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How far should outsourcing go?

When cost savings are the main driver for outsourcing public-sector HR functions, service quality can suffer. Ensuring best practice must be the main focus. Robert Gray reports

Credit crunch and corporate belt-tightening are two phrases that have gone hand-in-hand in the private sector. But, if anything, it is the public sector that is facing even bigger challenges balancing the books. And nowhere is the pressure more acute than in local government.

Last October, the Treasury's Comprehensive Spending Review promised a 1% average rise in real terms in grants to local government over the next three years, an increase lambasted by the Local Government Association as the worst settlement for local authorities in a decade, and one that would mean most councils falling short in what they are legally required to provide.

The Spending Review came in the wake of the independent Gershon and Varney reports, published in 2004 and 2006 respectively, which focused on improving efficiency and delivery in the public sector for the benefit of taxpayers. As a result, local authorities are looking at ways in which they can cut costs without impairing the quality of their core frontline services. Prominent among the options being weighed up are outsourcing certain functions or sharing particular back-office services with other public-sector organisations.

Research released by TPI at the end of 2007 reveals that HR outsourcing is becoming increasingly common in the UK and across Europe. Its figures show HR outsourcing contracts in Europe were worth over £3.5 billion last year.

ROBERT SHADBOLT

Dartford Borough Council recently became the first UK council to fully outsource its HR and payroll function, with the objective of saving an estimated £50,000 per year and meeting government efficiency targets. HR functions, including recruitment, absence management and employee retention, were outsourced to NorthgateArinso from October 2007, with payroll added to the list in April 2008.

Dartford's head of finance and resources, Steve Brooks, says the move came about due to dissatisfaction internally with the quality of the strategic service delivered by the HR team. Shared service had been considered as an alternative but was ultimately dismissed as it did not appear to offer

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anything better than outsourcing. The transition has gone "extremely well", says Brooks. He feels NorthgateArinso is providing him with a higher level of skills and expertise than he had previously been able to call on in-house.

But outsourcing or shared-service arrangements take time and effort to get right, and it must be borne in mind that every organisation faces its own peculiar set of circumstances and unique goals. Consequently, opinion is divided among public-sector HR chiefs as to how far to go with outsourcing.

Cambridgeshire County Council's director of people and policy, Stephen Moir, who is also president of the Public Sector People Managers' Association, is concerned that outsourcing the entire

HR function may be a step too far: "You have to go into a project like this as an intelligent client. By outsourcing the whole function there is a danger of losing the very things HR has spent years building up at the strategic level. Personally, I have a real issue about losing

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strategic HR because there is the danger it could lead to ill-informed decisions and cause corporate damage."

Cambridgeshire has outsourced certain transactional HR processes such as recruitment advertising and payroll. The latter, however, is now being brought back in-house, as Cambridgeshire, together with Northamptonshire and Northumberland County Councils, is working towards the creation of a major shared-services entity likely to have many similarities to what is happening in the West Country (see box below). "The public sector has been outsourcing for many years," says Croydon Council's human resources and organisational development director, Pam Parkes. "Now it's moving from frontline customer services where billions have already been saved to put more contentious back-office functions in the spotlight.

"It's quite right that we put these services under scrutiny but it's debatable that outsourcing for all back-office functions makes economic or strategic business sense," adds Parkes. "I'd be interested to know how many of the FTSE Top 100 companies have outsourced strategic business functions like HR and OD or finance and still maintained their competitive edge."

She feels it simply doesn't make sense to use a standard service, when the core



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Graham White,
director of human
resources,
Westminster
City Council

function has to be sufficiently bespoke to respond to the unique local nature of the communities councils serve. In her view, the only way to make efficiency gains lies through shared services, where the public sector can use its collective buying power and economies of scale, while providing the service that is right for each partner. When public-sector organisations pool their resources they can drive down the costs of back-office transactional services. Similarly when they share the best of their strategic functions they can provide these at lower cost, without losing their quality and responsiveness.

Croydon is part of a developing South East Region Shared Services Partnership, where neighbouring public-sector organisations can achieve efficiencies in back-office functions. Parkes says that Croydon wants to see what it can do for itself, so that efficiency gains and benefits go back to the public sector and local communities, not to private sector shareholders.

Westminster City Council's director of human resources, Graham White, says he has often been accused of having a passion for outsourcing. Westminster has outsourced various aspects of HR to a range of providers for a decade. "The number one priority must be not to outsource anything that's broken," says White. "Outsourcing won't fix it. You need to get HR good first and then outsourcing can make it better. If you are outsourcing just to save money you will get your fingers burnt. But we should get rid of those things that any-

one else can do more quickly, smarter and more cheaply, allowing HR to be an added value function rather than a pre-historic form designer."

It is interesting that the Local Government Authority, which promotes the interests of English and Welsh Councils, itself went down the outsourcing route on 1 May this year, when its back-office functions were transferred to public-sector outsourcing specialist Liberata. The 10-year contract, which includes areas such as finance, ICT, customer services and facilities management as well as HR and payroll, is expected to realise savings of £29 million.

Concerns have been voiced, however, that in certain cases local authorities may pay over the odds for outsourcing contracts. This is not, believes the National Outsourcing Association's chairman, Martyn Hart, because of flaws in the process once tendering begins. "The failings are more likely to come from asking providers to quote for more than is strictly necessary. You get situations where you send out a spec that calls for a Rolls-Royce, where actually a Mini would have done," he says.

It is clear that some organisations hit problems with HR outsourcing because it is not a well-defined proposition. HR activities need to be carefully broken down into required outputs, and many HR departments have not been able to do this scientifically. Transaction-based activities, such as payroll administration, recruitment and record-keeping, lend themselves to outsourcing more readily than activities that involve one-to-one casework, such as performance management. As Chris Stirling, director of the people and change practice at Deloitte, points out: "Unless you have the bread-and-butter transactional piece sorted it's

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very difficult for you to play a strategic role around outsourcing deals.”

Some HR directors resist outsourcing because they fear that they will become detached from decision-making. The compelling counter-argument runs that actually by outsourcing the transactional you will have more time to focus on what is truly important.

But for this to be the case, the quality of service and information delivered by outsourcing and technology partners needs to be first rate. Is this the case?

According to Computers In Personnel's managing director, Chris Berry, the answer is an emphatic yes. “Better quality information will be provided and the systems will be maintained in a more efficient manner,” he says. “By outsourcing the HR system, it is more likely that line managers will have better access to tools and information to manage their people at a lower cost to the organisation than if they were to continue to try to manage these systems in-house. Internal HR professionals still manage policy and attend to the day-to-day needs of the organisation.”

At the moment Buckinghamshire County Council is in the process of looking for a strategic partner to deliver its end-to-end recruitment process. The contract will cover employer branding, attraction of candidates, recruitment of permanent and temporary employees and longer-term workforce planning. District councils and the Fire and Rescue Service within Buckinghamshire have also expressed an interest in working with the partnership with a view to improving service quality and saving significant sums of public money in the future.

“Outsourcing and shared services doesn't necessarily mean poorer quality or remoteness of delivery,” says Bucks corporate director, people and

policy, Gillian Hibberd. “The trick is to ensure that the design of the service is based on organisational needs rather than be technology-led.” She adds: “The skills of the project team, understanding the needs of the business and the blueprint stage of the design process are all vital ingredients for success. Too many of these projects focus solely on cost savings as the main driver. Of greater importance should be the determination to ensure best practice.”

Unquestionably, outsourcing and shared-service structures can deliver advantages beyond cost efficiencies. Yet to achieve real success, attention must be paid to both the finer points of delivery and the bigger corporate picture. ■

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The partnership approach

In March 2007, after a 12-month search and three competing bids, IBM was unanimously selected by Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Constabulary to help provide shared services in areas such as information technology, finance, HR and customer contact centres.

A joint-venture company, Southwest One, was set up to streamline procurement, negotiate more efficient contracts and save more than £200 million over 10 years. By the end of last year, around 800 local authority staff had been transferred to the new joint venture to work alongside 100 IBM staff initially. In March this year the police authority joined Southwest One and around 600 police staff are expected to be transferred.

The venture is the first of its kind in the South West and builds on successful shared-services initiatives in other parts of the country. A framework agreement will entitle more than 30 other



public-sector organisations to acquire similar services through the partnership. Southwest One is introducing new technology that will enable residents and private-sector firms to track their dealings with the public-sector bodies.

Essentially the whole of Somerset County Council's HR service has transferred, except for corporate HR strategy, with approximately 150 HR staff moving over and only four HR technical officers remaining.

How is it working? "The secondment model is doing well with transferred staff benefiting from the changes that IBM can

offer as well as still feeling part of the council," says Somerset's head of human resources and organisational development, Richard Crouch. "The arrangement is based on a matrix way of working whereby those council managers who have transferred are continuing to manage the same people they did previously."

He adds: "However, the grit in the oyster is that a large number of IBM consultants are woven into the new organisation's design. This generates change at every layer and as such has a direct impact on the council as one of Southwest One's main customers."

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Who's doing what?

Surrey County Council The council has cut the size of its HR department from 400 to 40, transferring some staff to an internal shared-services centre with HR support for education outsourced. Savings: £9 million over four years.

Hertfordshire County Council Outsourced recruitment to Manpower. The contract is believed to have cut HCC's seven-figure recruitment budget by 5%. Payroll is outsourced to Serco.

Croydon Council Set up one strategic in-house HR&OD function three years ago. Immediate benefits from staff cuts and carrying out its own business process re-engineering reduced costs by 25% in its first year. For the past two years, leveraging a mixed economy of partnership and shared services contracts have saved another £1.5 million. Croydon also belongs to a developing South East Region Shared Services Partnership.

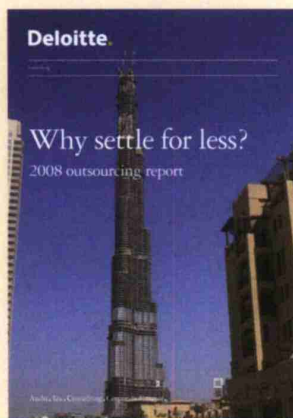
Sandwell Metropolitan Borough Council It signed a 15-year, £300-million outsourcing deal called Transform Sandwell with BT and Liberata.

Return on investment: good in parts

In its 2008 outsourcing report, *Why Settle for Less?*, Deloitte Consulting concluded that the true potential of outsourcing is still not being fully achieved.

The survey team polled more than 300 private-sector business and IT executives representing outsourcing buyers, outsourcing vendors and legal firms. A healthy 83% of respondents reported that their projects had met ROI goals of slightly above 25%, and a good majority (70%) said they were either 'satisfied' or 'very satisfied' with their arrangements – the highest level yet reported.

However, the data also threw up some negative findings. A substantial 39% of respondents said they had terminated at least



one outsourcing contract and transferred it to a different vendor. Among those 'dissatisfied' or 'very dissatisfied' with their largest contract, fully 50% had brought the function back in-house.

It appears outsourcing works financially for organisations but relationships with vendors have often been problematic. A closer look at the figures reveals where drawbacks lie. Only 35% of executives reported that they had gained important benefits from innovative ideas or transformation of their operations. Meanwhile, 35% wished their companies had spent more time on vendor evaluation and selection.

Asked what they would do differently, 49% said they would define service levels that aligned better with business goals. Problems cited included higher than expected costs; and poor quality communications, service and reporting from providers.