A Shared Services Centre Migration Plan

For North Shore Councils

Terms of Reference

Percy Allan & Associates Pty Ltd was commissioned to identify possible council functions with economies of scale and scope and propose a roadmap and timetable to transfer them to a jointly owned shared services centre.

Executive Summary

This report explains what shared-services are and then recounts common mistakes in introducing shared service centres (SSCs) as well as the benefits of doing so correctly.

A successful SSC for North Shore Councils should improve the quality, timeliness and responsiveness of most back-office services and achieve unit cost savings of 10% initially rising to possibly 20% after transitioning from an exclusive franchise to open market contestability.

Initial cost savings (rising to $2m per annum by year 4) would be used to defray capital and operating establishment costs (including staff redundancies and new hires). Once these sunk costs were met, potential ongoing savings of $2m to $4m a year could be returned to member councils as price rebates on services purchased from the SSC. Cost savings are expressed in 2014/15 prices.

The report explores the organisational, legal and governance structures for a SSC, outlines an Action Plan for implementing a SSC for North Shore Councils and proposes a sequence and timetable for transferring corporate functions such as planning, finance, personnel, procurement, systems and support services to such a centre.

The Action Plan involves 15 steps, which are each explained in the report:

1. Agree on Concept
2. Adopt Vision Statement
3. Endorse Business Case
4. Appoint Leadership
5. Adopt Project Plan
6. Communicate Vision
7. Design Model
8. Analyse Gaps
9. Establish SSC
10. Knowledge Transfer
11. Go Live
12. Office Stabilisation
13. Project Review
14. Celebrate Outcome
15. Regular Reviews

Finally, the report outlines critical factors for achieving a successful SSC based on lessons from both the public and private sectors and proposes three steps for commencing the journey to shared services:

- Obtain the formal agreement of a core group of Local Councils and the State Government to the concept of a Regional Joint Organisation (RJO) with a Shared Services Centre (SSC) as a better alternative to Council Mergers for achieving Fit for the Future outcomes.
- Appoint a SSC Steering Group, CEO and Specialist Consultant to develop a detailed Business Case and Project Plan for implementing a RJO and SSC for formal approval by the participating Councils and the Minister for Local Government.
- Implement the Project Plan according to an agreed Budget, Timetable and key Milestones.

Glossary of Terms

- CEO – Chief Executive Officer
- IT – Information Technology
- ITC – Information Technology and Communication
- KPI –Key Performance Indicator
- NSROC – Northern Sydney Regional Organisation of Councils
- OHS – Occupational Health and Safety
- PC – Personal Computer
- RJO – Regional Joint Organisation
- SLA – Service Level Agreement
- SSC – Shared Services Centre

Shared Services

A local government Shared Services Centre (SSC) is the provision of one or more services to a group of local councils by one member of the group or by a joint organisation owned and controlled by the group.

Amalgamation is an extreme form of shared services where every activity of a group of councils is centralised in a new administrative body reporting to a single new council.

There is no compelling evidence that centralising all local council activities in a single mega-council produces cost efficiencies. That's because with scale some activities obtain economies while others develop diseconomies.

Hence the most efficient path for local government is to share those activities that benefit from size while keeping in-house those activities done best on a small scale.

Activities most suited for sharing are (a) high volume repetitive transactions with standardised inputs, outputs and work processes and (b) activities that require strategic analysis and advice at a regional rather than local level.

Private and public sector services that have been most receptive to sharing are routine generic activities in finance, personnel, procurement, systems and other forms of corporate support.

Prime examples in each category are listed below.

- **Finance:** Accounts Receivable, Accounts Payable, General Ledger, Billing and Rates Collections, Travel and Expense Reimbursement and Treasury Management
- **Personnel:** Payroll, Employee Benefits, Workers Compensation Insurance, Training and Education, Time and Leave Administration and OHS Compliance.
- **Procurement:** Requisitions Management, Receiving, Sourcing and Vendor Management, Stationery and Stores, Asset Registers, Property and Fleet Management, Leasing, Property Insurances, Cleaning, Utilities and Telecommunications.
- **Systems:** Desktop Support, Telecommunications, Data Centre Operations, Hardware/Software Acquisitions and Disaster Recovery.
- **Corporate:** Legal, Security, Printing, Records and Archives, Call Centre and Library Services.
- **Planning:** Local and regional urban planning and development application processing when shared capture economies of scope (i.e. benefit from planners working and brainstorming collectively rather than disparately and considering regional and local impacts together).

Potential Shared Services Cost Savings

The following chart shows a percentage breakdown of corporate service costs within the six councils that comprise the Northern Sydney Regional Organisation of Councils (NSROC). As can be seen IT, utilities, financial services, legal, HR, OHS/WC and insurance make up over three quarters of corporate services expenditure. Records, governance, rates collection, payroll and telecommunications comprise the balance.

Percentage Breakdown of Corporate Service Costs within NSROC Councils
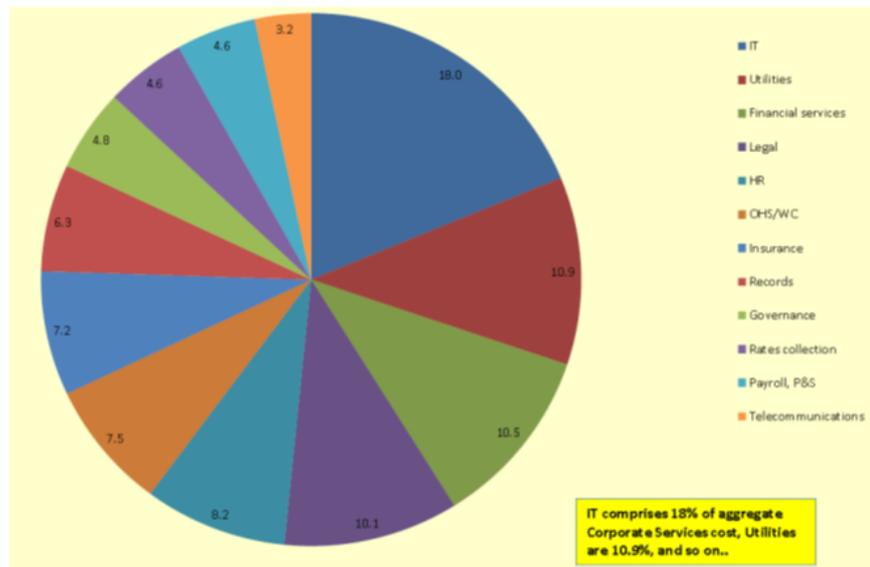
Source: Benchmarking Plus, *NSROC Corporate Services Benchmarking for FYE June 2012*, slide 12

Based on a benchmarking study of corporate services within NSROC Councils, adopting the practices of the lowest cost Council might generate savings of 7.8% within the total group and as much as 25.2% for the highest cost council. [i]

Research by the late Professor Simon Domberger found that outsourcing of in-house services to contestable providers typically generated savings of around 20% of their original cost. [ii]

If a SSC was organised and operated as a genuine commercial enterprise with the prospect of its services being opened to market competition within five years then total cost savings of 10% ($2m per annum) on all corporate services (other than governance) should be a realistic initial target. Ultimately savings of 20% might be possible after the SSC transitioned from having an exclusive franchise to being exposed to market contestability.

Initial cost savings (rising to $2m per annum by year 4) would be used to defray capital and operating establishment costs (including staff redundancies and new hires). Once these sunk costs were met, potential ongoing savings of $2m to $4m a year could be returned to member councils as price rebates on services purchased from the SSC. Cost savings are expressed in 2014/15 prices.

SSC Mistakes and Successes

Many SSCs fail because they:

- Lack partner commitment and support,
- Have unrealistic expectations (overambitious goals),
- Pursue cost savings at the expense of service standards,
- Underestimated the cost and effort required to succeed,
- Don't have a compelling business case,
- Lack project leadership, planning and technical competency,
- Don't agree on service levels in advance of implementation,

- Share complex services not amenable to standardisation,
- Centralise activities before redesigning their processes,
- Adopt IT systems centrally that don't interface locally,
- Migrate to shared services before piloting the migration plan,
- Introduce shared services concurrently, rather than sequentially,
- Do inadequate change management planning to help staff cope (i.e. retraining, transferring, relocating, recruiting and retrenching staff),
- Are situated within a bureaucracy antithetical to running a business,
- Don't face the prospect of contestability to make them efficient, and
- Are not accountable to a board appointed by their customers.

Yet successful SSCs deliver the following benefits:

- Efficiency – reduces unit costs of routine transactions by standardising their work processes and desktop systems, consolidating their operations in a lower rent location and aggregating their volume to exploit economies of scale.
- Quality – reduces transaction errors by standardising work practices and ITC systems, reducing decision control points, documenting office procedures and reporting regularly against agreed transaction service benchmarks.
- Service – improves service level timeliness and responsiveness by forcing client agencies to more clearly specify their exact needs, reporting regularly against SLAs and compliance and complaints handling mechanisms.
- Specialisation – enables back-office functions to have dedicated expertise and management applied to their operations and frees up client agencies to focus on their core tasks.
- Careers – improves career prospects for transaction-oriented staff by offering a bigger work environment and opportunities to learn best practice processes and cutting edge technologies with dedicated supervisors.
- Technology – allows leading edge ITC systems to be employed at lower cost, with closer maintenance and more frequent upgrades by consolidating them centrally.
- Compliance – improves compliance with audit, tax, OHS and other regulatory requirements by upgrading and standardising record-keeping and consolidating reporting.
- Performance – improves performance of client agencies by standardising management reports to enable inter-agency performance comparisons.

SSC Structures

A SSC needs organisational, legal and governance structures:

Organisational Structure: A SSC can be either (a) a single Hub consolidating and providing all services to be shared, or (b) a disbursed Network of existing Council back offices each taking a lead role in providing a particular group of services to be shared. A Hub may be either an existing council back-office or a new organisation dedicated exclusively to shared service provision.

Legal Structure: If an existing Council back office is used (either as a single Hub or a Network partner) then shared services will be provided under existing Local Government employment and operating

conditions. By contrast a new self-standing Hub, with the permission of the Minister for Local Government, could be organised as a Company Limited by Guarantee (such as Hunter Councils Ltd).

Governance Structure: If a SSC is located within an existing Local Council it will be part of a Council's administrative back-office and thereby accountable to the General Manager via a senior Council executive (e.g. Corporate Services, Finance or HR Director). If it is a self-standing business organised as a Company Limited by Guarantee its CEO would report to a Board of Directors appointed by member councils.

Recommendation: The lesson of state governments is that SSCs located within general purpose government departments have not exhibited the business culture, operational flexibility and market contestability to deliver the ambitious cost savings and service improvements originally envisaged in their business plans.[iii] For this reason it is proposed that a dedicated SSC organised as a Company Limited by Guarantee be given serious consideration (see separate report by Percy Allan & Associates Pty Ltd, *A Regional Joint Organisation Structure For North Shore Councils*, Sydney, 5th May 2015).

Action Plan

To migrate to a SSC involves three stages; establishing the existing baseline, envisaging future outcomes and an Action Plan of fifteen implementation steps.
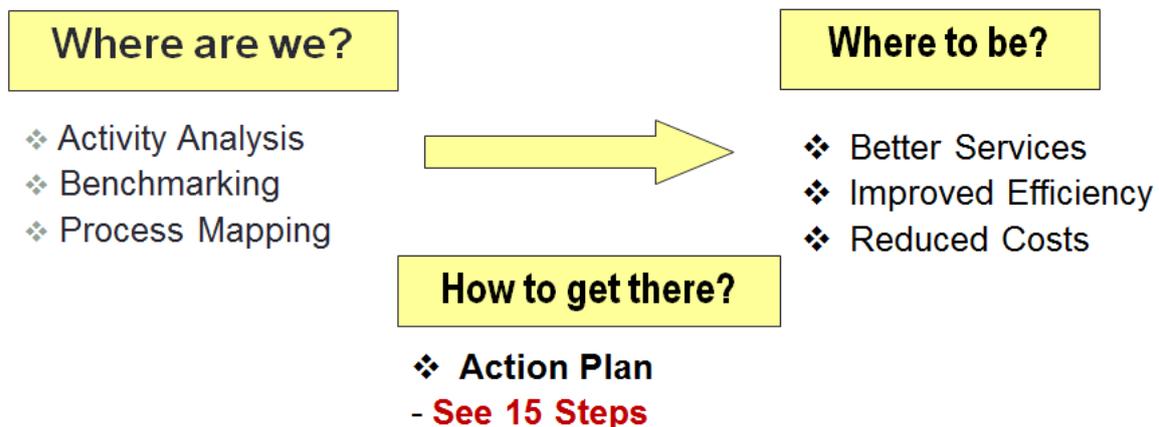
The 15 steps to implementing a shared services centre are:

1. **Agree on Concept**
    a. Who are members – foundation or open membership or both?
    b. What is objective – cost efficiency, service effectiveness or both?
    c. What to expect – adopt SLAs or savings targets or both?
2. **Adopt Vision Statement**
    a. What services to share – corporate or front-line services or both?
    b. How to share services – cooperative hub or administrative network?
    c. Who will fund project – initial investment and ongoing costs?
3. **Endorse Business Case**
    a. What will it cost – initial capital versus ongoing operating costs?
    b. What will be charged – operating or economic cost based?

     c.   What will be saved – cost or time savings or both?

4. Appoint Leadership *(see next chart 1 on Proposed Structure)*
     a.   Who will be Steering Group (Board) – Council GMs or other Executives?
     b.   Who will drive project – newly appointed or seconded SSC CEO?
     c.   Who will be project team – existing or new staff and consultants?

Chart 1: Proposed Governance Structure

Governance Body	Membership	Meeting Frequency
Governance Board	• Chair • Shared Service Director • Departmental Directors	Quarterly
Service & Customer Forum	• Shared Service Managers • Customer Representatives • Customer Business Partners • Functional Specialists • Account Managers	
Operational Management Team	• Shared Service Managers • Shared Service Management team	Weekly

Customer Group Meetings → Service & Customer Forum

Organisations meet to review performance → Operational Management Team

Source: http://www.sourcingmag.com/designing-your-organization-for-bpo-and-shared-services/

5. Adopt Project Plan *(see next chart 2 for Proposed Plan)*
     a.   What stages – vision, buy-in, planning, design, building, testing, rollout?
     b.   What elements – management, staffing, structure, reporting, processes, systems, telecommunications, suppliers, legal, tax, logistics and KPIs?
     c.   What timeframe – project timetable, task delegations and milestones?

Chart 2: Proposed Project Plan

Phase 1 Mission | Phase 2 Buy In | Phase 3 - Planning & Piloting | Phase 4 Implementation

Phase 3A - Definition and Design | Phase 3B - Pilot and Implementation Planning

Programme Management

| Establish team & project structure | Set-up project office | Develop detailed project plans | Set-up initiative monitoring | Develop risk management framework | Develop implementation plan | Set-up implementation monitoring | Monitor rollout | Manage contingencies |

Change Management

Establish change programme → Develop communication programme → Initiate change programme

Execute change programme

Monitor & revise change programme

People

Develop HR strategy → Design organisation roles and responsibilities → Develop staff structures & numbers / Design training / Select and train pilot staff

Staff new organisation → Initiate training → Oversee staff take-up → Manage surplus staff → Monitor training

Processes

Identify business processes → Set performance targets → Design new processes

Systems

Set-up systems environment → Establish conference room pilot → Define & develop custom build requirements → Configure software → Integration testing

Define technical architecture → Develop conversion & testing strategies

Establish pilot / Detail site/functional implementation plans → Revise processes and systems → Rollout new organisation & operating environment

Logistics

Select sites → Develop property critical path → Design sites → Establish pilot sites → Fit-out other centres → Install & test technology → Commission new centres

Performance Measurement

Refine performance measures → Set performance targets → Develop performance monitoring & reporting mechanisms → Implement performance monitoring & reporting mechanisms → Monitor and report on performance against targets

Phase 1 column: Benchmark sample sites / Evaluate current situation / Create vision / Develop business case for Enterprise

Phase 2 column: Develop project charter / Develop migration path/s / Refine business case by operating groups / Confirm package selection

Source: © Percy Allan & Assoc. Pty Ltd, 2015

6. **Communicate Vision**
   a. What is blue print – high level strategy and timetable?
   b. What will be its impact – on staffing, up-skilling and office location?
   c. What retention incentives – migration and post-migration phases?

7. **Design Model**
   a. Proposed system infrastructure – what software (e.g. Oracle or SAP) and hardware (e.g. IBM, HP or Dell)?
   b. Proposed process maps – best practice or existing practice?
   c. Proposed service level agreements – quantity, quality and prices?

8. **Analyse Gaps**
   a. Staffing levels – Existing versus proposed systems?
   b. Unit costs – Existing versus proposed activity based costs?
   c. Timeliness – Existing versus proposed processes?

9. **Establish SSC**
   a. Obtain premises – Existing office network or new office centre?
   b. Install infrastructure – New systems integration with legacy systems for data centres, fibre networks and desktop PCs?
   c. Hire staff – train and transfer existing staff or hire new staff or do both?

10. **Knowledge Transfer**
    a. Train staff – common terminology and new procedure manuals?
    b. Migrate knowledge – from existing to new or seconded SSC staff?
    c. Migrate data – to new or existing systems?

11. **Go Live**
    a. Pilot project – simultaneous or staggered trials?
    b. Rollout project – simultaneous or staggered introduction?
    c. Finalise service level agreements – refine or renegotiate original drafts?

12. **Office Stabilisation**
    a. Surplus staff – redeploy, offer voluntary redundancy or retrench?
    b. Surplus assets – reuse, sell or scrap legacy systems/vacant offices?
    c. Client interface – formal or informal SSC/ client liaison?
13. **Project Review**
    a. Budget targets – were capital and operating budgets met?
    b. Savings targets – were unit cost benchmarks achieved?
   c. Service targets – were quality targets met?
14. **Celebrate Outcome**
    a. Publishing case study – what was sought versus achieved?
    b. Issue media release – invite Minister to media conference
    c. Hold celebration – for all who contributed to project's success.
15. **Regular Reviews**
    a. Weekly reviews – are finance and KPI targets being met?
    b. Monthly reviews – any breaches of service level agreements?
    c. Annual reviews – are all statutory returns and reports in order?

Shared Service Sequencing

It is proposed that the migration to shared services be staged as follows with the Action Plan piloted using well-recognised activities such as Urban Planning and Rates Collection.
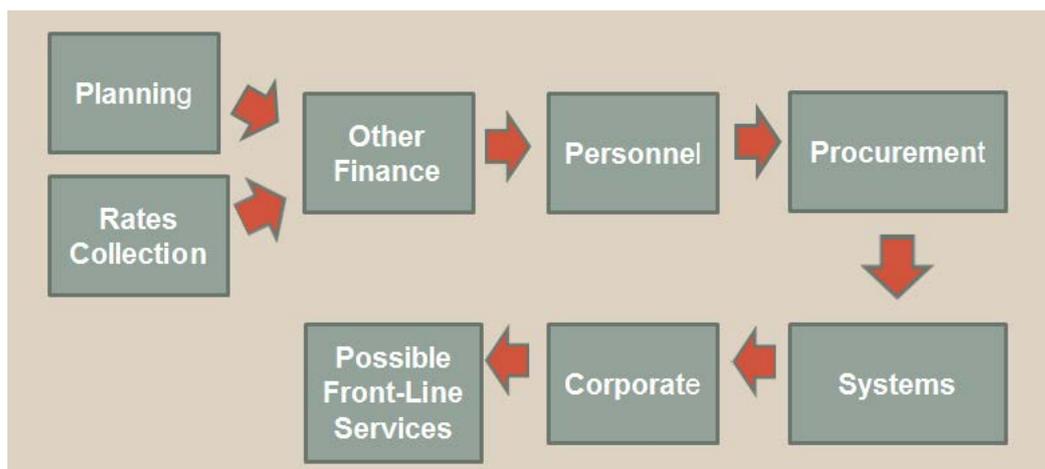
Timetable

Implementing the 15 steps and transferring planning and rates collection to the SSC could take around 12 months. Thereafter the migration of each subsequent service might take 3-6 months. All corporate services identified should be able to be migrated over a 2.5 to 3.5 year period.

This may seem a long time, but the widely publicised failure of shared services at a state level has been attributed to them being *"adopted in a hurry"*. Sufficient attention to detail concerning people, process and system issues is critical for getting a SSC's architecture right.[iv]

SSC Lessons

Based on the past experience of SSCs in both the public and private sectors, critical success factors for a local government SSC are:

- Establish reliable baseline data on prospective shared services
- Agree on the key outcomes expected from a SSC
- Formulate a convincing business case for a SSC
- Commit sufficient funding and other resources to the project
- Obtain stakeholder endorsement of the business case
- Appoint a SSC Steering Group and CEO to drive the project
- Make SSC a self-standing business enterprise with business KPIs
- Make SSC a company limited by guarantee like Hunter Councils Ltd
- Make SSC ultimately accountable to a Board appointed by its clients
- Guarantee SSC a captive clientele for a limited period (max 5 years)
- Pay dividends according to client capital and/or custom contributions
- Select a specialist SSC consultancy to advise on the project
- Adopt a proven phased migration plan to implement the SSC
- Identify major project risks and ways to mitigate them.
- Measure cost and performance of a service before sharing it
- Negotiate SLAs and chargeback formula before migrating to a SSC
- Clarify respective tasks of SSC and client agencies in advance
- Agree on how staff transfers and redundancies will be handled
- Determine how to motivate top performers to stay
- Pursue a change management/communication strategy from outset
- Agree on standardising complex processes before sharing them
- Invest sufficiently in an IT platform to support agreed processes
- Focus on SSC client buy-in, not just structures, processes and IT
- Regularly review progress and learn from mistakes
- Publicise and celebrate completion of each Action Plan milestone
- Regularly measure, monitor, evaluate and report on SCC outcomes
- Regularly survey member clients' satisfaction with SSC performance

Conclusion:

The **first step** is to obtain the formal agreement of a core group of Local Councils and the State Government to the concept of a Regional Joint Organisation (RJO) with a Regional Shared Services Centre (RSSC) as a better alternative to Council mergers for achieving Fit for the Future outcomes.

The **second step** is to appoint a SSC Steering Group, CEO and Specialist Consultant to develop a detailed Business Case and Project Plan for implementing a RJO and SSC for formal approval by the participating Councils and the Minister for Local Government.

The **third step** is to implement the Project Plan according to an agreed Budget, Timetable and key Milestones.

A successful SSC for North Shore Councils should improve the quality, timeliness and responsiveness of most back-office services and achieve unit cost savings of 10% initially rising to possibly 20% after transitioning from an exclusive franchise to open market contestability. Savings would be used in the first five years to defray capital establishment costs before being returned to member councils as price discounts.

Appendices (see main report)

- What are Shared Services?
- Local Government Functions
- Corporate Support Services
- Why Share Services?
- What Services to Share?
- Typical Shared Services
- SSC Organisational Structure
- SSC Risks
- SSC Critical Success Factors
- SSC Lessons
- SSC Migration Planning
- Questions asked of SCCs
- Best Practice SSC Processes
- Service Level Agreement
- SSC KPI Monitoring
- SSC Case Studies
- Key Concepts
- Activity Analysis
- Process Re-engineering
- NSW Government SSC Model
- NSW Premier's Dept Corporate Overheads
- Review Today Corporate Overhead Analysis
- Savings from Outsourcing
- Selected References

[i] See Benchmarking Plus, *NSROC Corporate Services Benchmarking for FYE June 2012*, slide 10

[ii] See section on *Savings from Outsourcing* in main volume of report.

[iii] For overviews of the performance of Australian state government shared services centres see:
- Dollery, Brian and Grant, Bligh, *Tortoises and Hares: The Race to Shared Services Across Australian State and Territory Jurisdictions*, International Journal of Public Administration, 2010, 33: 1, 43-54 http://www.tandfonline.com/doi/abs/10.1080/01900690903188792#.VTgXh2ccQuQ
- Australian Institute of Management (AIM), *Shares Services in the Public Sector, A Triumph of Hope over Experience*, White Paper, August 2012 https://www.aim.com.au/sites/default/files/downloads/AIM-Research-Shared-Services-Public-Sector.pdf
- ACELG, *Legal and Governance Models for Shared Services in Local Government*, Interim Report, May 2012 http://www.acelg.org.au/system/files/publication-documents/1337646438_Legal_and_Governance_Models_for_Shared_Services_3.pdf
- Dollery, Brian, Grant, Bligh and Kortt, Michael, *Councils in Cooperation – Shared Services and Australian Local Government*, The Federation Press, Sydney, 2012
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[iv] Dollery, Brian and Grant, Bligh, *Tortoises and Hares: The Race to Shared Services Across Australian State and Territory Jurisdictions*, International Journal of Public Administration, 33:43–54, 2010, page 52.