



# EIT Programme Xentrall Task and Finish Review 2010

**October 2010**

Version 1.0

## 1. Executive Summary

Xentrall Shared Services is being reviewed as part of Stockton's Efficiency, Improvement and Transformation programme. The review has been brought forward from April 2011 because of the emerging financial situation facing local government.

This review has been undertaken using a pilot Task and Finish approach so that it could be demonstrated that the review could be undertaken in a shortened timescale. The review therefore has concentrated specifically on **provision and configuration** and **options appraisal**. Following approval from Members, the next step will be to develop a detailed implementation plan.

### Recommendations

1. ICT is restructured with a projected saving of £404k per year.
2. Transactional Finance and HR are restructured to take account of existing savings and be more responsive to future customer needs.
3. Design and Print continues to embed newly implemented changes.
4. Further work be undertaken to assess customer needs. This won't affect the options or the savings but it may impact on the way in which the service is delivered.
5. Three options were considered and Option 1 is the preferred option:
  - Option 1 – Capitalise on existing investment. This option builds on the original business case whereby more services could be put into the partnership and there is also an opportunity to expand the business by seeking additional income from other public sector bodies. Additional savings have also been identified as part of the review.
  - Option 2 – maximise savings. Greater savings could be made but this would mean reducing the level of service currently provided to both Councils. It would also mean that there would be little or no opportunity for expansion of the partnership in the future.
  - Option 3 – Alternative service provision. In this option, the services delivered by Xentrall would be outsourced to a third party provider.

## **2. Introduction**

### **2.1 Background**

In December 2005 approval was given for detailed work to be undertaken looking into the possibility of joint working between Stockton and Darlington Borough Councils.

The report concluded that benefits could be achieved by bringing together a number of services into a Shared Services Partnership, as follows:

- Transactional HR;
- Transactional Finance;
- Design and Print;
- Information and Communications Technology.

Following the development of a robust business case, in November 2007 both Councils gave the go ahead for the partnership to be established.

**Xentrall Shared Services was established on 1<sup>st</sup> May 2008.**

#### **2.1.1 Xentrall Strategic Objectives:**

Our overall strategic objectives are set out in the legal agreement and are:

- To jointly provide a range of corporate and transactional services to Darlington and Stockton Borough Councils;
- To secure efficiencies whilst retaining highest rated performance;
- Improve service capacity and resilience;
- To form a nucleus around which both Councils and future partners could align service delivery;
- To build capacity in partnership councils, securing intellectual capacity, recruitment and retention and sustainability;
- Act as an exemplar or prototype of collaborative working for the North East;
- To ensure that the partnership is both “future proof” and expandable.

#### **2.1.2 Xentrall Business Development Phases**

When Xentrall was established it was always envisaged that over the life of the partnership it would expand in one of two ways:

- Additional Stockton and Darlington services to come into the partnership
- New partners to join the partnership

## 2.2 Approach

The financial situation for local government has changed significantly in the last two years since Xentrall was established.

When first established there was a requirement to deliver savings of £7.4m. In 2009/10 additional savings of approximately 4% were identified as part of the budget planning process for that year. However there is now additional pressure on all services to ask fundamental questions:

- What does the service do?
- Why?
- Is doing it cost effectively?
- Can it be done differently?

To support the Stockton Efficiency, Improvement and Transformation Programme a Task and Finish methodology has been developed. This review was undertaken using the principles of this new approach.

Theme	Key Questions
Baseline	What service is being reviewed and how is it provided?
	What influences impact on the service?
	What resources does the service use?
	What does consultation tell us about the service?
Evaluation and Findings	Is the service needed, what is statutory, what level of service is needed?
	What options are there for changing the way the service is delivered?
	Benchmarking – how does the service perform, is it cost effective?
	What does inspection tell us?
	Who are the customers and what impact would the changes have on them?
	What is the likely demand for these services in the future?
Options Appraisal	How else could it be provided?
	What is the impact of stopping the service?

## 2.3 Baseline

### 2.3.1 Service Description

#### Transactional HR

<b>Services</b>	<b>Number of Employees (FTE)</b>	<b>Cost of Service</b>	<b>Additional Resources / Buildings</b>
<ul style="list-style-type: none"> <li>• Payroll</li> <li>• Pensions support</li> <li>• Absence Management</li> <li>• Recruitment</li> <li>• Contracts</li> <li>• Support and development of the HR system (PSE)</li> </ul>	65	£1,802,701	Floor 5, Bayheath House Stockton

The Council's HR function is split into two areas, Transactional and Advisory. The Advisory element of the service remains within the two Councils. Xentrall and the two Advisory services work closely together to develop the HR system and implement service improvements.

#### Transactional Finance

<b>Services</b>	<b>Number of Employees (FTE)</b>	<b>Cost of Service</b>	<b>Additional Resources / Buildings</b>
<ul style="list-style-type: none"> <li>• Debtors</li> <li>• Creditors</li> <li>• Banking</li> <li>• Income support</li> <li>• Support and development of the Finance system (Agresso)</li> </ul>	44.6	£1,357,055	Floor 2, Bayheath House, Stockton

The Council's Finance function is split into two areas, Transactional and Accountancy / Procurement. The Accountancy and Procurement element of the service remains within the two Councils. As above, Xentrall and the two Councils work together in the development of the Finance system and service improvements.

ICT Service

<b>Services</b>	<b>Number of Employees</b>	<b>Cost of Service</b>	<b>Additional Resources / Buildings</b>
<ul style="list-style-type: none"> <li>• ICT Strategy</li> <li>• Business Account Managers</li> <li>• Business Analysis</li> <li>• Project Management</li> <li>• ICT Service Desk</li> <li>• ICT Training</li> <li>• Systems Support</li> <li>• Systems Development</li> <li>• Web Development</li> <li>• Desktop Support</li> <li>• Server Support</li> <li>• Network Support</li> <li>• Member Support</li> </ul>	90	£3,865,524	The Studios, Lingfield Point, Darlington and Room, 16 Church Road, Stockton G01, Town Hall, Darlington

Design and Print

<b>Services</b>	<b>Number of Employees</b>	<b>Cost of Service</b>	<b>Additional Resources / Buildings</b>
<ul style="list-style-type: none"> <li>• Design of leaflets / newsletters etc.</li> <li>• Printing</li> <li>• Copying</li> <li>• Print Finishing</li> </ul>	13	Surplus generated £305,151	Basement, Municipal Buildings, Stockton and G01, Town Hall, Darlington

**2.3.2 Influences**

The services are influenced by a number of internal and external drivers:

- Both Stockton and Darlington Councils have different priorities and it is important that we are able to respond to these.
- The economic situation in local government is changing constantly. The partnership was originally established to respond to the efficiency agenda. Now there is a need to drive even more savings from the partnership.
- As we have implemented new technology and improvements in service delivery there is a need to look at the resources we have and how they are used. This review will address this.
- Some of our customers are looking at alternative service delivery, for example schools. We need to be in a position to respond to this by retaining services wherever possible and finding alternative sources of income.

- Internally the demand for the Design and Print service is reducing. In response to this we have already restructured the service and are currently looking for external income.
- In the medium term there may be a reduced demand for our other services. Both Councils are reviewing their services with the aim of reducing costs. This will have a further impact on our services in about two year's time.

### **2.3.3 Consultation / Complaints / Compliments**

Every year Xentrall has undertaken a customer satisfaction survey. The main findings are:

- The services are well regarded however,
- We need to improve our communications
- We need to work more closely with customers to understand their needs
- We need to be more responsive

In the last twelve months there has been only 1 complaint about the service. This has been resolved to the satisfaction of the customer and a full review of the complaint was undertaken by the service and an improvement plan was implemented.

There have been 155 compliments for the services in the last twelve months.

### 3. Service Evaluation and Findings

#### 3.1 Xentrall Overall

Xentrall is still implementing the improvements needed to deliver the original business case as well as continuous improvements which are aimed at improving the efficiency of the service. The ongoing priorities are:

1. **Building and Strengthening Relationships**, across Xentrall and with Stockton and Darlington Councils, which includes ensuring that the organisations are meeting together regularly to agree the overall strategy for improvement.
2. **Continuous Improvement**, which includes reviewing all our process and including our customers in the process reviews.
3. **Automation of processes**, developing the Finance and HR systems to improve the service delivered to our customers and reduce overall staffing levels.

#### 3.2 ICT Service

ICT has been in transition for just over two years. During this time, changes and improvements have been made in the way in which it operates, for example, implementing the IT Infrastructure Library best practice standard. A number of additional business cases have also been approved during this time, aimed at making greater savings and efficiencies within the ICT service and the wider Councils.

<b>Implemented</b>	<b>Partially Implemented</b>	<b>Not Yet Implemented</b>	<b>Business Case to be developed</b>
New computer room	ICT Service Desk – self service	Migration of computer equipment	Printer consolidation
Reverse auction PC procurement	ICT Service Desk – Asset Management	Server Consolidation (otherwise known as Virtualisation)	Review of desktop
Desktop licensing	Disaster Recovery		
ICT Service Desk			

In addition to the improvements and additional business cases outline above, ICT and Transactional Services identified further savings of approximately 4% as part of the 2010/11 budget process.

Following the implementation of these changes there is now an opportunity to restructure ICT and streamline the way it works. The new structure will reflect other service improvements which have been identified by the service.

#### **Savings**

The main savings have been identified by reducing management costs and making changes in the way the service is delivered, these changes are describe below.

Additional savings of approximately £400k have been identified by undertaking a restructure of the ICT service. With the additional savings proposed, this represent a 20% overall saving from ICT services as a result of establishing the partnership.



The cost of redundancy would need to be taken into consideration estimated to be £280k depending on which employees are selected for redundancy.

## Benchmarking

The benchmarking service used is the Society of IT Managers. The figures are based on 2008/9 financial year and the report was made available in December 2009. 23 local authorities took part in the benchmarking exercise.

Acquisition cost of a workstation

	2009
Xentrall PC	£562
SOCITM average PC	£474

Following the recent procurement process undertaken by ICT, the cost of a PC has fallen by around £150. This means that we will be better than average in future years.

Number of ICT specialist per user

	2009
Xentrall	1:84
SOCITM average	1:49

Because of the Stockton / Darlington partnership, this figure demonstrates that we have the best ratio of support specialists per user for all those Councils who took part in the survey.

## Improvements

There are four major areas for improvement in ICT which are addressed in the restructure. They are:

1. **Management Restructure** including:
  - a. Focus on delivery of projects
  - b. Focus on delivery of business as usual
  - c. Fewer managers, less constraint on resources (removal of silos)
  - d. Effective implementation of IT Infrastructure Library standards (requiring new posts of asset and configuration management and change management)
2. **Review customer interface** – this needs to be undertaken in conjunction with the customer.
3. **Project Management** in conjunction with restructure:
  - a. Review approach / documentation / approval process
  - b. Using restructure to ensure resources are made available for delivery of major projects / improvement programmes
4. **Service Desk** in conjunction with restructure:
  - a. Remove call logging
  - b. Move to a technical 1<sup>st</sup> line / 2<sup>nd</sup> line support
  - c. Improve use of management information so that Problem Management and Incident Management can be implemented

### 3.3 Transactional Finance

There are ongoing efficiencies in this service still to be realised. These will come from further development of the Agresso product (the Council's financial management system) and the implementation of additional modules which will increase the automation of processes.

Stockton and Darlington Councils are now on the same version of Agresso and are on the same database.

#### Savings

There are no additional savings in Transactional Finance, but there is a possible commercial opportunity to work with Agresso. It is too early to identify what (if any) additional income will be generated by this partnership.

Transactional Finance and HR, savings which still need to be made:

	2010/11	2011/12	2012/13
Budget	3,159,756	3,049,454	2,853,469
Saving		110,302	195,985

A further £306,287 is still required from this service area over the next two years. This represents a 22% saving from Finance and HR services as a result of establishing the partnership.

#### Benchmarking

The benchmarking service used is CIPFA. The figures are based on 2008/9 financial year and the report was made available in December 2009. 75 local authorities took part in the Creditors benchmarking service and 72 local authorities took part in the Debtors benchmarking service.

Cost per invoice (creditors):

	2008	2009
<b>Xentrall</b>	<b>£5.51</b>	<b>£5.21</b>
CIPFA average	£9.06	£9.36

Cost per invoice (debtors):

	2008	2009
<b>Xentrall</b>	<b>£2.05</b>	<b>£1.85</b>
CIPFA average	£2.30	£2.38

In both cases, the service is better than the average of the local authorities who took part.

## Improvements

There are three areas which will deliver service improvement:

1. **Improved used of Agresso** – Agresso is not being utilised to its full potential across both Councils. This requires the Agresso team to work more closely with services in both Councils.
2. **Process Review** – processes have been reviewed and improved within Xentrall but to maximise the efficiencies it will be necessary to also review the processes within both Councils. Reviews of the procurement process are currently taking place in both Councils and these should also improve the efficiency of the service.
3. **New Systems** – both Stockton and Darlington Councils procure new ICT systems which require interfaces to Agresso. As more joint systems are procured this will reduce the impact of interface development and maintenance.

## 3.4 Transactional HR

There are ongoing efficiencies in this service still to be realised. These will come from further development of the PSE product (the Council's HR and payroll system) and the implementation of additional modules which will enable an element of Self Service for both managers and employees.

Stockton and Darlington Councils are now on the same version of PSE and are on the same database.

### Savings

There are no additional savings in Transactional HR. However, the overwhelming view is that there is an opportunity to generate income especially from the Payroll function.

For savings still to be made, see 3.3 above.

### Benchmarking

The benchmarking service used is CIPFA. The figures are based on 2008/9 financial year and the report was made available in December 2009. 59 local authorities took part in the Payroll benchmarking service.

Cost per payslip:

	2008	2009
<b>Xentrall</b>	<b>£3.90</b>	<b>£3.77</b>
CIPFA average	£4.14	£ 4.01

This shows that the services is better than average of the local authorities who took part in the benchmark.

## Improvements

1. **Process Review** The main improvement to Transactional HR will come from reviewing the processes in each Council. For some aspects of the service, Xentrall delivers its services differently to the two Councils because they work in slightly different ways and sometimes have different HR policies. Some of this will be overcome as joint functionality is developed for the Self Service system.
2. **Management Restructure** There is an opportunity to review the structure in Transactional HR. The savings have already been included as part of previous budget reviews. The restructure will also improve the efficiency of the service.

### 3.5 Design and Print

Design and Print was reviewed earlier in the year and a new structure implemented in April 2010. This service is now settling down and dealing with the current demand, including the new arrangements with the Communications Team in Stockton. Darlington has recently asked all service managers to place all work through the unit and but it will take time to evaluate the impact of all these changes.

- Design and Print need to embed the newly implemented changes
- A review of the Darlington presence needs to be undertaken to maximise the resources
- Design and Print are targeted with a surplus of £305k, this income would be lost if we didn't provide the service
- All parts of the service are paying for themselves i.e. income generated is greater than salary costs (including the designers)
- Continue to market the service to attract external business

### 3.6 Xentrall Management Team

In addition to the management of Xentrall Shared Services, the management team are also involved in wider Council projects.

The management team have been working with both Councils reviewing a number of services, looking for other opportunities for partnership working. In these reviews, the management team is utilising its learning and expertise from setting up Xentrall.

### 3.7 Stockton and Darlington combined

It was always envisaged that additional savings and benefits would be delivered as a result of working in partnership.

Additional savings for the partnership have been made as a result of previous reviews in Stockton. These have contributed to the overall savings made by both Councils and are: Desktop Procurement, Marketing & Advertising, Staff Travel – which amount to £38k per year from this year, total £304k to end of original 10 years.

ICT has undertaken two major procurements during the last twelve months. A PC and laptop reverse auction resulted in savings of £310k per year. A review of desktop licensing provides a cost avoidance of £573k over six years.

Other non-financial benefits are delivered by the partnership such as sharing of best practice across the two Councils.

### 3.8 Financial Information

<b><u>Xentrall 10 Year Savings</u></b>	Gross Saving	Gross Saving as % of base	Net of new costs	Net Saving as % of base
Original Business Case	£11,392,419	-16%	-£7,267,768	-10%
After Extra 4%	£12,885,075	-18%	-£8,771,304	-12%
After New ICT Savings	£15,713,075	-22%	£11,319,304	-16%

#### **New Savings Annual Impact Before Redundancy Cost**

New ICT Savings	-£404,000	-6%
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#### **New Savings Estimated Redundancy Cost**

New ICT Savings	£280,000
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## 4. Options Appraisal

The EIT documentation provides for a number of options for future service delivery:

Option	Appropriate Y/N
In-house	N – currently a partnership
Strategic Service Delivery Partnership (used for large scale contractual partnerships)	N – not a large capital programme
Shared Services	Y – Already a shared service, could continue (see options 1 and 2)
Partnering Contract (collaborative arrangement with third part to discharge the third party partner's obligations under the contract)	N – not applicable
Framework Agreement (access to skills and capacity when not available in-house, call off agreement)	N – additional capacity not needed
Outsourcing	Y – service could be outsourced (see option 3)
Joint Venture Company	Y – if Xentrall was to expand, this option may be considered in the long term. However, this is not considered as an option at this time.
Concession or Franchise (exploit the revenues or cash flows from an asset)	Unsure – could this apply to the Computer Room?

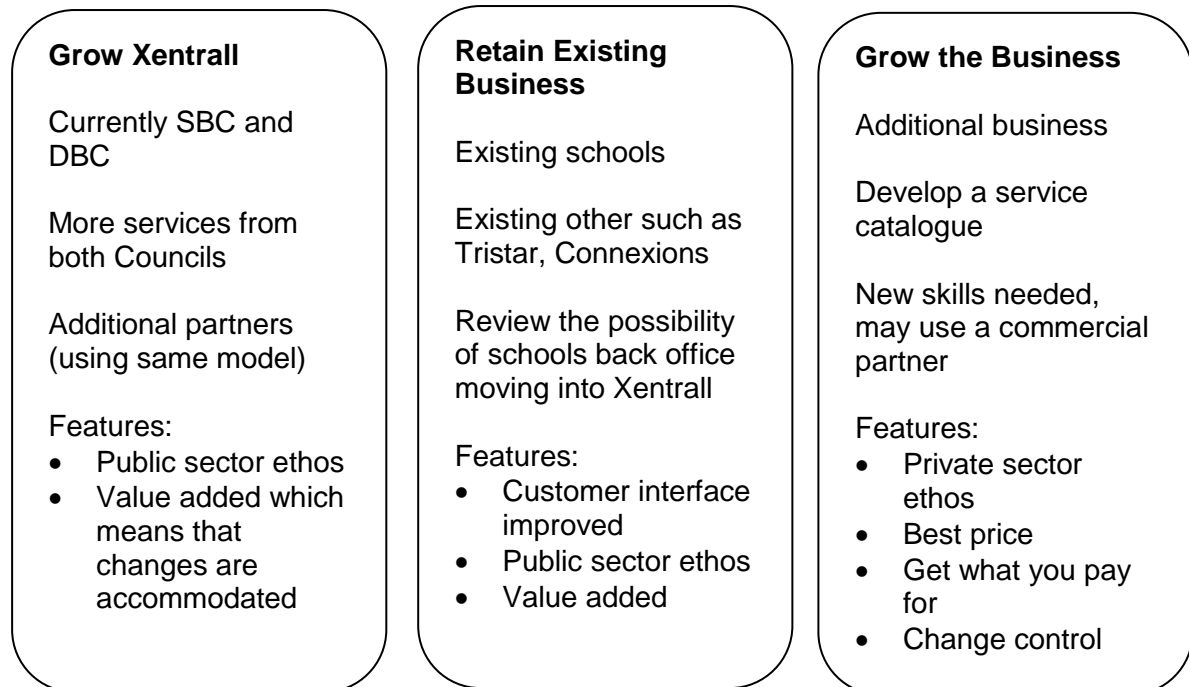
There are two other options which may be appropriate:

Option	Appropriate Y/N
In-Sourcing (Working with a third party to bring in additional skills / capability)	Y – if Xentrall was to develop a commercial model it would need additional skills it currently doesn't have (see option 1)
Community Interest (relatively new)	Y – Xentrall employees could run their own company. Too new to consider at this stage.

With all of the options it will be necessary to continue to be flexible in the delivery of services to Stockton and Darlington Councils. The options need to be able to respond to significant drop in demand.

## 4.1 Option 1 – Capitalise on Existing Investment

This option would see Xentrall growing and would develop a commercial capability in the medium term. The model is set out below:



With this model, Xentrall would grow and it would also start to change its focus. It would always continue to deliver services to Stockton and Darlington as it currently does, but would start to develop more commercial skills / capability.

For this model to work it may be necessary to invest some of the savings identified so that the additional capability can be developed. To ensure credibility with potential customers, it will be necessary to continue to pursue appropriate standards such as ISO27001, Customer Service Excellence, Investors in People.

Core skills in this option will be:

- Marketing / Sales
- Commercial awareness of the market
- Full understanding of product / services and cost (service catalogue)
- Business Process Improvement
- Programme and project management
- Change management

It is crucial that Stockton and Darlington retain their existing external income, such as schools, otherwise it would put an additional pressure on both Councils and on the Xentrall budgets.

Generating additional income is likely to be a medium term outcome.

## **4.2 Option 2 – maximise savings**

Savings of up to approximately £400k have been identified as part of this review. These savings are likely to reduce the level of service in some areas but will not affect core business.

If there is no investment in Xentrall in the future and both councils decide they want to reduce their service levels it may be possible to make further savings, but any further reductions would reduce the capacity for Xentrall to develop in the future.

This option assumes that the partnership will remain, but not develop.

## **4.3 Option 3 – alternative service provision**

The service could be outsourced.

This would mean moving to a completely commercial model. The service would need to be specified and a tender process undertaken. Because of the value of the contract it would fall under EU procurement regulations.

If the service is outsourced, the following should be taken into consideration:

- Keep Design and Print separate – different providers and the Councils may want to retain the service because of its current income levels
- It would be necessary to have an effective client function to manage the contract for performance, cost and change control
- Review the strategic function of ICT. It is unusual for the strategic ICT capability to be outsourced.



## **5. Conclusions and Recommendations**

The partnership between Stockton and Darlington Councils has been successful over the last two years. It has delivered on its budget and savings targets and it has also delivered continuous performance improvements.

All services are benchmarked on an annual basis. The benchmarking has demonstrated that the cost of the service is reducing each year, and that the cost of service is better than the average of those local authorities who have taken part in the benchmarking service.

There has been a down turn in demand for Design and Print and has responded by restructuring the service and it is now seeking additional income from outside the Councils.

Developments in all areas have meant that there is a need to review the way the service is delivered. There is also a need to respond to the changing financial situation faced by local authorities.

The review has identified additional savings of approximately £400k per year which will increase the overall savings (over 10 years) for the partnership to £11.3m.

It is recommended that the partnership continues in its current form and continues to deliver the savings set out in the original business case, that it implements the additional savings identified from a restructure of the ICT service, and that additional opportunities to grow Xentrall are considered over the next two years.