

1. The Strategic Case for Integration

The alignment with Council strategies

1.1 The Lewes Change Management Programme (CMP) outlines the need to redesign the Council around an operating model which focuses Corporate Services on providing professional guidance and support. Eastbourne's Future Model Phase 3 may reshape professional support functions around a customer-centric operating model encouraging cross-skilled specialist, case management and transactional roles. Both strategic directions are supportive of appropriate partnering and sharing arrangements which provide best value for money and quality of service to residents. This business case seeks to align with the principles of both these strategic directions.

1.2 On a local level, the EBC HR Strategy 2013 references the need to integrate people management with business planning, and build organisational resilience and sustainability within a changing environment. It sets out the vision around matching resources to future need to ensure fit for purpose structures, policies and procedures, skills, values and culture to support the transformational journey.

1.3 The LDC Workforce Strategy 2010-15 recognises the pressure on public expenditure along with rising service expectations, and sets out priorities for the HR function to deal with these issues – Organisational Development; Leadership Development; Skills Development; Recruitment and Retention, Pay and Reward.

1.4 An integrated HR service would allow for increased focus on HR Strategy across the two organisations. The benefits of greater structural flexibility and the potential to free up the HR Advisers/Officers from the more day-to-day routine enquiries are important levers for embedding HR in the business, focusing on its strategic role in facilitating and supporting organisational change. An integrated HR function would also enable much required focus on organisational development (OD) in both councils. A coordinated OD strategy could have far reaching benefits, particularly in relation to significant issues such as:

- cultural change to support the transformation journey
- integrated competency framework

- improved performance management (appraisal process; action learning; training and development)
- Enhanced wellbeing offering

These OD functions would provide significant non-cashable benefits to both organisations.

How customer needs are better met

1.5 An integrated service would provide:

- Increased structural flexibility would allow for more efficient modelling of the key elements of HR service provision. Using the Ulrich model these elements are:
 - i. HR business partners (key HR professionals working closely with their departmental heads, embedded in the business, influencing and steering people management strategies)
 - ii. Centres of Excellence (small teams of HR experts with specialist knowledge of leading-edge HR solutions, which help to deliver competitive business advantages through innovative solutions for areas such as reward, learning, engagement and talent management).
 - iii. HR Administration (a single unit handling all routine transactional services e.g. recruitment and training administration, absence monitoring etc)
- The use of more efficient processes and procedures to deliver greater consistency and more timely and accurate information and advice to the business.
- Shared know-how - sharing best practice in business and HR processes, and pooling knowledge about what works across different parts of the organisations.

How integration supports budget restraint

1.6 Cost can be reduced via the benefits from increased economies of scale and elimination of duplicated effort which can streamline and simplify services. There is already a shared strategic HR role yielding financial benefits for both organisations. The HR teams are small so further reductions in the staff budgets will be similarly relatively small. However there would be savings from the greater capacity to support organisational change, for which resource otherwise needs to be sought externally.

1.7 There would likely be further 'hidden' benefits for the rest of the organisation in an integrated HR Strategy which enables competent, self-sufficient managers and highly skilled staff who support the Council's vision, priorities and values.

1.8 There is also the potential to exploit common buying power from shared services for example, training and development providers. Again, there is already some shared procurement taking place e.g. Sussex Training Consortium; occupational health contract etc. There will be some transition and procurement costs initially, which are shown in the economic case.

The overall benefits for the Councils

1.9 A shared HR service will allow:

- A common service provision for more routine HR administration tasks, with increased potential to use existing resources, systems, processes and procedures more efficiently
- Better deployment of specialist HR services to meet changing customer needs
- Potential to implement technology to enable increased manager and employee self-service.
- An enhanced organisational development function for sustained input to improving the organisations' performance, capability and ability to adapt to changing external and internal environments.

The key risks for the Councils and their mitigation

1.10 The following are the risks that would need to be considered in any integrated solution:

- Performance impact. There is a risk that performance of the HR teams will dip during the transition period. This will need to be managed through careful planning and communication with oversight of the Board.
- Failure to deliver expected efficiencies. The anticipated efficiencies are predicated on the managing of customer demand. If demand during a period of organisational change remains significantly high, securing of efficiencies will be delayed.

- Employment change. A more immediate risk associated with changes for staff. Existing HR employees may not wish to work in a different way taking into account issues such as travel, getting to know a new organisation, new managers etc. Mitigation for this would be a careful and planned transition to a new structure with open and meaningful dialogue with staff along the way to minimise surprise decisions and maximise the potential for ensuring the right staff are in place with the right skills to support the new way of working.
- Governance arrangements. With separate and distinct political leadership and Corporate Management Teams, there is a risk that EBC and LDC HR/OD/people strategies might be driven in different directions. Other organisations in a similar situation have mitigated by implementing arrangements such as Joint employment committees or Joint panels e.g. for appointments, dismissal appeals and this will be a future consideration for any shared service.

2.1 The Economic Case for Integration – Ambition

The overall measures of success

2.1.1 The key measures for the HR service will be:

- Resilience
 - Increased potential for sharing of specialisms
 - Greater cover arrangements to reduce impact of absence
 - Enhanced ability to deal with workload peaks

- Efficiencies
 - delivering savings through economies of scale
 - sharing key management roles
 - sharing systems & processes

- Quality
 - Provision of timely, reliable, accurate support to the business
 - Increased service flexibility
 - Greater consistency

- Culture
 - Creation of a service where the culture is proactive in supporting the needs of the business
 - Enhanced opportunities for staff to learn and develop

What options are open to the Councils

2.1.2. Four options have been considered for the HR services.

Option A (as is)

The option involves:

- One 'shared' strategic manager
- HR teams remain employed by own organisations, with individual members of staff providing services to their own business units

Benefits – the model is already in place; no further change/turbulence; some limited scope for sharing knowledge and purchasing powers.

Disbenefits – no overall HR strategy alignment; no structural flexibility in sharing expertise; limited opportunity to realise efficiencies with transactional HR administration; reduced potential to invest in technology; reduced potential to ensure the HR function is truly embedded within and supporting the organisation.

Option B

This option involves:

- HR teams being merged, with all staff employed by either one organisation (LDC or EBC). There is no strong rationale in terms of provision of HR services for which authority should be the employer, and wider organisational contexts may dictate the best solution.
- One shared 'strategic' manager
- Team managed by a shared 'operational' manager

Benefits – HR strategy alignment; structural flexibility for sharing expertise and covering absence & workload peaks; increased service quality and consistency; enhanced development opportunities for staff; efficiency savings through economies of scale; increased potential for technology investment; consistent management of the day-to-day HR function; enhanced capacity for strategic HR support to transformational programme and organisational development activities in both organisations.

Disbenefits – there may be a dip in performance during the transition period as new arrangements bed in with customer departments.

Option C

This model involves:

- HR teams merged, with all staff being employed by either one organisation (LDC or EBC)
- One shared 'strategic' manager
- Team managed by an operational manager in each area

Benefits – HR strategy alignment; structural flexibility for sharing expertise and covering absence & workload peaks; increased service quality and consistency; enhanced development opportunities for staff; efficiency savings through economies of scale; increased potential for technology investment; enhanced capacity for strategic HR support to transformational programme and organisational development activities in both organisations.
Disbenefits – less consistency in the day-to-day management of the HR function (as compared to Option B)

Option D

This option involves the establishment of a 'Stand alone' business or social enterprise

Benefits – increased opportunity for further partnership working and income generation.

Disbenefits – it is too soon to be a serious consideration now, both operationally and culturally. It is potentially something for the future following the intense period of change requiring HR support in both Councils.

Which option(s) is preferred

2.1.3 It is proposed that Option B (a fully merged HR function) would provide the greatest consistency and resilience to both Councils, and would generate the widest range of benefits to the Councils in terms of allowing greater strategic and organisational development support. It is also proposed that the employing authority would be Eastbourne Borough Council.

2.2 The Economic Case for Integration – current baseline

Current Costs and Workloads

2.2.1 A core HR service is provided across the Councils, comprising HR Business Partner support in areas such as recruitment, redundancy and exit situations and discipline and grievance cases, administrative support in recruitment, training and HR management information, and strategic advice around reward, learning and employee consultation. Delivery of corporate training and occupational health services are outsourced.

2.2.2 Current costs are shown in the report to put the activities into context, rather than as a fundamental part of the businesses cases. Looking forward, they will be important to determine a baseline against which future savings can be measured and shared between EBC and LDC. The net costs of the HR service for comparative purposes – using 2014/15 budgets - are:

- LDC £248,450
- EBC £270,300

(Neither of these adjusted totals include the cost of staff training courses, professional qualification training for service department staff).

Staffing levels (FTEs) are:

Lewes – Total 5.8 FTE

Head of OD	0.5		
(seconded from EBC; EBC/LDC funded)			
HR Manager	1.00	HR Officer	1.00
HR Assistant	1.00	HR Officer	0.68
HR Assistant	1.00	HR Officer	0.62

Eastbourne – Total 4.9 FTE

Head of OD	0.5	HR Adviser	1.00
(EBC/LDC funded)		HR Adviser	1.00
HR Support Officer	1.00	HR Adviser	1.00
Training Officer	0.40		

(*) With effect from 1 September 2014, the HR function of Eastbourne Homes Limited (EHL) transfers into the EBC HR team; new staffing levels will be:

Eastbourne – Total 6.66 FTE

Head of OD	0.5	HR Adviser	1.00
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(EBC/LDC funded)		HR Adviser	1.00
HR Support Officer	1.00	HR Adviser	1.00
Training Officer	0.40		
HR Manager	1.00	HR Assistant	0.76

2.2.3 Both Councils deal with considerable complexity in their core activities – for example the number of manual workers in direct services in LDC and the number of casual workers in EBC, and these factors have been influential in the level of resourcing required in both authorities.

Key Systems and Processes

2.2.4 The central difference regarding systems is Lewes running of iTRENT and Eastbourne's use of CHRIS for core HR information. Consideration of a single system to enable fully integrated working would be desirable in the medium-term.

2.2.5 Other processes are variously aligned:

- Recruitment for LDC is through JobsGoPublic and for EBC is through Access East Sussex jobs portal although processes are being reviewed and local web-based providers being considered.
- Occupational Health is jointly procured
- Corporate Training is outsourced in the main by both Councils to a major supplier
- Legal support is provided for EBC through a combination of in house support and use of a framework agreement with ESCC. LDC rely on in-house support.

Key issues affecting performance

2.2.6 The main concern relates to the size of the team, and their capacity to deliver what the Councils actually should require of them. The delivery of the 'core HR service' is considered good – previous satisfaction surveys in LDC support this contention, but the services are aware that their influence should be wider – in driving the Council's performance management cultures, increasing the capacity and capability of staff and organisations, and in redefining 'fit for purpose' job designs and structures.

2.2.7 The necessary reactivity of the LDC service – providing an on call 'drop in' service – may work against the focus on wider strategic issues. However, client departments are appreciative of such a model of operation.

2.3. The Economic Case for Integration – the New Model

Functions to be integrated

2.3.1 All HR functions are to be included in this model. Delivery of payroll remains in the finance function. The new model is based around:

- HR teams being merged, with all staff employed by either one organisation (LDC or EBC)
- One shared 'strategic' manager
- Team managed by a shared 'operational' manager

Performance targets

2.3.2 The new operating model will set targets for:

- Customer satisfaction for a 'whole HR' solution to managers
- Increased self-service provision for managers
- Streamlined procedures
- Economies of scale in staffing
- Career development of HR staff
- Reductions in costs of third party services and supplies
- More strategic contributions to leadership teams

Resourcing requirements

2.3.3 In the short-term, resourcing will remain at existing level with staff continuing to be based at each council building, but with the potential (particularly for the HR Advisers) to be flexible and work across both Councils.

2.3.4 In the medium-term (by 2016-17), it is envisaged that greater self-service provision, and streamlining of procedures will reduce the resource requirement from current establishment by 1 assistant and 0.5 adviser post. The anticipated demands from transformational work in LDC, and continuing of the future model work in EBC means it is not thought prudent to suggest a reduction in resourcing before 2016-17.

2.4. The Economic Case for Integration – Cost Benefit Analysis

NPV @ 3.5% p.a.						
	SERVICE: HR					
	OPTION: Option B – Merged Service					
YEAR :	Year 0	Year 1	Year 2	Year 3	Year 4	TOTAL
CAPITAL COSTS (£ 000s):						
Purchase of Agile Technology		15				15
Costs of Integrated HR System				30		30
A. Total Capital Costs (Annual)	0	15	0	30	0	45
B. Total Capital Costs (Cumulative)	0	15	15	45	45	
REVENUE COSTS (£ 000s):						
Increased travel expenditure		6	6	6	6	24
Training requirements		4	2			6
C. Total Revenue Costs (Annual)	0	10	8	6	6	30
D. Total Revenue Costs (Cumulative)	0	10	18	24	30	
E. Total Costs (Annual) (A+C)	0	25	8	36	6	75
F. Total Costs (Cumulative) (B+D)	0	25	33	69	75	
BENEFITS (£ 000s):						
Reduction of 1 HR Asst			15	25	25	65
Reduction of 0.5 HR Advisor			9	18	18	45
Reduction of external strategic advice		25	25	25	25	100
Improved 3rd party procurement			5	5	5	15
G. Total Benefits (Annual)	0	25	54	73	73	225
H. Total Benefits (Cumulative)	0	25	79	152	225	
NET UNDISCOUNTED COST* (A-E-G)	0	0	-46	-37	-67	-150
DISCOUNT FACTOR @ 3.5% p.a.	1.0000	0.9662	0.9335	0.9019	0.8714	
NET PRESENT COST* (Annual)	0	0	-43	-33	-58	-135
NET PRESENT COST* (Cumulative)	0	0	-43	-76	-135	
TOTAL NET PRESENT COST* =		-135				

*A minus sign in these rows denotes a Net Present Value rather than a Net Present Cost.

2.4.1 The costs outlined in the analysis comprise:

- Additional travel expenses for HR advisors to cover both authorities.
- Training expenses to facilitate joint learning of new systems and processes – most will be done ‘on the job’.
- An estimate of implementing an integrated HR IT system, should this be considered desirable, and practical in terms of aligning payroll systems, to cover initial licensing, project management, training, cost of parallel running (2 systems would be operating for a period of time).

2.4.2 The benefits relate to:

- A reduction in one administrative post, reflecting a move to greater self-service and simplification of procedures. (There may be one-off redundancy costs, for which a provision is included in Year 2).
- A reduction in 0.5 HR adviser role, reflecting the greater resilience that a merged provides, and more targeted support to management.
- A reduction of strategic advice currently – or expected to be given to the Strategic Manager – to support change initiatives, notably in EBC.
- Greater economies of scale from external provision of recruitment and training services.

2.4.3 Taking quantifiable benefits alone, the net present value of this model is estimated at £135,000 over a four year period. Maintaining the status quo would not bring any of these costs, or benefits. However it is worth stressing the wider organisational benefits of greater structural flexibility and the potential to free up the HR from the more day-to-day routine enquiries to focusing on its strategic role in facilitating and supporting organisational change.

3. The Commercial Case for Integration

Procurement Approaches

3.1 There are no additional procurements required from the proposed new model. A third party provision of HR services is not seen as being desirable during a period of substantial organisational transformation in both authorities.

Charging Mechanisms

3.2 It is anticipated that recharges to service departments will use the same methodology as presently in existence for the two Councils, including to Lewes HRA.

Risk Transfer

3.3 Operational risks will be transferred to the employing Council although liability for employee welfare will still rest with each authority. These operational risks will be mitigated by way of a defined specification of service.

TUPE considerations

3.4 Staff will transfer to the employing Council on existing local authority terms and conditions.

4. The Financial Case for Integration

Affordability and Impact on Review Budgets

4.1 The costs and benefits projected in the Economic case will need to be signed off by respective Heads of Finance with regard to affordability, recharging and impact on budgets prior to implementation.

5. The Management Case for Integration

How Implementation will be managed

5.1 The proposed option will be implemented following Cabinet approval. **It is suggested that implementation will run from November 2014, with an envisaged 'go live' date in the first quarter of 2015-2016** (recognising the potential workloads which will accompany 'Future Model' phase 2 for EBC HR during the remainder of 2014-15). The implementation phase will involve stages of Designing, Building and Rolling Out the new service, which may include the following activities:

Design	Build	Roll-out
Organisational and job design	Process design and new documentation	Manage relationship with clients (through Service Specifications)
Confirm governance framework and service specification	In-house training and building of skills as required	'Go-live' (phased or at once) and manage service
Design technology needs	Implement technology	
Design out physical locations		
Communication with all clients		

Ensuring Deliverability

5.2 The management of the implementation will work alongside the LDC Transformation Strategy and the EBC continuing Future Model workstream. The Head of OD will be the lead officer for its delivery, reporting to the Director of Corporate Services LDC / Deputy Chief Executive EBC.