percentage of Gross Revenue (revenue relating to service expenditure) versus average and upper quartile performance of organisations without shared services and also those organisations who have adopted shared services. (In both cases, the peer group authorities do not yet operate shared services.)

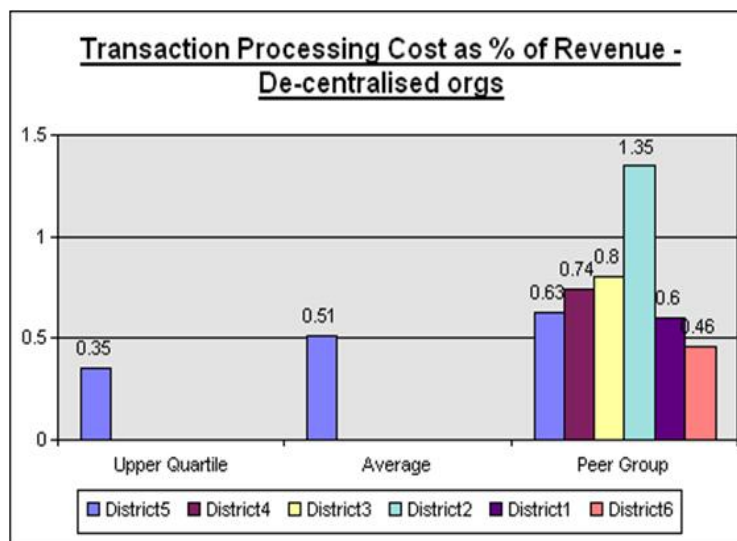


The first chart (above) shows that some peer group authorities are close to the performance of ‘average’ organisations that do not operate shared services. There is a greater gap, though, when compared to organisations in the ‘upper quartile’. The second chart (below) indicates that there is a bigger gap when the peer authorities are compared with organisations that are operating shared services (remember that the peer group authorities do not operate shared services themselves as yet.)

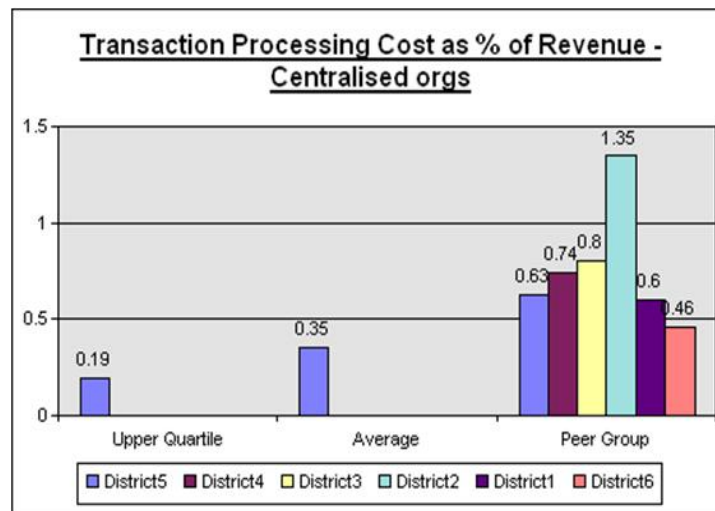


While some councils in the sample are around 20-30% more expensive as a percentage of revenue when compared to ‘average’ organisations with shared services, others are more than double the cost. When the councils are compared to ‘upper quartile’ performers, however, a more significant gap emerges, suggesting that even the best authorities in the peer group are at least twice as expensive as the top performing finance functions.

The following two charts show a similar picture for transaction processing activities. Compared to organisations that have not centralised their transaction processing (such as through a shared service centre), some authorities perform well against the ‘average’. However, all are out-performed by organisations in the ‘upper quartile’ (see below).



When compared to organisations with centralised transaction processing via shared service arrangements, the peer group authorities (which, again, do not operate shared services), are considerably away from the ‘average’ and at least four times as expensive as the ‘upper quartile’ (see below).



What is the scale of the shared services opportunity?

Based on these high level measures, taking the best performing council in the sample as an example, if upper quartile performance were to be achieved for each District Council, this would suggest a 50% improvement is possible compared to current performance. Based on desk based analysis of 200 District Councils, the average annual cost of Finance is typically around £900,000 per Council. If this performance improvement were to be achieved for all Councils, this could translate into an average annual saving of over £400,000 per Council.

If 25 District Councils were to adopt the WCFM model with a shared service, and “upper quartile” world class performance were to be achieved, then this would imply savings of £10M. In the interests of prudence, if we assumed 50% of these savings were achievable, this would suggest “lower end” savings of at least £5M annually would normally be expected. (A conservative approach is needed here, not least because councils will also incur investment and set up costs as part of any change, and because top level savings are most likely to occur in the medium term, once processes have been optimised over time. Councils will also need to retain a certain amount of their finance resource ‘in house’.)

As highlighted in Section 2.1 the potential benefits also include indirect savings arising from the availability of a higher standard of advice and better management information. These benefits enable better value for money to be achieved with any given level of resources. Whilst some of these indirect service benefits can be difficult to quantify, at least in the short term, some are more readily obtained - for example, savings arising from the more ‘intelligent’ procurement of goods and services.

But let us turn now to look in more detail at the principles and practices that underpin the notion of world-class financial management.

2.3 What is World-Class Financial Management?

WCFM occurs where a state of excellence is attained at all levels within the Finance function. This applies whether or not the financial activities within an organisation are provided directly or indirectly by the Finance function. They may, for example, be delivered wholly or partially in-house, involve outsourcing or have an element of joint working via a shared services arrangement.

There are several factors that influence the efficiency and effectiveness of service delivery:

- The organisational model (such as the extent of partnership working)
- Organisational structure (how responsibilities are split and staff deployed)
- Levels of best practices (the technologies employed, the processes operated and the skill levels of staff)
- Overarching culture and values that drive the Council (e.g. the level of encouragement and support for staff in striving for improvement).

This document explores these various models, structures and best practices with a view to showing potential ways forward for district councils to achieve the “win-win” of WCFM excellence: saving money while improving the quality of service delivery for customers.

WCFM is not an accredited position but an aspiration. While it has not been precisely defined in either quantitative or qualitative measures, the principles of world-class performance have been backed via facts and evidence in the form of performance measures that indicate the highest level of attainment.

Analysis of the attributes of WCFM can be done via a range of different dimensions. The Audit Commission’s account,⁹ for instance, looked at the following areas: *financial governance and leadership*; *financial planning*; *finance for decision making*; *financial monitoring and forecasting* and *financial reporting*. However, as they note themselves, the Audit Commission’s document does not discuss how transactional services might operate in a world-class environment.

The CIPFA FM model discusses best practice in terms of a matrix of issues according to four key ‘management dimensions’ - *leadership*, *people*, *processes* and *stakeholders* – and three levels of ‘outcomes’: ‘*securing stewardship*’, ‘*supporting performance*’ and ‘*enabling transformation*’. The matrix approach adopted by CIPFA sits well with the complex range of issues facing a district council in identifying their position on the path towards excellence.

WCFM and the role of the Finance Director

WCFM principles support the role of the Finance Director in Local Government, as set out by CIPFA over the years and regularly refreshed in the light of modern developments in financial governance and practice. As CIPFA’s Financial Management (FM) Model notes:

“CIPFA believes that finance directors should take on responsibility for ensuring all ‘branches’ of the authority such as the full council, executive and scrutiny

⁹ *World-class financial management: a discussion paper*, Audit Commission, November 2005.

functions, receive timely, accurate, impartial, professional financial advice and support.”

The FM Model identifies and builds upon five roles (and related tasks) where Finance Directors need to make a positive contribution if they are to fulfil their statutory & public interest duties:

- Maintaining strong financial management underpinned by effective financial controls
- Contributing to corporate management and leadership
- Supporting and advising democratically elected representatives
- Supporting and advising officers in their operational roles
- Leading and managing an effective and responsive financial service.

Underpinning the above responsibilities is the statutory requirement of section 151 (of the Local Government Act 1972) where the Finance Director is responsible for the proper administration of the Council's financial affairs.

The combined responsibilities give support to CIPFA's view which:

“...require Finance Directors to be responsible for managing the totality of an authority's financial affairs.”

Both the concept and practice of an SSA have the potential to complement the responsibilities of the Finance Director. CIPFA's work on the role of the CFO sets the standards for a professional approach here. As such, shared services is entirely compatible with the responsibilities on heads of Finance, providing the right vision, business model, organisational arrangements and change managed techniques are adopted.

Areas covered by financial services

Whatever the organisation does, the Finance function should have a common set of responsibilities across sectors. The following list draws once again from the CIPFA FM Model, *Statements of Good Practice in Public Financial Management*:

Areas covered by financial services

- Giving a reliable account of the money the organisation spends and the income it receives
- Ensuring the organisation's conduct demonstrates probity, sound financial administration, stewardship of public resources and compliance with regulatory standards
- Ensuring value for money: economy, efficiency, effectiveness and equity in how funds are used
- Identifying, evaluating and managing risk
- Supporting good decision making and assisting managers and governing structures to assess the financial consequences of policy choices
- Analysing service activity costs and trends and using comparisons to lever performance improvements
- Enabling the organisation to plan for the future and to align its resource allocation with its business objectives
- Maximising income sources without being diverted from business priorities
- Collaborating in change programmes, so that the organisation can move forward without compromising core financial management values

That said, good financial management is also everyone's business

A number of recent publications have underscored the fact that responsibilities for effective financial management spread beyond the Finance department. The 'people' dimension of the CIPFA FM model, for example, emphasises the duty upon all service managers to deliver value for money, and to be held accountable for the financial outcomes of their services (p. 26). In 'enabling transformation', the model also points out that financial literacy should be diffused throughout the organisation, so that decision-takers can understand and manage the implications of their decisions (see p. 28).

The importance of embedding skills corporately – especially among service managers and board members - is also a theme picked up in CIPFA's 2008 publication, *Improving Financial Literacy in Public Service Organisations*¹⁰ and HM Treasury's *Embedding Financial Management Skills in Government*.¹¹ The Audit Commission's *World-class financial management* paper of 2005 also makes the following points:

The whole organisation needs to recognise that it has collective responsibility for financial matters, and that it is not just the responsibility of the FD and the finance department. The FD is only one member of an integrated management team. Top management needs to be financially literate and fully understand the financial environment in which the organisation operates. It must set out clearly the collective and individual responsibilities for financial management and related delegations need to be set out clearly in a framework of accountability for financial matters. (p. 14).

In a world-class environment, therefore, managers and staff do not just have the systems, processes and technologies to support effective financial management; they also have the skills and underpinning value system that enables them to take responsibility for the financial implications of their decisions, but also the performance systems that hold them to account.

2.4 The domains of world-class performance

Organisations that have achieved world-class performance have done so by optimising performance of their transactional operations in order to deploy more resources on value-added advisory and strategic finance activities.

The categorisation of financial services into transactional, advisory and strategic levels is discussed below. This is a convenient way of structuring the levels of 'financial administration' that are the responsibility of the Section 151 Officer. Each level is dependent upon the other two for the provision of a completely integrated set of financial services. Failure within any one level will impact adversely on the others, as well as on the support provided to front line service departments. A best practice framework will therefore seek to balance and optimise across all three finance levels.

¹⁰ Published by CIPFA, September 2008

¹¹ Published by the HM Treasury Financial Skills Advisory Panel, February 2008

Transactional Level

The transactional level includes routine accounts payable, accounts receivable and payroll transactions, as well as rules-based general ledger activities like journal entry processing, account reconciliations and production of standard reports. Transactional level activities are back room in nature and can be performed without much close interaction with the front line service areas.

Traditionally, these services have been provided directly by the Finance department in-house. Although essential, they are increasingly seen as non-core to the delivery of front-line services and thus open to new delivery models, such as outsourcing or service sharing. The evolution of these new approaches now means that such services can be delivered more efficiently, combined with greater accuracy and service reliability.

Transactional services at BPI and Oracle

Two organisations visited during the project illustrate the extent to which shared service arrangements can produce efficiencies in the finance area.

British Polythene Industries (BPI) – Europe's largest manufacturer and recycler of polythene related products – introduced a finance shared service in early 2006 covering transaction processing and decision support services for the whole group. In 2005 it had 96 people working in finance, 62 of which were identified as performing transactional or rules-based work. Now that the shared service is operational, headcount has been reduced by 22 in this area. The SSA is now on target to achieve the 40% savings identified in its original business case.

Similarly, Oracle in the UK have saved 25% in their finance and legal services by taking advantage of the group's global shared service centre. There are now just 15 accountants serving the UK and Ireland, supporting a business with 1,800 staff and a global turnover of \$1.5bn

With more efficient transactional processes, backed by better financial information systems, councils are not just able to save money – they are also much better placed to ensure the effective stewardship of corporate resources. Of course, systems, processes and procedures still need to be continually refined in these new delivery environments to ensure that service targets are met irrespective of changes in front line services. This is usually achieved through business partnering, service level agreements and an emphasis on continuous improvement.

Financial Advisory Level

The Financial Advisory level incorporates the work of accountants and finance professionals in providing budgetary, forecasting, financial management and advisory support to the service managers and executive decision-makers. This also includes non-rules based finance activities like ad hoc reporting, use of management and financial accounting information and interpretation of those results.

In world-class financial environments there is a stronger business link between service managers and financial specialists, recognising the shared responsibility for understanding the financial implications of service plans and decisions. Improved financial control, combined with better information systems and analytical tools, enables each side to make more

accurate judgements as to the best value that can be delivered by service expenditure.

To provide this higher level of support it is essential that activities and outputs at the transactional level are of good quality, whatever organisational model is adopted. As the transactional level involves providing repeatable rules-based outputs, given the right procedures, processes, systems and controls, a high level of efficiency and effectiveness should be achievable.

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The level of success and value added nature of advisory support is typically related to the qualifications and experience of the finance staff employed. In smaller district councils it may be difficult to justify (or recruit) specialist finance staff of the calibre needed to handle work of this nature. Here again, new delivery models, such as a shared services, are being used to enhance and 'future proof' quality of advisory services. This involves both freeing up in-house (council) resources to focus on these more valued activities, as well as by making specialist expertise available through the shared service organisation itself (e.g. on tax and treasury management).

It should be noted here that in redeploying in-house staff on new, added value roles, significant levels of support or training may also be needed in new skill sets.

Strategic Level

The strategic level is predominantly the domain of senior management and the Director of Finance. This level involves providing advice and support for top level decision-makers, but also taking responsibility for the complete range of financial services and their performance. Increasingly here, developments also involve ensuring that the organisation as a whole is financially literate and that skills, information and analytical tools are embedded across the organisation to support change and transformation.

In order to deliver improved standards of service from the Finance function, managers at this level are increasingly spending time considering new models of service delivery. Of course, even where new delivery

models are adopted - for example, via shared services or outsourcing - responsible for the efficiency and effectiveness of services will still rest with council Finance Directors, who are still accountable for the overall results. To deal with this, a framework involving a contract, service level agreements, splits of responsibilities, communication mechanisms, performance measurement and reporting thus need to be defined and must be managed to ensure quality and cost effectiveness of outputs.

An important aspect is the need to ensure that savings at the transactional level allow growth and development at the advisory and strategic level where needed. One way of assisting this process is to include 'specialist financial advice' as part of the SSA's in-scope service. This should include technical accounting, capital accounting, PFI accounting, treasury management advice and programme management. Each of these specialist areas are likely to benefit councils through a sharing arrangement.

2.5 The attributes for world-class financial management

How the above is done will, of course, vary between organisations. The high performing services will normally reflect the following attributes:

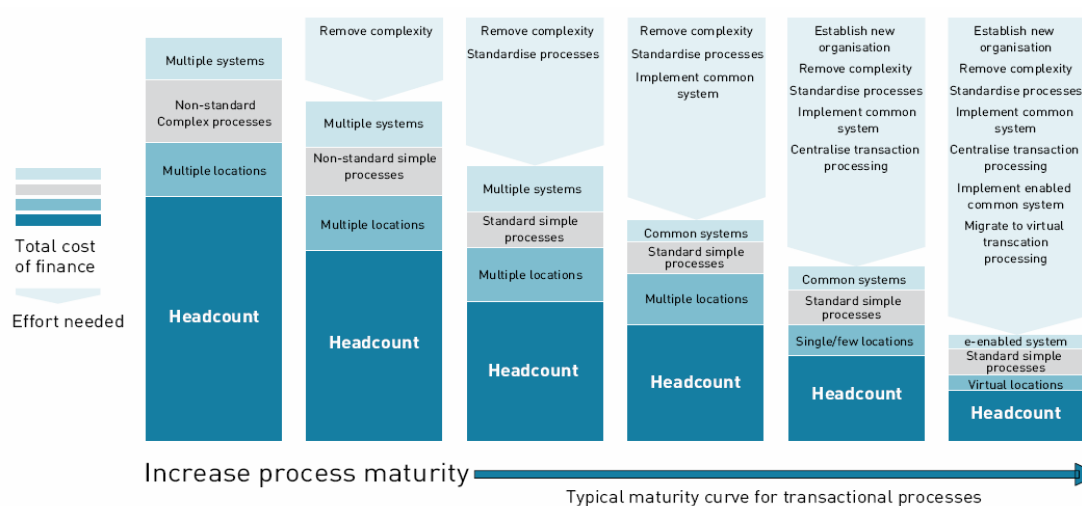
- i) **Standardised processes across entities and business units** (Currently only present in a few district councils)
 - Consistent, repeatable, cost efficient and effective processes
 - Seamless processing across service operations
 - Streamlined processes (eliminating non-value activity & defects)
 - Focus on transaction automation to eliminate manual effort
 - Provision of self-service tools
- ii) **Standard ERP/ CRM Platform** (Does not exist in most district councils)
 - One instance of critical finance data
 - Core finance data visibility and accessibility
 - Finance data drives business intelligence reporting
 - Standard & simplified technology platform
 - Integrated or interfaced enabling technologies
- iii) **Decision support information to improve organisational performance** (Not consistently applied across all district councils)
 - Financial information systems drives the planning function for key processes
 - Supports top decision makers' needs for planning information
 - Focus on creating plans that meet key stakeholder needs
 - Joined up process with transactional processing & reporting
- iv) **Service delivery excellence** (Achieved by some district councils)
 - Contact Centres used to channel stakeholder queries
 - Cost performance and customer service driven
 - Right first time finance transaction processing
 - End to end process focus
 - Continuous performance measurement and improvement
 - Finance operations support the performance management of front line service delivery
- v) **Finance relationship teams** (Achieved by some district councils)
 - Finance teams are linked to key service operations to handle issues
 - Finance competencies match operational needs of service areas
 - Service needs drive quality, timeliness and customer satisfaction ratings for finance
 - Act as interface with key stakeholders
- vi) **People and organisational**

- Wider spans of control
- Flat hierarchy and role based organisation
- Training intensive
- Better career progression opportunities
- Extensive customer focus

Appendix 1 provides a detailed comparison of the contrasts between conventional approaches to financial management and those that adopt world-class principles (which, in many cases, involves use of shared services and outsourcing). Of course, moving to a new approach can involve a range of people, organisational and technological changes, all of which can present barriers to change.

How does a shared services arrangement support this?

The diagram below¹² illustrates how a shared service initiative helps to improve both the cost and quality of transactional processes by removing complexity, standardising processes, implementing common systems and centralisation.



By pooling investment resources, combined with a collaborative approach to improvement, councils are able to gain access to best-of-breed processes and systems while also reducing the headcount needed to operate routine activities. As mentioned earlier, through use of advanced ERP systems, users at the council are also provided with higher quality data, together with self-service tools, enabling improvement in both efficiency and effectiveness.

How does shared services arrangement support the 151 Officer?

The table below gives an indication of the sort of contributions shared services can make in supporting the Section 151 Officer. The table is based on the five main roles identified by CIPFA and draws on observations made of reference sites during the course of the current project.

¹² Source: *Shared Services: where now?*, p. 16, Price Waterhouse Coopers, Published by the CIPFA IT Panel.

The role of 151 Officer and the contribution of shared services

Role of a Section 151 Officer	Shared services contribution	Comments
Maintaining strong financial management underpinned by effective financial controls	Accurate and reliable transactional processing leading to consistent standard of reporting. Balance between financial and management accounting a developing area.	NHS SBS quality control arrangements to ensure consistently high quality of reporting results to a set timetable.
Contributing to corporate management and leadership	Strategic advice function retained by the Section 151 officer. Specialist advice available through the shared service arrangement; for example, technical accounting, taxation advice or systems implementation.	The South Oxfordshire/Vale of White Horse Councils have recently decided to combine their corporate management teams in addition to the role of Director of Finance.
Supporting and advising democratically elected representatives	Pro-active advice from the SSA. This may include areas of national policy or technical accounting developments.	Mendip's arrangement with Capita includes advice to Council and committees and has developed over the contract period.
Supporting and advising officers in their operational roles	Greater specialist capability	South West Internal Audit Consortium where specialist service advice is obtainable from a shared services team of more than 30 staff, as compared to a single district council complement of 4 staff
Leading and managing an effective and responsive financial service	Advice on good practice for client contractor relationships.	It is in the interests of client and contractor for both to be strong partners and this should be pursued by the shared service centre. Governance arrangements in-house and external challenge from the auditor and/or the Audit Commission will encourage this development.

Appendix 5 provides more details on the links between WCFM and the contribution of shared services. This is done through examination of the statements of good practice set out in the CIPFA model.

How do we know if we're achieving world-class performance?

There is no absolute indicator of WCFM. However, there is a range of performance measures that are commonly used to judge the level of organisational performance. These are often used as part of benchmarking studies to see how far away an organisation is versus average or world-class performance. A few examples are shown in the box below.

It should be noted that these are mostly quantitative in nature. For a rounded ('balanced scorecard') view there is also a need to include relevant qualitative measures. These would allow the overall quality of financial service provision and capability to be understood and compared. Such measures would address issues such as organisational learning, innovation and creativity, and service indicators such as responsiveness to customers and pro-activity to a council's corporate needs.

Measuring performance of financial services

Metrics associated with efficiency (cost related performance indicators) include:

- Total finance cost as a percent of total council costs or revenue
- Finance staff (FTE) per £m total costs or revenue
- Productivity per FTE
- Unit cost per finance transaction
- % finance transaction automation levels
- Levels of system modules integration (vs interfaces or manual linkages)
- No of ERP system instances
- No of non-interfaced enabling technologies
- Month end close or budgeting cycle time

Metrics associated with effectiveness (quality related performance indicators) include:

- Debtor days outstanding
- % defects and rework per process activity
- % finance team time spent on business analysis
- % credit sales overdue
- % supplier payments made late
- % SLA performance (timeliness of processing)
- % variance between budget estimates and actuals
- No of iterations for budgets or period end accounts

idgeshire and their shared Oracle ERP. In er attributes of roles to provide departments. In now partnering npt to leverage tandards.

Consultation questions

- Q6** Does section 2 of the document accurately describe the drivers for World-Class Financial Management (WCFM)? If not, what's missing?
- Q7** Do you accept the analysis in section 2.2 of where district councils are now in cost performance terms? What observations would you make about this analysis?
- Q8** Is the description of world-class performance set out in sections 2.3 to 2.5 insightful and persuasive? What, if anything, is missing?

3. Vision for a shared financial service

In this section we discuss what a shared service arrangement might look like for district council finance and what design principles would underpin it. This is followed in the next section by a detailed look at how processes and roles may change once a SSA is introduced.

3.1 Shared Services as a vehicle for WCFM in district councils

District Councils as a tier of government have features that have a *prima facie* good fit with the concept of shared financial services:

- Following the current wave of local government reorganisation, there will be about 200 English district councils, all operating within the same legislative requirements. With an average net expenditure of councils exceeding £15m there is a volume of business activity that can draw upon pooled resources and economies of scale
- Financial accounting and reporting requirements are the same for all councils
- There are several existing local shared service arrangements for transactional services
- There is a mature market for financial systems available with the functionality required to deliver transactional services as well as advisory and strategic needs.

The national amount spent annually on in-scope financial services is estimated to be £180m. This can be broken down as follows:

Service	Estimated annual spending for all district councils £m
Accountancy	92
Audit	18
Treasury/technical Management	4
Cash Office	22
Creditors (Pre P2P)	15
Debtors	18
Payroll	11
Total	180

Not all of the activities that make up the above financial services will be in scope for the current project. Nevertheless, the national scale of operations provides potential for enhancing the benefits from economies of scale and streamlining.

As mentioned in section1, there is range of different models that could be used in supporting service sharing. These include 'joint working' arrangements between local councils, joining existing shared service infrastructure (a 'brown field site' option), or setting up an entirely new shared service. The options available, together with their advantages and disadvantages, are set out in appendix 2.

The Buckinghamshire ('vertical') Pathfinder

The Buckinghamshire Pathfinder project is looking to go to the market with a 'vertical model' consisting of all district councils (Aylesbury Vale, South Bucks, Chiltern and Wycombe), the county council and fire brigade for the following services: Finance, IT, Facilities Management, Legal, Audit and Personnel

3.2 Shared services design principles

Best practice, based on desk research and observation of reference sites, suggests that the following principles underpin the success of a shared service arrangement:

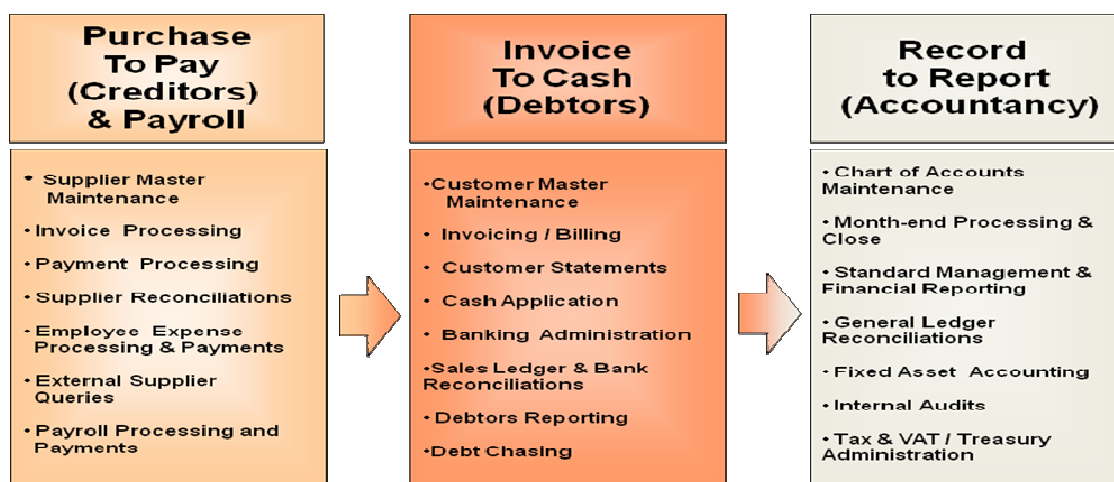
- Operates as an independent business unit and charges for services provided
- Is outward looking in approach:
 - Customer orientated
 - Delivers to pre-defined service levels
 - Based on accountability & measurement
- External benchmarking is utilised to demonstrate value to the business
- There is one neutral location for financial processing and reporting (though virtual shared service concept can be applied in appropriate circumstances)
- Integrates business processes and is focussed on continuous improvement
- The shared services capability is designed and built to ensure future economies of scale can be delivered.

3.3 Typical in-scope processes for a shared service arrangement

The following diagram illustrates the typical Finance processes that lend themselves to shared services. Note also some of the new terminology like Purchase-to-Pay and Invoice-to-Cash, which illustrates the focus on end-to-end processes rather than just specific finance functions.

Teams in a shared services environment are assembled in this manner to maximize efficiency and effectiveness by taking ownership for the whole end-to-end process. This provides them with the ability to tackle the root cause of defects and errors more easily and put in preventative measures to ensure they do not recur.

All the sub-processes included below – which would be performed in a shared services environment – are transactional and rule-based in nature, e.g. the creation of standard reports. There is thus relatively little direct interface with other service departments. As such, this type of work can be performed in a shared service centre at a location remote from the District Council itself.



3.4 The interface between the council and the SSA

The diagram below illustrates the types of value added related finance activities that would probably remain locally with the District Council. These are broadly non-transactional or non-rules based activities in nature. The District Council strategic aspects of Finance, including the Medium Term Financial Plan, annual revenue and capital budgeting, treasury management policy and strategy risk management and investment appraisals, would remain with the Finance Director. Budgeting and planning involves intensive interaction with service departments as well as deep understanding of issues and future business plans, so again might remain local.

However, certain aspects of budgeting and planning, including planning and monitoring of capital programmes, are largely rules-based and could therefore be processed remotely in an SSA. If intensive interface and discussion with local service departments is not required to create budgets and forecast information, then it is possible to perform much of these activities within an SSA environment. These processes may require certain inputs, like assumptions, from local finance or service departments provided in standard template format which can then be processed by the SSA. These assumptions are decision support related activity that would only be obtained from locally based departments. Once this data is submitted to the SSA, then it can be processed in the budgeting and planning system. Locally based staff would then view results and request change with iterations processed by the SSA until a final satisfactory version is generated and signed off locally.

The Finance Director is accountable for the financial figures produced by the shared service and has the authority to make necessary decision-based adjustments for items such as accruals and provisions, which may not be accessible or known by the SSA. Any ad hoc reporting, analysis and other non-standard types of reporting requested by heads of service and their teams would be performed locally too.

The Finance Director would also be responsible for managing the contract with the shared service centre and dealing with any performance issues and recommending improvements - this is a critical role and provides the opportunity to drive change within the terms of any agreed contract thus maintaining good controls.

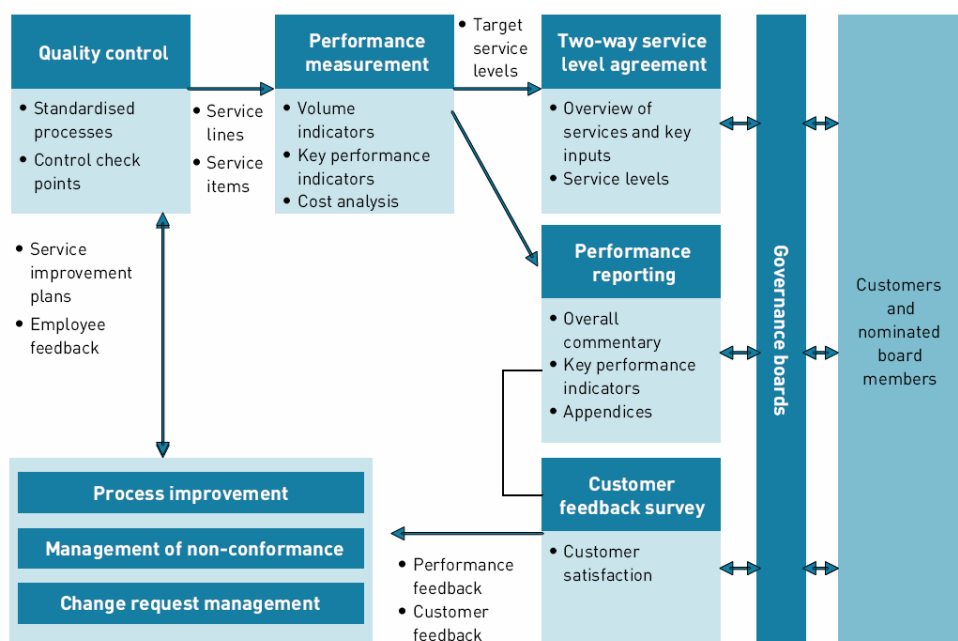
To be able to provide both strategic financial advice and manage the service contract with the SSA, there would of course need to be sufficient capacity and capability within the Finance Director’s core team.

3.5 Managing performance of the shared service

Whatever the form of the SSA entity the relationship and management of the agreement between the District Council and the SSA will involve signing a Service Level Agreement (SLA) or specification that will include setting out the services that will be provided. Wherever possible, the SLA will be output based and allow the SSA to manage the processes as efficiently as possible. There will be many other terms and conditions included in these agreements, including a price/volume and price/performance mechanism and procedures and governance structures that will be used for handling issues in the event of a dispute or for more regular day to day matters.

The purpose of these terms and conditions is to provide a clear framework for both the SSA provider of services and the district council customer. It will be necessary to track this performance on a continuous basis so a performance measurement system will need to be implemented.

A balanced scorecard set of measures with “traffic light” indicators might also be produced. The diagram¹⁴ below, illustrates how this might work.



Let us turn now to look more specifically at what the financial processes and roles that are in-scope for the current project might look like as part of a SSA.

¹⁴ Source: *Shared Services: where now?*, p. 32, Price Waterhouse Coopers, Published by the CIPFA IT Panel

Consultation questions

- Q9** Do you agree with the vision and principles set out in section 3 for how financial processes might be redesigned as part of a shared service arrangement? Please elaborate.

4. Blueprint for a shared financial service

What might a shared financial service look like in practice? How would roles and responsibilities change? What capabilities would new technologies play in supporting this? These are all questions we begin to examine in this section of the document, looking first at the high-level processes and then at the division of roles between the SSA and the council's Finance function.

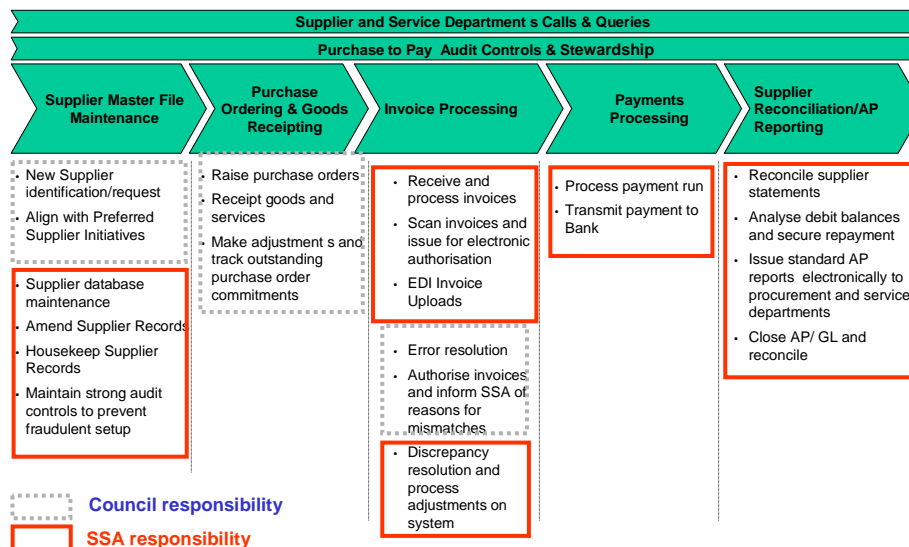
Much of the work that is moved to a shared service involves a set of clear processes and sub-processes (e.g. Purchase to Pay and Order to Cash). Where these are discussed below, the activities associated with each are broken down and the potential division of labour between the retained Finance Department and the SSA are illustrated. In others, such as Internal Audit and Treasury Management, work is less transactional in nature. Here, the focus is placed on describing the split of responsibilities.

4.1 The Purchase to Pay process

We begin with the end-to-end process of procuring and paying for goods. As the diagram below shows, there are 5 key sub-processes within this, with some activities also running across the whole process. Activities that will be performed mostly by the SSA are indicated in thick red boxes. Those that will remain the primary responsibility of the council are shown in the dotted boxes.

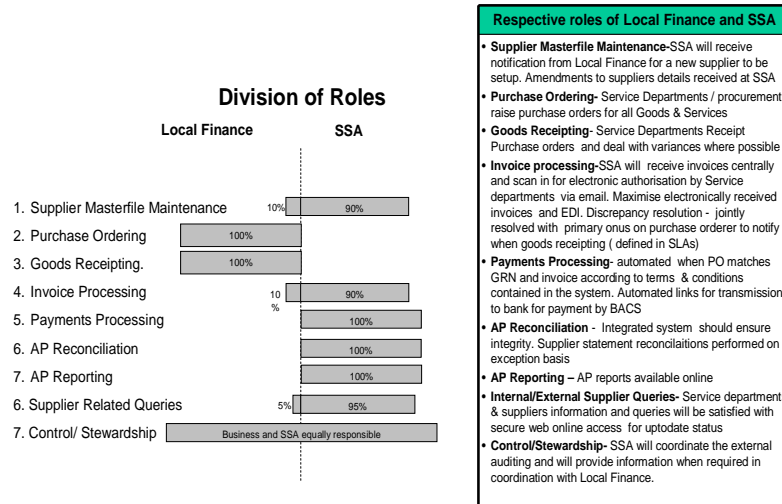
It is acknowledged that many councils do not currently operate a 'Purchase to Pay' process and rely upon using the invoice as a surrogate 'goods received note'. In order to lower the transactional cost of purchasing it is assumed that all councils will migrate towards the Purchase to Pay process. It is also envisaged that the SSA will support councils in dealing with the organisational impact of this change.

Process Overview: Purchase to Pay



Of course, even within some of the sub-processes here, there will be areas where certain tasks are carried out in the council and some in the SSA. Indeed, some areas will require a dialogue between SSA staff and those in the council. How the balance might fall is indicated in the diagram below.

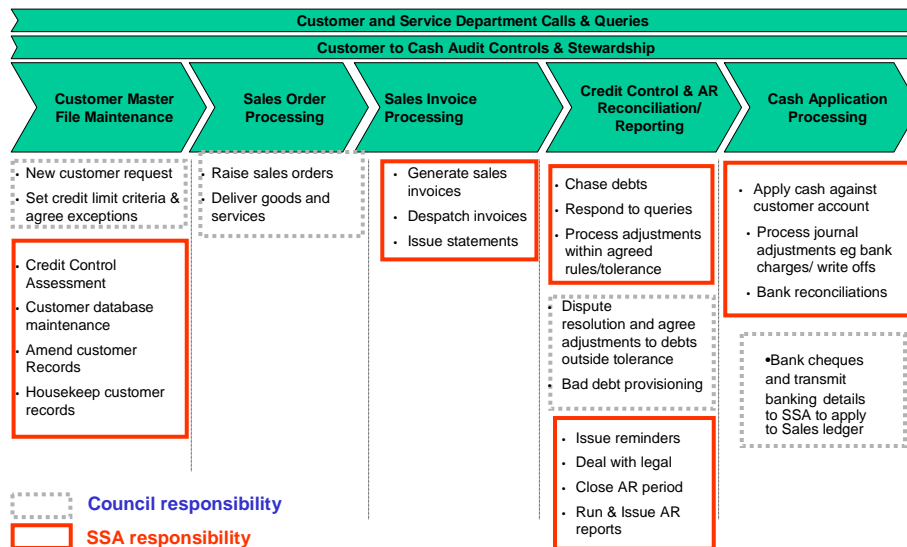
Division of Roles: Purchase to Pay



4.2 The Order to Cash process

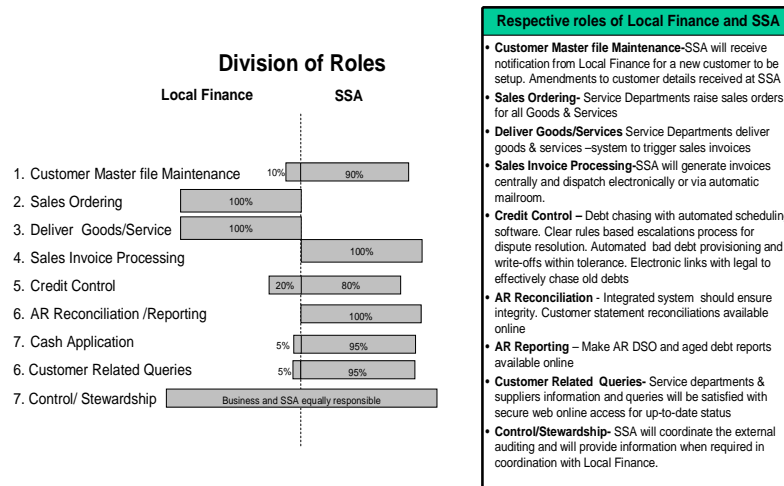
Next we explore processes and activities involved processing customer orders through to accounting for incoming cash. Again here, much of this work is transactional in nature and can be performed at a central SSA.

Process Overview: Order to Cash



As the split of effort in the diagram below shows, there are some areas (such as credit control) that demand efforts from both council and SSA staff. In most other cases, though, there are clear divisions of labour, with most work being open for staff in the SSA to perform remotely.

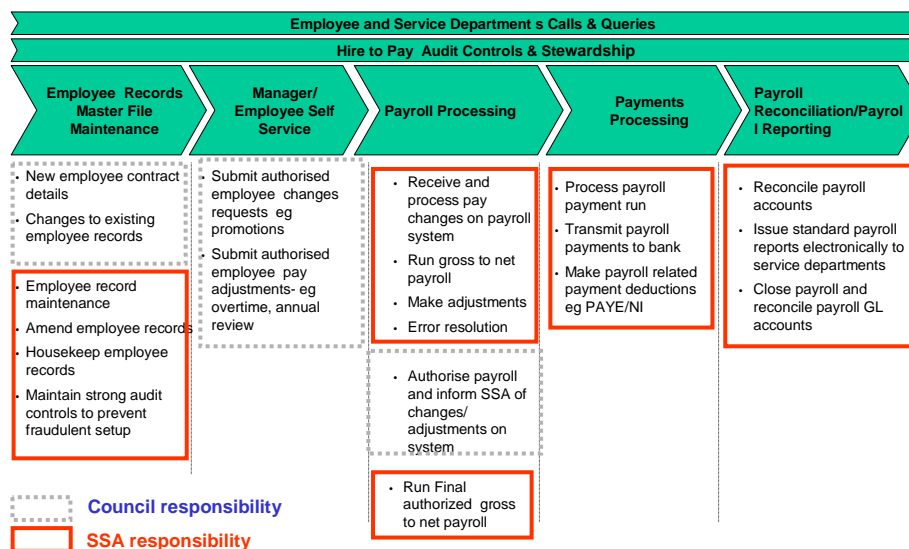
Division of Roles: Order to Cash



4.3 The staff recruitment and pay process

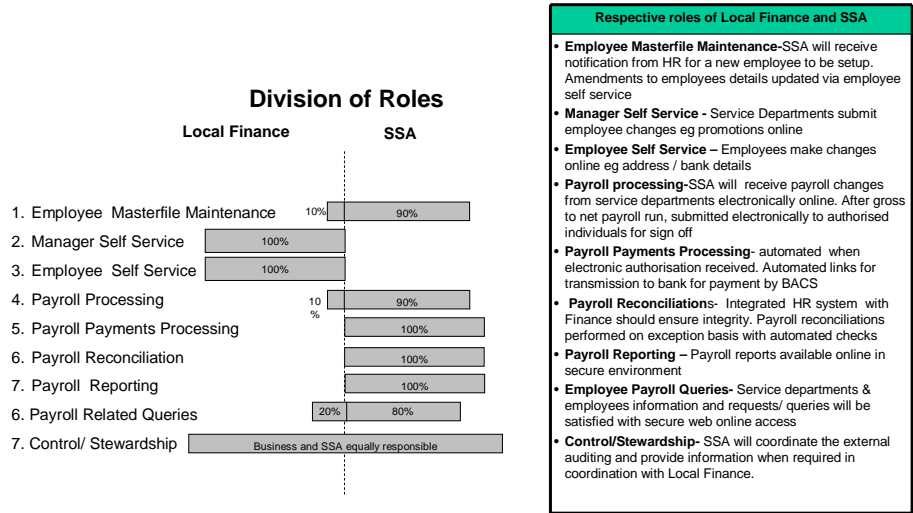
When it comes to the administration of the financial related aspects of HR, much of the work is transactional or rules-based and can be performed via a SSA. As the second subtask also shows here, with a state-of-the-art ERP system – accessible by council staff and managers – many activities can be supported by self-service tools.

Process Overview: Hire to Pay



The diagram below shows how the split of effort might work using a SSA to support the Hire to Pay process.

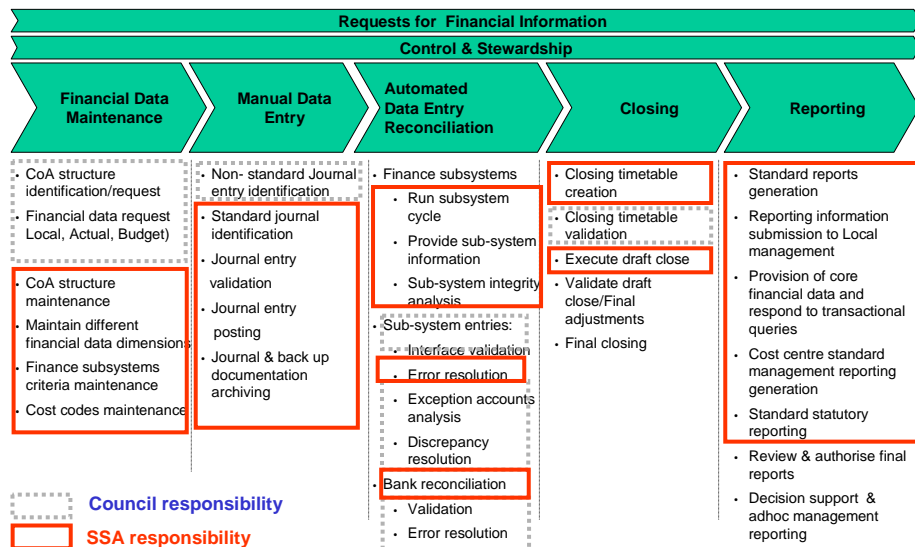
Division of Roles: Hire to Pay



4.4 The Record to Report process

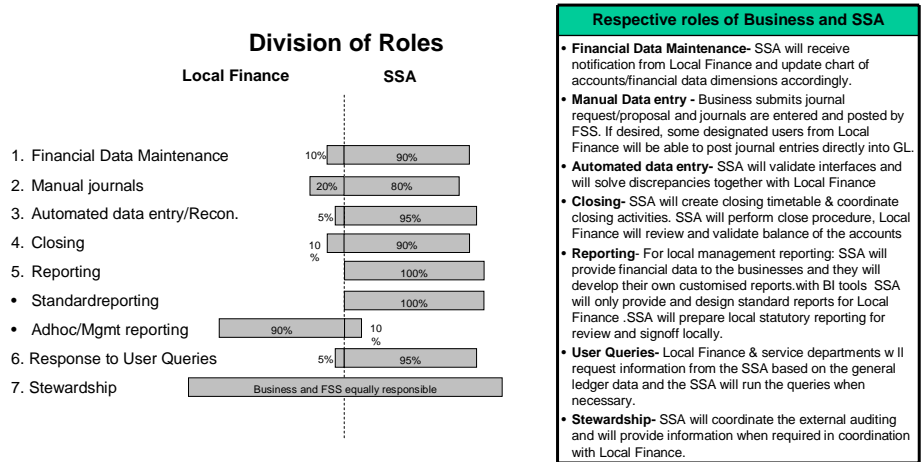
The final core process we examine is the one at the heart of accountancy and financial management: managing financial data, inputting journal entries, closing accounts and providing financial reports and guidance.

Process Overview: Record to Report



The diagram above illustrates some of the key contrasts between work in this area – from routine transactional tasks (much of which can be automated), to ad hoc reporting and advice (much of which will need to remain at the council). This is also illustrated in the split of effort below.

Division of Roles: Record to Report

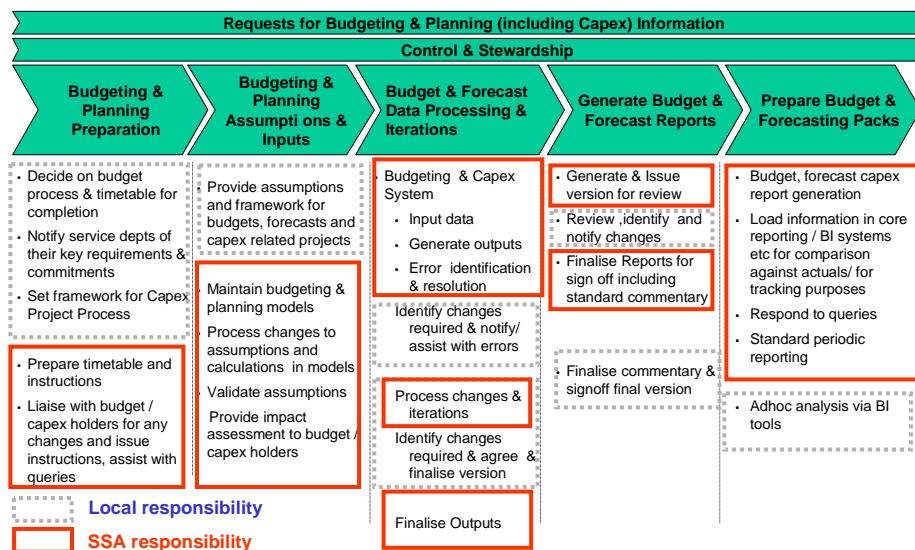


Note that the respective roles of Local Finance and SSA are described only when an interactive relationship exists

4.5 The budgeting and planning process

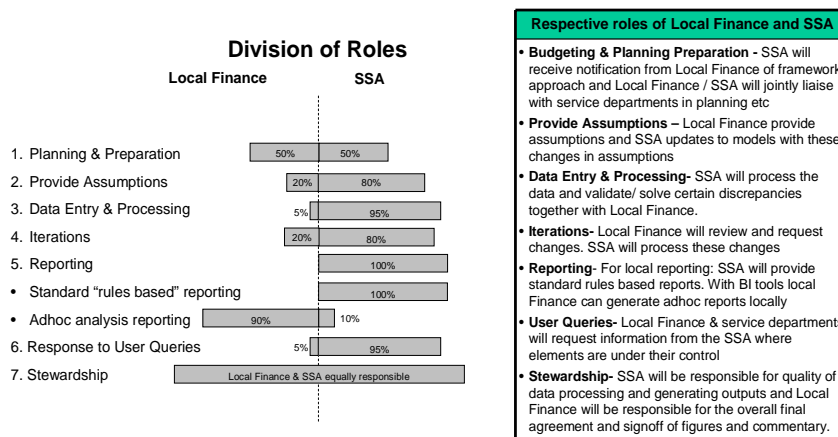
The budgeting, forecasting and planning process, including capital projects, is largely rules-based at district councils and could therefore be performed largely by an SSA. The local finance and service departments would need to provide certain inputs including assumptions information to allow the SSA to process the data and then generate requisite reports, which would be reviewed and signed off by the councils.

Process Overview: Budgeting & Planning (including Capital Projects)



The split of responsibilities shows that most of the budgeting and forecasting activities could be performed by the SSA and only relatively limited aspects of work requiring local knowledge and decision making that is not rules based would need to remain local.

Division of Roles: Budgeting & Planning (including Capital Projects)



- Respective roles of Local Finance and SSA**
- **Budgeting & Planning Preparation** - SSA will receive notification from Local Finance of framework approach and Local Finance / SSA will jointly liaise with service departments in planning etc
 - **Provide Assumptions** – Local Finance provide assumptions and SSA updates to models with these changes in assumptions
 - **Data Entry & Processing**- SSA will process the data and validate/ solve certain discrepancies together with Local Finance.
 - **Iterations**- Local Finance will review and request changes. SSA will process these changes
 - **Reporting**- For local reporting; SSA will provide standard rules based reports. With BI tools local Finance can generate adhoc reports locally
 - **User Queries**- Local Finance & service departments will request information from the SSA where elements are under their control
 - **Stewardship**- SSA will be responsible for quality of data processing and generating outputs and Local Finance will be responsible for the overall final agreement and signoff of figures and commentary.

Note that the respective roles of Local Finance and FSS are described only when an interactive relationship exists

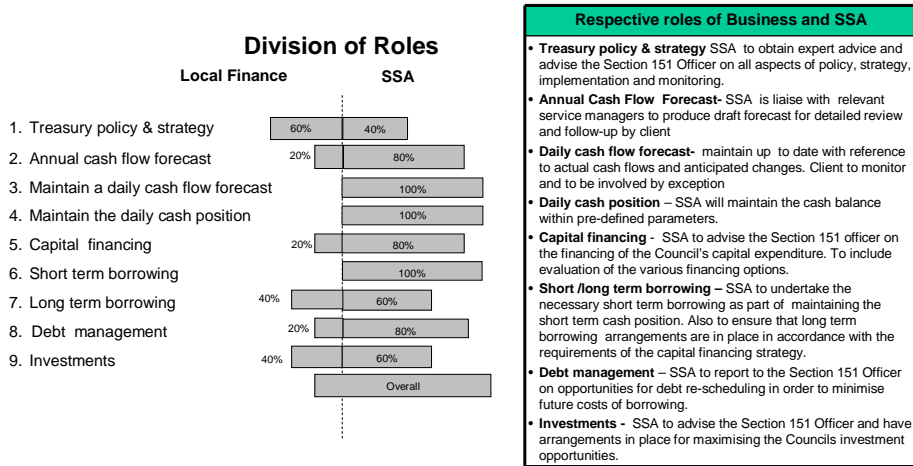
4.6 Treasury Management and Internal Audit

The final two areas of work we cover are less transactional in nature but still open to support via a shared service arrangement. Indeed, in the case of Treasury Management and Internal Audit, there is scope for Centres of Excellence to be created, to enable a wider range of specialists to be deployed (something individual districts would be unable to resource on their own).

Looking first at Treasury Management, we see that many activities still demand input from the Finance Director. However, most of the work could be centralised, particularly the framework for treasury policy and strategy. Where a number of councils are combining their resources in this area it would provide the scope for full-time, professionally qualified Treasury Management experts to support these tasks – work which is often a fraction of someone’s job under current districts’ divisions of labour.

An illustration of the potential split of effort is shown below.

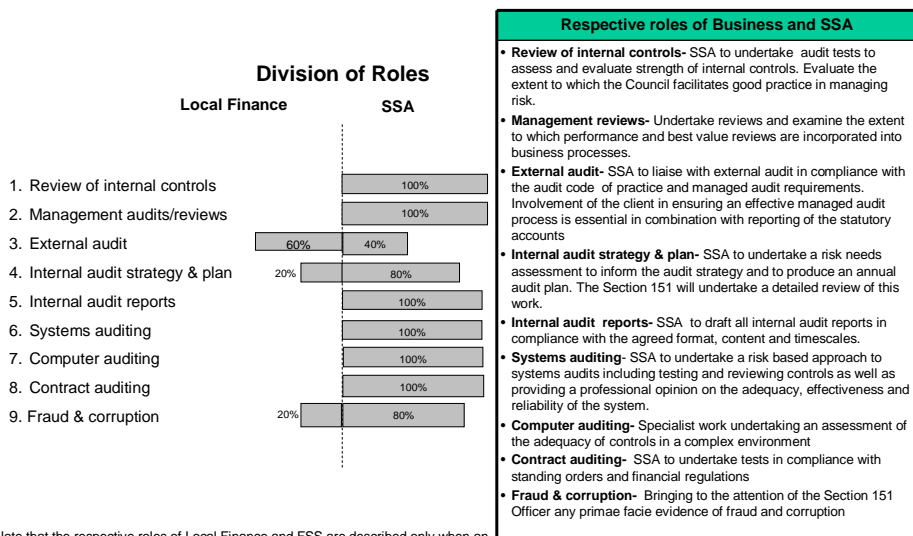
Division of Roles: Treasury Management



Note that the respective roles of Local Finance and FSS are described only when an interactive relationship exists

Internal Audit (see below) differs slightly from Treasury Management in that it is more likely to require 'briefcases on desks' from time-to-time. In other words, there would need to be regular physical presence of auditors, much the same as engaging an external firm for internal audit services. This suggests that a regional or sub-regional structure might be needed for much of the work. However, like Treasury Management, Internal Audit also holds out the potential for creating shared pools of expertise that individual districts might find hard to resource economically on their own.

Division of Roles: Internal Audit



Note that the respective roles of Local Finance and FSS are described only when an interactive relationship exists

4.7 Supporting technology: Shared ERP

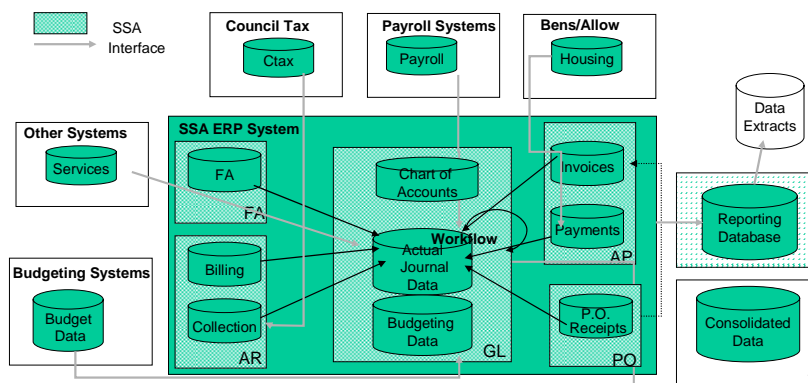
Data on WCFM shows unequivocally¹⁵ that the key technology underpinning the top performing arrangements is that of Enterprise Resource Planning, or ERP. ERP systems support the information and processing needs in the areas of Finance, Procurement and Human Resources, allowing for fuller process and data integration, which minimise the number of interfaces required.

Modern ERP systems can operate over wide areas, and can be accessed online. Whereas in days gone by, smaller organisations (such as district councils) would have found major cost and technology barriers to using ERP, today's solutions are much more accessible, especially where several councils are willing to pool their resources and share a 'single instance' of an ERP system.

The diagram bellows shows the architecture of an ERP application and how it would support the Record to Report Process.

Process ERP Application Architecture: Record to Report

- A standard chart of accounts will be used
- Migration of systems to one system run by the shared services centre will be required
- Manual journal entry proposals and financial data updates will be sent to SSA using workflow
- Where local budgeting systems exist, a standard capability to load budget balances into the GL will be provided
- The ability to extract data will be provided for local management reporting purposes



It's important to note that this system would interface with a range of 'line of business' systems (such as those used for managing benefits payments), for which application interfaces would need to be created.

Work is also supported by Workflow tools and document management systems, which help to manage the logistics of taking work documents and tasks and managing their flow through the whole business process. In addition to this, users are provided with a range of self-service tools and automated reports.

¹⁵ The key benchmarking datasets here are managed by the Hackett Group; for instance, see Tom Bangemann's 2005 book, *Shared Services in Finance and Accounting*, which draws extensively on this data and highlights the importance of shared ERP systems in shared service performance.

Consultation questions

- Q10** Looking generally at section 4, do the divisions of roles between the shared service and the council look acceptable? What observations would you make these?
- Q11** What comments do you have about any specific processes set out in section 4? For instance, what would the implications of these changes be?

5. Conclusions and recommendations

This document has been prepared for a number of purposes:

- It sets out the high-level rationale for shared financial services in district councils – how an SSA would help to address pressing efficiency needs while also being a route to achieving world-class financial management
- It provides a blueprint for how roles and processes could be redesigned – what might be moved to an SSA and what roles the council might retain
- It also sets out the different options before councils, ranging for local joining up of councils to the use of large scale Public-Private joint venture vehicles.

Stage 1 of the current project has demonstrated that the benefits of greater collaboration around financial services are real and that councils have a range of choices in how they secure these. However, just as the benefits are contingent on the choices taken, so will the attendant risks and costs rise and fall.

Although stage 1 has helped to clarify what role shared services might play in district council finance, there is clearly still much work to do in supporting stakeholders in dealing with the analysis and decision-making, planning and change management. In particular, the following needs must be addressed:

- A detailed appraisal of the shared service options, including a risk assessment of each option
- More detailed description on what the structures, processes and roles might look like once an SSA has been introduced
- A clearer idea of the current baseline costs of district council financial services and the likely cost savings associated with different shared service options
- Support on building the financial case for change – identifying accurate cost and saving categories
- Understanding the procurement and legal implications of different shared service options
- Understanding the infrastructure and technology platforms that a financial SSA would need, as well as the organisational roles and skills
- Putting the governance arrangements in place for a financial shared service
- Dealing with the contractual side of the council-SSA relationship, including drawing up service level agreements (SLAs)
- Establishing a service delivery and management framework.

Readers are invited to comment in detail on the proposed outputs from stage 2 of the project. These are described at the end of the online survey (see <http://www.cipfa.org/sharedservices>).

It is therefore recommended that stage 2 of the project builds on the work done so far and seeks to address these needs. This should be done via the production of reliable data sets, and the creation of guidance reports and toolkits. In producing these – and in promulgating the outputs – the project will need to engage actively with the wider stakeholder community, including council decision-makers and staff, suppliers, funders and support bodies.

The project so far has made an important start, but there is still work to do in helping councils move quickly and effectively to take advantage of the opportunities presented by the shared finance agenda.

Consultation questions

- Q12** Do you accept the general points made in document about the contribution shared services can make to improving district council financial services? Please elaborate.
- Q13** What general advice would you give to the project in planning for the next stage?

Appendix 1

Contrast between Conventional Finance Functions and World Class Finance Management Environments

Contrasting Attributes	Conventional Finance Function	WCFM Focus with Shared Services
Scope to run Finance operations efficiently & effectively	Need to be a "Jack of All Trades", with competing priorities and pressures. Limited scope to make significant savings and quality improvements on own due to size	Scale and specialist focus creates best practice operational environment. This involves shared services for transactional work, plus Finance staff working on decision-support (who can devote more time to help the service departments directly)
Extent of upfront project investment funding available	Usually funds are restricted so cannot afford to invest in "state of the art" solutions without engaging joint partners to spread the cost	Funds are required in absolute terms but a common investment can be spread across a number of participants thereby lowering overall cost
Payback on One-Time Investment in Systems and a New Organisational operating model (Medium/ Longer Term)	Limited opportunity for a viable business case due to high individual investment required in IT and new processes	Higher returns on investment from "state of the art" IT systems and development of shared services model due to faster and higher savings
Scale of Opportunity to Transform Ways of Working, People Culture and Values	Limited, as would be working with the same team and culture so less opportunity to change values and ways of operating	Higher, as it provides new opportunity to create a brand new culture and values as people from outside the existing organisation(s) will be joining in larger numbers
Need to Monitor and Manage Risks in the Overall Change Programme	Low, as the scope of the change programme is likely to be less radical so there should be fewer risks but also less scope for opportunities	The need will be higher. Given the multi customer issues, new location, new teams and capabilities, transition of work, larger budgets to manage and larger change programme, risks all round will increase - but can be still be managed well with the right monitoring techniques
Focus on the Customer and Embedding Process to Achieve Target Service Levels (Timeliness, Accuracy & Satisfaction)	Low, as there is greater likelihood of Finance being viewed as a service function rather than a business unit with a clear customer focus	Higher, as the service will be operating with more of an emphasis on serving customer needs and develops SLAs with measureable targets for achievement
Adoption of Performance Measurement and Management Mechanisms to Drive Change	Traditionally there is a limited focus on measuring the performance of the Finance function itself beyond cost aspects	The adoption here is higher. As the new model will be operating more like a business, operational measurement and management systems will be embedded at all levels within Finance teams to drive continuous improvements
Ability to Realise Benefits through Economies of Scale	This will be low given that a smaller Finance department limits the scope to achieve economies of scale	Combining and operating similar processes for multiple customers will mean greater scope for economies of scale, producing savings overall and

		pro-rata by individual organisation
Impact of Change that affects the Wider Organisation (Interface Points)	With less scope by way of change, there will fewer impacts on customers in the rest of the organisation	Impacts will be higher as the customer is more involved and engaged in a WCFM environment and through SLAs clear interface points and responsibilities are defined so all parties understand their contribution
Deployment of Continuous Improvement Techniques like Six Sigma	This will be low as a relentless approach to quality and defect elimination is not normally embedded in a conventional Finance function	This should be higher: in order to achieve world-class performance there is a strong focus on right first time processing and productivity improvement that is instilled at all levels in the organisation
Specialist Centres of Excellence and Wider Expertise Available to extend Range of Services to the Organisation	Low: as individual Finance functions are small, there is less scope to afford or justify the need for Finance specialists	Higher: it is possible to create more specialist roles where cost and resource usage can be justified and spread across a greater number of entities and people in a shared services environment
Opportunity to flatten hierarchies and simplify organisational structures	Low -traditional Finance structures tend to have narrower spans of control and more positions based on status	Opportunities are higher because the design of shared services and connected Finance structures based locally tend to be flatter to help smooth communications, interactions and remove barriers to change
Focus on the End to End Process rather than Functional "Silos"	Finance is typically organised by individual Functions rather across end to end processes. This creates multiple hand off points	In order to serve customers better WCFM involves looking at the end to end process and incorporating the right organisation, systems and processes to support it
Flexibility, Adaptability and Career Opportunities	Once a certain level is reached, there is usually limited scope to grow peoples' careers within a relatively small Finance function	Although there may be greater specialism, there is still scope to move to new roles in a much bigger organisation, opening up better chances for career development
Structured Customer Leadership Process (Cascading Communication Mechanisms and Interactions)	It is rare to have structured meetings with customers extensively involving the finance team when it is treated as just a functional service provider	A WCFM environment depends on the success of good customer interaction so mechanisms are put in place to help work with Finance as business partners
Standardised ways of Working	Less likelihood of common agreement on standardised systems, processes and ability to change where specific ways of working have evolved over time	WCFM and shared services relies as far as possible on standardised processes and systems to achieve World Class performance in efficiency and effectiveness
Standardised ways of Working and Documented Policies & Procedures	Greater likelihood that knowledge and processes just remain in people's heads leading to different ways of working and increasing risk (particularly if key	There is typically greater discipline to formally documenting knowledge and making it available to the Finance teams to ensure consistency of processing and a way of retaining knowledge if

	individuals leave)	people leave
Finance Function based locally Focused on helping Service Functions rather than on Transactional Activities	The Finance team has to prioritise transactional work before any decision support work; consequently, with squeezed budgets and limited opportunities to manoeuvre, less time may be devoted to assisting the service departments in areas of Financial Management	The move of transactional work to a shared service will free up the time of Finance staff to specialise and do more skilled, value-added work, working in conjunction with the Service departments

Consultation questions

- Q14** Do you agree with the points made in Appendix 1 on the contrasts between conventional finance functions and world-class environments? Please elaborate.

Appendix 2

Comparison of Different Organisational Models

Organisational Model - Options	Advantages	Disadvantages	Most Effective & Realistic Tactics to Drive Change
Single In-house Finance Department (Traditional Model for District Councils)- Organisational	Simpler to fit with existing ways of working in. No need to consider requirements of other external organisations	Limited opportunities to achieve world-class performance due to budget constraints for investment. Also relatively small scale of operations restricting ability to achieve economies of scale and reduced access to specialist best practice knowledge and skill-sets	"Quick win" savings can be achieved by examining and simplifying processes and the way the systems are used within the existing organisational framework
Processes	Processes will have been in existence over a number of years and will in general be well tested and stable	Lack of exposure to alternative "best practice" processes and ways of working may lead to sub-optimal performance	Conduct an activity-based study and process-mapping exercise to assess the extent of reengineer opportunities
People	Team will have developed strong established personal relationships with other parts of the organisation and developed a good level of trust and understanding over a number of years	There may be a tendency to accept the status quo and resist implementing change – potentially an "if it isn't broken, then why fix it?" belief system	Conduct well crafted customer satisfaction survey and benchmarking exercise to assess extent of any issues and desire for improvement within the organisation
Technology	The system is likely to have been tailored to meet the way the organisation operates and its specific needs	The system may have been implemented around the way the organisation has worked, which may not particularly meet best practice; or, due to cost constraints, may have had to make do with a system that does not fully meet the needs of users of Finance	Assess results of a benchmarking exercise to see if there are any particular efficiency or effectiveness issues, and assess whether existing system can be adapted in any way to improve performance

Organisational Model - Options	Advantages	Disadvantages	Most Effective & Realistic Tactics to Drive Change
Joint Working of Finance Functions (Working with other local councils via a joint committee structure)	A certain level of economies of scale and other benefits can be achieved, particularly if close fit partners are found	May simply involve combining Finance functions without reengineering the way Finance works from a best practice perspective	"Quick win" savings can be achieved by standardising processes across entities and the way the systems are used within the existing organisational frameworks
Processes	Processes will have been in existence for a number of years and centralising without significant change should not cause any significant amount of instability	"Best practice" processes and ways of working are not normally a prominent feature of centralisation of the Finance function so unlikely to significantly enhance performance	Conduct a study and process-mapping exercise to assess what can be standardised across entities
People	Centralisation will involve a certain amount of people change, depending on location. However, usually an existing corporate based team will form the core allowing many past relationships to be maintained	Some existing people will continue in the new centre so a culture of change and common purpose may be impacted. There is potentially a danger that one entity with the reins of power may hold greater sway and drive change for their own benefit to the detriment of other participating organisations. There are likely to be some redundancies through centralisation.	A well constructed and defined agreement at the start should mitigate these potential issues, including fair representation on a joint board. Good HR and change programme management should help minimise impact of people aspects of change
Technology	The systems may be similar but are likely to be configured slightly differently – this will probably allow the individual organisations to continue to operate the same way as the past and meet their specific needs	If the systems are not common then there will be certain operational difficulties that will impact on the efficiency and effectiveness of operations	Where possible, assess whether the existing systems can be changed to standardise the way of working across entities and gain agreement to do so

Organisational Model - Options	Advantages	Disadvantages	Most effective & Realistic Tactics to Drive Change
<p>Centrally Managed System Only (Organisations share an instance of a software application)</p>	<p>Using a centrally managed system will create less of an impact across the organisation as existing people will just be using a common "best practice" system</p>	<p>Full economies of scale and savings opportunities will be less compared to one of the full shared services or outsourcing options</p>	<p>Savings can be achieved by adopting a common standard system and related processes for all entities without significantly affecting the way existing organisational frameworks work</p>
Processes	<p>Processes will change to meet the needs of new "best practice" system. They should overall be an improvement on existing processes</p>	<p>The new managed system may be inflexible and not allow exceptions for the particular way of working for an entity</p>	<p>Assess the impact of any changes to processes; identify and establish practical solutions for any real business needs early on in the project</p>
People	<p>There should be relatively limited impact on existing Finance teams (except those working locally in IT) as the new system will continue to be used by the Finance team locally</p>	<p>Existing people will continue to process transactions so a culture of change and common purpose may be affected, although they will need to work within the confines of the new system. There is potentially a danger that workarounds will emerge locally as the existing teams try to fit the new system into old ways of working</p>	<p>A well documented manual and quality training for using the system and adopting best practice processes should mitigate these problems. A regular audit exercise and process walkthroughs should identify any issues locally</p>
Technology	<p>The managed system will be standard, which will make all participating organisations adopt the new best practice system procedures</p>	<p>If the individual organisations cannot adopt the new system wholeheartedly, there will be certain operational difficulties that will impact on the efficiency and effectiveness of operations</p>	<p>A proper assessment and review to fully understand the impact of using a new common system needs to be conducted. There needs to be a good education and training programme and engagement so all users throughout the organisation can understand the new ways of working and use the system to best effect</p>

Organisational Model - Options	Advantages	Disadvantages	Most Effective & Realistic Tactics to Drive Change
Shared Services using an existing Venture (Brownfield Site)	This shared services operating model will already be a proven venture, which should help reduce risk. A shared services culture and its associated benefits will have already been established. There should be relatively little upfront capital investment required	The new incoming organisation may have less say in the way things operate and will need to fit in to the Shared Services existing ways of working	A full business case and analysis needs to be developed to compare existing and future operating costs. Assuming similar processes, the Shared Services benchmark processing costs should be compared to those of the new participant as part of the business case and used to establish and support pricing of services
Processes	Processes should already be developed from "best practice" and be more efficient and effective. There will be more specialist skill-sets within larger process teams focused on continuous improvement	There will be a need to fit in with the new processes and ways of working as less flexibility will be permitted	Conduct a process mapping exercise to assess the impact of new processes and ensure hand off points are well understood, and people are trained effectively in new ways of working
People	Most people involved in the Shared Services are likely to be new and will have been trained in a strong customer service and continuous improvement culture	Moving work to a Brownfield site at a separate location will normally involve a high amount of people change / redeployment or redundancies. There is a danger of loss of knowledge if not migrated effectively	Strong HR leadership and change programme management (including effective workshadowing/ migration activities) will help mitigate issues
Technology	The systems should ideally be common and operate with a single instance. This will eliminate inefficiencies associated with multiple systems and different operating procedures	The new entity joining the service will need to adjust its processes and ways of working to fit around the new system thus maximising the efficiency and effectiveness of operations	Involve the users of Finance in assessing the impact of the new system operating procedures and outputs to ensure they meet requirements - implement clear SLAs and terms and conditions

Organisational Model - Options	Advantages	Disadvantages	Most Effective & Realistic Tactics to Drive Change
Shared Services Start-up Venture (Greenfield site)	The organisations involved in creating the shared services at the start will have more say in the way everything operates and can help shape the new Shared Services ways of working. A new shared services customer service culture and its associated benefits can be created from scratch to meet the needs of all participating organisations	This shared services operating model will not be operational/proven, so there will be elements of risk that will need to be effectively managed. There will be high amounts of initial upfront capital investment required to create the shared service	A full business case and analysis needs to be developed to compare existing and anticipated future operating costs. As there will not be an existing Shared Services benchmark, it will be necessary to closely challenge assumptions and visit other shared services operations to obtain suitable assurance it will work well in this specific environment
Processes	Processes can be developed from “vanilla best practice” to maximise efficiency and effectiveness	There will be higher risk involved with creating new processes that have to be proven to work in reality yet	A robust analysis, design, test and implementation project management process needs to be in place to ensure a smooth and successful project
People	Most people involved in the start up Shared Services are likely to be new and will be trained in a strong customer service and continuous improvement culture	Moving work to a Greenfield site at a separate location will normally involve a high amount of people change / redeployment or redundancies. There is a danger of loss of knowledge if not migrated effectively	Strong HR leadership and change programme management (including effective workshadows/migration activities) will help mitigate issues.
Technology	The systems should be common and operate with a single instance. This will eliminate inefficiencies associated with multiple systems and different operating procedures. The initial entities participating will have the opportunity to design the system to meet their particular needs	There is a greater potential for risk as the systems are new and have not previously been tested in a live environment	Involve the users of Finance in assessing the impact of the new system operating procedures and outputs to ensure they meet requirements- implement clear SLAs and terms and conditions. Robust testing of full range of scenarios required before go-live

Consultation questions

Q15 Do you agree with the points made in Appendix 2 comparing different organisational models? Please elaborate.

Appendix 3

Models of shared services

Organisational Model - Options	Advantages	Disadvantages	Most Realistic Tactics to Drive Change
Fully Outsource, or a Joint Venture with an External BPO Provider	The organisations engaging with the outsourcer will effectively be devolving responsibility for creating and running the shared services to an external provider who will have the capability to specialise in transactional related or rules-based finance activities. This frees up the organisations Finance teams to pursue more value added activities. The outsourcer may be open to innovative funding mechanisms if there is a shortage of capital	This option passes a high element of responsibility and control for processing to the outsourced shared services organisation. There will be elements of risk that will need to be effectively managed through contracts and service level agreements. The outsourcer has to make a profit but this is often mitigated by lower prices to win the business in the first place and as a specialist with scale can realise greater economies of scale	A full business case and analysis needs to be developed to compare existing and anticipated future outsourcing prices including any gain-share arrangements. It will be necessary to know existing baseline costs and how they move with volume changes when entering into negotiations with the outsourcer. It can often be important to hire a sourcing advisor who acts on your behalf in negotiations
Processes	Processes will generally be those operated by the outsourcer and should already be designed to maximise efficiency and effectiveness.	There will be a need to fit in with the new processes and ways of working	It will be essential to understand the handoff points between the outsourcer and the individual organisation to optimise processing – this can be defined in SLAs
People	The outsourcer's staff will be new in terms of knowing the organisation but will be highly process driven and trained in a strong customer service and continuous improvement culture	Moving work to an outsourcer at a separate location will normally involve a high amount of people change / redeployment or redundancies. There is a danger of loss of knowledge if not migrated effectively	Strong HR leadership and change programme management (including effective workshadowing/ migration activities) will help mitigate issues. Outsourcers will have transitioned work before and should have an effective proven methodology
Technology	The systems should be common and operate with a single instance. This will eliminate inefficiencies associated with	The potential for risk is reduced as the systems have previously been used for other clients in a live environment	Involve the users of Finance locally in assessing the impact of the new system operating procedures at the outsourcer and examine outputs to

	multiple systems and different operating procedures. The outsourcer will have a particular design to meet clients' needs		ensure they meet requirements- implement clear SLAs and terms and conditions. Robust system testing and transitioning methodology should be used before go-live
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Consultation questions

Q16 Do you agree with the points made in Appendix 3 on the models of shared services? Please elaborate.

Appendix 4

Comparison of attributes between green and brown-field SSAs and outsourced arrangements

Attribute	Green-field shared service	Brown-field shared service	Outsourced arrangement
Accountability and shareholdings	The focus here is the operating unit. This may be a new legal entity to which the council is also a shareholder. As well as councils, private sector suppliers may also be partners	The focus here is also the operating unit. This may be a legal entity in its own right, possibly including private sector suppliers. New council customers may be able to join as shareholders in some cases	Contracted legal entities, which are normally owned and run by private sector suppliers. Councils would not normally be shareholders but could potentially participate as a shareholder in a joint venture arrangement
Key Performance Targets	Service excellence & continuous improvement. Could also include with service level agreements and contractual obligations (especially where a private sector partner is involved and the entity will be established with ambition to trade) Baseline targets need to be developed	Service excellence & continuous improvement plus service level agreements and contractual obligations. Baseline targets will already be established.	Service level agreement targets & pricing as agreed per contract – may be staged targets levels over time to drive continuous improvement
KPIs, SLAs & Service Costings/ Pricing	Widespread use of KPIs and SLAs. Prices will normally reduce as new partners come on board, with commercial revenue rising. Where commercial partners are involved, limits may be placed on 'super profits' through sliding scale charges or gainshare arrangements	Widespread use of KPIs and SLAs. Prices may reduce with growing revenue, depending on the status of the councils (and whether or not they have shareholdings). Where commercial partners are involved, limits may again be placed on 'super profits' through sliding scale charges or gain share arrangements	Prices will not normally be influenced by the acquisition of new customers/councils, nor will councils themselves benefit from a revenue stream unless gain-share arrangements are written into the contract
Investment	Unless a commercial partner is bearing all or most of the set-up cost, founding councils will need to inject investment capital for technology/ infrastructure. This will also include costs associated with migrating to the shared service	Little or no investment will be needed in creating the shared service. Where a council is able/willing to join as a partner, it may need to purchase some share capital. The migration cost of moving to the outsourcing arrangement may be treated as capital expenditure in some cases	Little or no investment in the entity will be required as a shared service facility and infrastructure may already exist (otherwise there may be capex required). The migration cost of moving to the outsourcing arrangement may be treated as capital expenditure in some cases. Outsourcers can potentially offer various mechanisms to spread any upfront capital cost over a number of years by adjusting the annual charges
Location	Neutral location, to be agreed by founding partners	Neutral location, but one(s) already chosen by original partners	Supplier's locations, as determined by the owners (but if large enough can sometimes be dictated by

			supplier)
Responsibility	The entity/ shareholding partnership	Partnership, or the entity itself if new councils do not join as shareholders	Supplier
Commercial/ growth issues	Primarily established and driven by ambitions to improve service quality and lower cost. May be set up to allow for subsequent trading	Intent on growth to benefit from economies of scale (to reduce cost of service and improve quality). For private sector partners, new clients will also be a source of increased revenues	Driven by commercial interests – more customers allowing for economies of scale and increased revenues (but contracts can sometimes allow for gain share arrangements)
Control and influence	As the organisation is new, the founding partners have the ability to determine its aims, scope, ambitions, location, pricing etc. The relative influence will depend on the number of partners and the stakes they take in any entity. Where councils are partners to the shared service, they will also have a role in the governance of the service. Councils will also be able to assert influence via the terms of contracts and SLAs	Where the shared service organisation is still open to councils joining as partners, there will be opportunities to be part of the service's governance structure. The amount of influence will be affected by the nature of the governance structures, the number of other partners and (possibly) the stake that a council has taken. In the absence of this, contracts and SLAs will be the main modalities for asserting influence on business operations	The main means of asserting influence over operations and service will be SLAs and contracts. In some instances there will also be customer user groups that provide a voice on service issues
Risk issues	The partnership, and its processes and systems will be untried and untested. While there is control over implementation and operation, it represents the highest risk option	There will be a founding partnership operating tried and tested processes and systems. Performance can be examined historically and costs and performance judge with a high degree of confidence. Depending on the track record of the entity, and the relationship a council can/wants to enter into (i.e. as a customer <u>and</u> partner), the means by which performance and future developments can be influenced will vary. Risks are therefore lower	The service will be provided by a pre-existing operation, whose costs and performance are a matter of historical record. The main source of control for customers will be via SLAs and contracts. This will be more limited than being a partner able to influence operations and developments 'from the inside'. Risks are therefore medium to low. A well crafted SLA with penalty clauses for non- performance (or benefits for exceeding expected performance) will help to mitigate any issues
Service Culture	A green field site offers the greatest opportunity to build a new best practice service culture	A brown-field site will have an embedded culture that may not be best practice and may need to change	The outsourcer will have an customer service culture which needs to be aligned between service provider and customer

Consultation questions

Q17 Do you agree with the points made in Appendix 4 on the contrasts between green-field, brown-field and outsource arrangements? Please elaborate.

Appendix 5

The potential contribution of shared services to good finance practice

CIPFA Financial Management Good Practice Statement

Potential contribution from a shared finance arrangement¹⁶

Leadership:

L1. The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the Board through executive and non-executive directors to front-line service Managers.

Accountability and responsibility is more clearly defined through a specification that highlights respective responsibilities. This is contained in a split of responsibilities schedule which forms a key component of the SLA. This provides overall clarity and ensures no activities or application of controls fall through the gaps with the introduction of an SSA. Continuous performance reporting will highlight any problems so corrective action can be taken and regular formal communication channels and meetings between the parties will ensure alignment of objectives. The range of work provided by the SSA will be aligned with the responsibilities of the Section 151 Officer at both a strategic and operational level. Any shortfall in skills or experience to handle financial arrangements is more readily highlighted earlier. As a consequence there is better consideration of the financial implications of front line service decisions.

L2: The Organisation's leadership allocates resources to different activities in order to achieve its objectives and monitors the organisation's financial and activity performance.

There are a number of different considerations that combine to result in a council's decision to allocate resources to particular activities. Some of the areas of best practice that could be provided by the SSA to impact in this area are:

- At a process level the development and implementation of a blueprint medium term financial plan incorporating best practice features of linking budgets and service performance. The SSA could incorporate specialist technical advice on capital expenditure, funding and related arrangements such as PFI.
- For in-year budget monitoring a number of arrangements could be offered to councils to complement their individual cycle of meetings. Budget performance would be within narrower tolerances and a programme of budget reviews would be undertaken with the advantage of access to a wider range of approaches across district councils.
- Improved IT systems, including business intelligence tools would feature, which would allow for better interrogation of data and supporting enhanced procedures. It would also provide better exception reporting and alerts to warn of problems ahead of time. Better commitment accounting through use integrated procurement systems with purchase orders will ensure completeness of liabilities and facilitate better tracking of costs. In turn

¹⁶ The table assumes that, in responding to the CIPFA Financial Management Model statements of good practice, that the SSA will be operating accordingly to best shared service practice, backed up by the necessary scale and resources.

this would facilitate the development and implementation of a blueprint for service planning and monitoring.

L3: The organisation has a developed financial management strategy to underpin long-term financial health.

The SSA will be looking to support the further development of three year strategies which enhance the ability of individual councils to more effectively plan and deliver services over this time horizon.

Coupled with this approach will be a system and process for monitoring and reporting of indicators of 'financial health'. These best practice business intelligence solutions will enhance information available for long term planning and decision making purposes. The use of financial ratios and trends could be provided by the SSA in order to inform the council's interpretation of financial health.

L4: The organisation integrates its business and financial planning so that it aligns resources to meet current and future business objectives and priorities. Performance management is enabled through measures of delivery and clear understanding of the costs they incur.

The SSA will assist the Council's production of a Corporate Plan that embodies the linkages with other council plans, such as workforce and partnership plans. Moreover, to ensure that the Corporate Plan aligns with financial strategies and budgets, the SSA should be instrumental in establishing a number of linkages, with the aim of making certain that the costs of service delivery and alternatives are clear.

The SSA is likely to include price/performance mechanisms within its service specifications with councils. This will enable councils to clearly identify with the associated cost of varying volumes and performance and ensure transparency of charging for each process activity. It will also include data on the impact on costs of non value added activities, non-compliance and rework so action can be taken to improve. The SSA will be able to inform councils of the financial consequences through access to state of the art systems and processes; the councils should therefore achieve a better strategic use of resources.

L5: The organisation uses financial management expertise in its strategic decision-making and its performance management based on an understanding of the financial environment and cost drivers.

By incorporating 'financial management' expertise at service manager level, the SSA will have a key role to play in supporting the strategic decision-making of the Section 151 Officer. The SSA would be able to use the full range of systems and techniques relevant to ensuring that financial management contributes to strategic decision making. This should also allow for a better understanding of the resources required to deliver particular strategies. The SSA will also be able draw upon specialist expertise, best practice knowledge and understanding gained from supporting other councils. This provides the potential to advise on more successful strategies, although decisions to adopt these will remain firmly with the councils.

L6: The organisation's leadership integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

The SSA recognises that it is an individual council decision to determine both the policy and framework for strategic decision-making. The SSA will be looking to support councils in providing examples of best practice and specialist input in helping to shape council policies. The key values of the SSA itself include adopting a culture of customer focus, innovation and improvement and will look towards assisting councils in securing new capacity and resources for councils through more efficient and effective delivery of

services.

L7: The organisation's financial management disciplines balance control and flexibility and enable the organisation to test that its strategic goals are suitably ambitious and its delivery plans realistic.

The SSA, in specialising in district council services will build up a network of contacts, knowledge, skills and experience to support councils in the quest for operational excellence. This will provide both flexibility, control and realism (by providing the capability for an independent assessment and commentary on strategic goals and ambitions) in achieving organisational objectives. Strategic goals are more likely to be up to date and relevant to the councils with the additional support and coverage available from the SSA.

People:

P1: The organisation identifies its need for financial competencies and puts arrangements in place to meet them.

The size and nature of a SSA should enable it to be more effective in forecasting and modelling the level and experience of financial staff required for delivering a world-class standard. Staff planning would embody the number, qualifications and experience requirements needed to meet requisite standards. There is also greater scope for expert specialisms in the SSA so this should provide wider access to these skillsets

P2: The organisation has access to sufficient financial skills to meet its business needs.

Existing staff are likely to be taken on during the initial setting up of the SSA and TUPE rules, where applicable, will be followed. Some staff with the requisite skills will transfer to the SSA but there will also be the opportunity to inject new blood and hire new people with new ideas and skillsets. The SSA will develop a working environment with better career structures, improved technology support and enhanced training opportunities so that it has access to high quality staff and facilitate good retention policies.

Additional staff required will be attracted through a recruitment process to the prospect of working for an organisation with a working environment with better career structures, improved technology support and enhanced training opportunities.

Due to its scale and structure, the SSA increases the scope for people with specialist financial skills thereby offering the potential for a wider range of services to meet business needs.

P3: *[Service]* Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so.

The SSA will develop its own culture and working arrangements that support a cost effective approach to delivery of work, including greater flexibility, focus on productivity and quality facilitated through a wider range of skillsets and a strong supportive "can-do" culture. Resources can then be deployed quickly to meet service needs as they change. Respective roles and responsibilities will be clearly defined in the SLA. This will be incorporated into council's financial regulations for service managers and finance staff respectively providing a very clear definition of each party's roles and responsibilities including optimising cost and quality according to balanced scorecard principles.

The SSA would create training and development materials (eg procedures) for both its own finance staff and service managers employed by the councils

in order to ensure a complementary approach to common work practices and arrangements and understand critical interface points with the councils. Flexibility is needed to ensure a rounded service is provided to councils and the risk/reward structure, resource planning and performance measurement tools that would be adopted by the SSA will facilitate this approach providing better cost control capabilities. The SSA would control the deployment of staff with clearer job profiles with the capability to deliver a high level of expertise when required.

P4: The organisation's *Finance Staff* have the skills to analyse financial issues and communicate solutions, options and advice.

The benefit of a SSA is that it allows for a concentration of these skills that can be deployed in a variety of ways. This includes:

- Local face to face dialogue at regular "customer" meetings or ready access through web access to common knowledge websites, business intelligence and reporting tools, telephone or email. For example, technical accounting support can be provided on any of these bases.
- Support from the SSA to help with analysis and interpretation of data. Self service tools will be provided and councils will be encouraged to use them where applicable saving duplication of effort and providing greater access to common data sources

Whichever services are provided, communicating solutions effectively by whatever medium is appropriate is a fundamental requirement of the SSA.

P5: Financial literacy is diffused throughout the organisation so that decision-takers understand and manage the financial implications of their decisions

There is probably a very mixed standard of financial literacy within non financial district council services; therefore this area represents one of a major development and enhancement in facilitating world-class financial skills through a SSA.

Financial training and development could therefore be included in the support provided by a SSA. This approach will be based on operational experience based on the running of a world-class SSA recognising that the ultimate test for the SSA is to have a measurable and positive impact on front line service delivery. User friendly, intuitive business intelligence tools would be introduced to provide users with access to data in a timely and efficient manner. This will facilitate a common approach and greater self sufficiency and understanding at the decision points over time by providing access to quality financial information rapidly from a single data source.

P6: The organisation develops and sustains its capacity to enable financial management to shape and support its transformational programme.

The SSA will apply the standards and approach required to deliver WCFM. The achievement of these standards and the approach used will be subject to regular performance reporting by the SSA to client councils and any variation from the standards highlighted.

This WCFM approach, which aims to improve efficiency and effectiveness of service delivery and continuous performance improvement, is a key objective of any involvement of an SSA with transformation programmes.

The SSA will support the councils through systems and

business process changes in order to achieve their aspirations on transformation. The scope of the transformation support can be accommodated by an arrangement either at the outset of establishing the SSA or afterwards. Either way the scoping of the work will be subject to an agreed business case that will give all parties assurance that sufficient capability and capacity will be available to deliver the council's programme.

Specific expertise that the SSA could provide would be business process design and implementation, IT specialism and project management in addition to financial expertise and a drive for continuous improvement.

Processes:

- PR1: The organisation identifies and manages its significant business risks. The organisation is risk aware rather than risk averse.
- The SSA will be able to adopt a different risk profile to that of individual councils. Some risks that the individual council experience will be much reduced and the SSA will have to address its own different set of organisational risks. For example, councils will no longer bear the high risk of non delivery of financial advisory work through sickness, lack of training or any other factors as this will have transferred to the SSA. The SSA, having responsibility for delivery of financial advice as a core service will benefit from the size, scale and flexibility of operations. It will have developed robust practical contingency plans (as defined in the SLA) that make necessary coverage of this service more possible despite these sorts of risk factors. This will enable the SSA to set such events as lower categories of risk. Appropriate classification, measures for monitoring and reporting of risks along with involvement of both the SSA and councils in reviews at regular meetings will ensure potential risks are well managed.
- PR2: The organisation has arrangements in place to maintain an effective system of internal control.
- The success of the SSA depends upon creating and maintaining the highest standards of internal control as integrity of systems and processes will be a hallmark for successful service delivery. The standard of internal control will be subject to regular internal scrutiny and measurement as defined in the SLA for timeliness, accuracy and customer satisfaction. Any shortfall in internal controls will be identified through appropriately defined measurements. Existing examples of SSAs deploy external experts to assess internal controls and procedures in place. This 'validation' of controls and procedures provides assurance to both the SSA and customers. It will also be easier and less costly to examine one set of controls operating in a SSA compared to examining a number of councils so should enable better and more consistent management of controls for those particular processes. Internal controls also form part of the defined documentation of processes before they are taken on by the SSA. This in turn forms part of the overall SLA, which allows such controls to form part of the overall service delivery framework. Continuous measurement of performance is a further feature that enables the reporting of any failures in application of controls so necessary action can be taken.
- PR3: The organisation operates proper and effective internal control.
- The SSA will provide a standard core service for all councils across the range of systems and processes needed for service delivery. It is envisaged that CIPFA's and the Institute of Internal Auditor's standards will be adhered to by a SSA for each system and process operated by the SSA. This allows one high standard to be achieved for all councils making use of the service. This makes the monitoring and application of a single standard much easier, cost effective and more likely to be achieved. It eliminates inevitable variation existing in a more distributed decentralised environment.

- PR4: The organisation operates and maintains accurate, timely and efficient transactional financial services (e.g. creditor payments, income collection, payroll, pensions administration and cash management)
- As well as being more efficient, and supported by advanced technology and process designs, the SSA will also closely monitor the delivery of each of the in-scope transactional services. It will produce a range of statistics, KPIs and performance measures in compliance with contractual agreements and specifications (set out in SLA) and is likely to be an 'open-book' approach in order to allow customers the ability to test the accuracy and completeness of monitoring information. The commercial relationship between the SSA and councils will reinforce this requirement. There will be a culture of continuous improvement to eliminate non-value added activity, errors and defects
- PR5: The organisation operates financial information systems that meet user needs.
- The choice of systems will be determined by a range of factors including user needs. It is important that the systems not only have the functionality to undertake the required tasks but also that management information is accessible and that the systems are easy to use. This is particularly the case where interfaces are required with existing council systems. It is far more efficient and cost effective for the SSA to address these aspects for a group of councils than for these tasks to be undertaken by individual councils. It is recognised that to be efficient and effective Councils will need to agree to common standards, processes and systems as far as possible but offer flexibility where business needs are justified. These will be factored in when feasible to do so and not detrimental to the majority. Introduction of state of the art business intelligence tools integrated with core systems will provide users with a common source of data with the flexibility to create their own views of data applicable to their specific needs increasing use of self service to saves time and effort all round.
- PR6: The organisation's financial accounting and reporting needs professional and regulatory standards.
- The SSA will act as a specialist source of advice on compliance with professional and regulatory standards. The ability of the SSA to maintain a technical specialist accounting facility is one of its key features that adds value. Staff will need to attain at least the same professional and technical standards required to do the work compared to existing incumbents.
- PR7: Budgets are robustly calculated.
- The SSA will have the ability to deploy high standards of budgeting expertise that take advantage of specialist knowledge of particular heads of expenditure. Examples relate to any national agreements on pay and non-pay headings. Inflation factors can also be consistently applied across councils which will not only be more efficient for councils but allow for more accurate inter-council comparisons of expenditure against budget. Councils will retain the ability to review draft budgets and make adjustments - as required as they ultimately own the data - so that failsafe mechanism will always be in place.
- PR8: The organisation produces budget monitoring and forecasting reports that are insightful, ensure 'no surprises'
- The SSA will provide standard reports in a consistent format. This format will be agreed with users and ensure that it meets their requirements. The regularity of reports will also be agreed and allow for specialist

and inform active budget management. reporting which will be made available online with user-friendly accessibility. They would also provide for one-off reports to be produced, ideally through business intelligence tools that can be adopted by users on an ongoing basis with relatively simple levels of training. The SSA will quality review reports to identify and adjust for any errors based on rules based aspects. The Councils will ultimately sign-off the final figures once satisfied.

PR9: The organisation regularly measures its assets and liabilities. The Balance Sheet is clearly a primary financial statement and the SSA will be looking to ensure that a form of this statement is included in budget monitoring reports. This in itself will act as a catalyst for ensuring that all assets and liabilities are measured on an up to date basis and will particularly be the case for trading services. The SSA will reconcile balance sheet accounts according to set timetables and report variances and unreconciled items to client councils who will make decisions for action where appropriate and not rules based eg write offs/ provisions. The best in class integrated ERP system should improve the quality of the content of the balance sheet

PR10: Good financial management is evident in the organisation's partnership working arrangements. CIPFA's guidance on partnership arrangements will be adhered to as one source of good practice. The SSA is will be sensitive to the further exposure of accounting practices through partnership arrangements and be looking to ensure sound arrangements are in place that promote its position as a key provider in the sector. The SSA will also be in a better position to understand the dynamics and spot any issues between a number of organisations contained within the SSA as they will have greater direct access to data.

PR11: The organisations medium term financial planning process underpins its strategic priorities. This is a key linkage that the SSA will develop in conjunction with the Section 151 Officer and other Chief officers. The overarching need for each council to have an effective medium term financial planning process to deliver on its strategic priorities will be a key driver for the SSA in providing an effective financial management service. Strategic priorities will concern leading councillors, including Chairman and Leader and it is important that there is a clear and effective planning process in place for the overall benefit of the council. With a number of councils serviced by the SSA, there are likely to be practices and approaches that can more readily be shared in order to enhance the financial planning process. Commonality of systems and accounting treatment through the SSA will support this development.

PR12: The organisation makes all Managers responsible for achieving value for money and holds them to account for it. The SSA's streamlined approach to systems and procedures would include an up to date list of managers responsible for particular defined services. Budget monitoring reports delivered to managers would highlight variances of varying magnitude and it is likely that individual councils will specify parameters within which action or further reporting by managers is required. The SSA will facilitate this process by ensuring accurate and up to date information is provided. Better exception and commitment reporting will allow any issues to be highlighted quicker and

more accurately.

- PR13: The organisation delivers value for money through its procurement process. Existing examples of SSA highlight significant gains or potential gains that can accrue from procurement savings. Procurement savings can materialise due to a more efficient procurement function facilitated by better information provided by the SSA. The SSA will be able to provide reporting across a number of entities and highlight areas where collaboration and common buying policies could yield significant savings potential.
- PR14: The organisation manages its assets and liabilities. Following on from the SSA providing more consistent and accurate reporting of a council's assets and liabilities, the individual council should be in a better position to exercise management in these areas. Through user groups the development of reporting facilities could include better comparison of individual policies and standards applied across councils further promoting good practice. Centralised knowledge in the SSA can highlight problems like potential bad debts and slow payers or supplier performance issues encountered by other councils in order to take united action for the benefit of all.
- PR15: The organisation's financial management processes support organisational change agenda. The SSA will understand that councils will not be static organisations but will in many cases be pursuing organisational change designed to maximise value-for-money from finite resources. There are a range of levels where the SSA may support this process, from transactional processing level to strategic advice, and it is likely that the SSA will have the ability to do so and wish to support the councils at each of these levels. The SSA will have a central repository to draw from along with detailed knowledge and fit for purpose tools to support a range of requests for change initiatives.
- PR16: The organisation re-engineers its internal financial processes. The re-engineering of financial processes is facilitated by an SSA that has expertise in systems and procedures. Such expertise allows the costs and benefits of changes to be more fully considered and once a decision on change made for the SSA to be actively involved in implementation. One time investment in change will usually offer greater payback to all customers of the SSA. It is anticipated that the SSA would build a best practice system and process design from the start of the project so client councils would benefit to some extent from day 1 and ongoing through the drive for continuous improvement at the SSA.

Stakeholders

S1: External stakeholders have confidence in the integrity of the organisation's financial conduct.	The SSA will adopt a structure and range of internal controls and procedures that are agreed and supported by key stakeholders. The integrity of a SSA is of fundamental importance to ensure credibility and confidence from client councils. The SSA will aim to demonstrate the highest standard of compliance with statutory requirements and will comply with professional best practice in accordance with defied policies and procedures. It will comply with all these aspects as set out in the contractual agreement and SLA. If there are any shortfalls, these will be analysed and examined during service performance reviews to agree steps to avoid re-occurrence of the problems.
S2: The organisation can demonstrate that customers and users of its public facing financial services are treated consistently.	The SSA would avoid any differentiation in the standards of delivery save for any conscious choice by councils to reduce standards for affordability reasons. The target level would be defined in the SLA agreed with each client – although not desirable for consistency reasons, different target SLA levels could be agreed with different client organisations.
S3: The organisation can demonstrate that users of its internal financial services are treated consistently.	The reporting arrangements that the SSA will adopt should reinforce consistency in the provision of financial services. The client representation of services will monitor service delivery and is likely to reinforce a consistent approach across the user base. SLAs will define the level of service expected by its users.
S4: External stakeholders have confidence that the organisation delivers value for money.	The SSA is likely to be very conscious of the 'price-standard' equation offered and delivered to individual councils. There are many aspects to price and standard which will be specific to individual services and the SSA is likely to be looking to ensure that stakeholders are satisfied with all aspects when creating and agreeing the SLA. A regular, monthly, quarterly and annual SLA performance report from the SSA should highlight current performance levels achieved versus target standards. Any shortfalls will need to be addressed according to procedures set out in contractual SLAs. Pricing and recharge policies should drive the right behavioural change to balance both price and quality
S5: The organisation can demonstrate that its public facing financial services are socially inclusive and tracks public satisfaction.	The SSA as a 'people organisation' and for legal reasons will be committed to demonstrating compliance with all aspects of good HR practice, including equal opportunities in its management of staff issues.
S6: The organisation focuses its internal financial services on added value support to internal users and tracks satisfaction.	The value-added service approach applies across all in-scope service delivery. This will include a cash backed saving of transaction processing to the higher standard of specialist advice and reporting that a SSA can provide. Both client and the SSA will also implement procedures and mechanisms to monitor customer satisfaction levels and have processes in place to agree and take appropriate action to improve.
S7: Customers and stakeholders can bring influence to bear on	The SSA can facilitate the customers and stakeholders aspirations for greater influence through the provision

key financial management policies including resource allocations and tax decisions.

of world-class financial management. It will be able to provide a wealth of data and reporting across the entities it delivers services to and though agreed sharing of information can provide a greater level of service overall to its customers.

S8: The organisation's public facing financial services focus on their customers and users and recognise and respond to their individual needs.

The SSA will associate with its council's level of success in meeting the demands of its taxpayers and customers. The overriding support that the SSA can provide is to demonstrate that its provision of 'back-office' services not only provide excellent value for money but contribute directly to enhancing the efficiency and effectiveness of delivery front line services.

Consultation questions

Q18 Do you agree with the points made in Appendix 5 on the contribution of shared services to world-class performance, as described in the FM model? Please elaborate.

People consulted during the project

David Aldous, Head of Audit Policy and Practice; Audit Commission
Michael Andrews, Head of Finance; Mansfield Borough Council
John Burke, Head of Finance; Crawley Borough Council
Stuart Cawthorne, Head of Finance; Runnymede Council
Terry Collier, Head of Financial Services; Spelthorne Borough Council
Peter Connolly, Assistant Director; CIPFA Commercial Services
Martin Evans, Director; Audit Commission
Steve Freer, Chief Executive; CIPFA
Jackie Fullerton, Head of Shared Services; British Polythene Industries
Alan Goodrum, Chief Executive; Chiltern District Council
Tania Haywood, Operations Manager; HM Prisons
Martin Henwood, Head of Financial Services; Wycombe District Council
Steve Hodgson, Director of Finance; HM Prisons
William Jacobs, Director of Finance; South Oxfordshire and Vale of White Horse
Mark Lovell, Director of Finance; East Northamptonshire District Council
Ian Lowrie, Chief Executive; Worthing Borough Council
Sally Marshall, Head of Finance; Dacorum Borough Council
Tricia Marshall, Head of Financial Services; Sevenoaks District Council
Peter McKensie, Corporate Finance Manager, Mendip District Council
Gerry Niven, Shared Services Practitioner
Ruth Ormsby, Shared Services Consultant; Department of Health
Monica Owen, Head of Marketing; NHS Shared Business Services
Mark Pickett, Vice President and Finance Director UK, Ireland, East Africa
Karen Robertson, Business Development Manager; Steria Ltd
James Rooney, Financial Consultant; CIPFA
Graham Soulsby, Deputy Chief Executive; Kettering Borough Council
David Steel, Finance Department; Carlisle City Council
Neil Swift, Head of Technical Support; Audit Commission
Elaine Ward, Director of Finance; St Edmundsbury Borough Council
Peter Webb, Leader; North Dorset District Council
Frank Wilson, Head of Finance; West Oxfordshire District Council
David Wood, Director of Resources; Malvern Hills District Council