

NORTH LINCOLNSHIRE COUNCIL

CABINET MEMBER FOR POLICY & RESOURCES

OUTCOMES OF HUMAN RESOURCES SOFT MARKET TESTING

1. OBJECT AND KEY POINTS IN THIS REPORT

- 1.1 To provide an overview of the findings from the HR soft market testing exercise
- 1.2 To approve the proposed improvement plan resulting from the recent HR soft market testing exercise which identified three key areas:
- (i) Review HR functions and staffing
 - (ii) Increase commercial opportunities
 - (iii) Work with external partner to develop transformational approach to attendance and engagement

2. BACKGROUND INFORMATION

- 2.1 In June 2012, the Cabinet Team commissioned an external soft market testing exercise related to the council's Human Resources (HR) service. This report sets out what was learned from this exercise and makes recommendations to take this learning forward to improve our approach to delivering the HR vision. In summary, the exercise was to;
- Highlight ways we can continue to deliver excellent services for customers
 - Receive external feedback on our HR vision and future direction
 - Determine appropriate methods for supporting the delivery of the HR vision
 - Identify potential efficiencies in service delivery
 - Understand what support is available from the external market to assist the council
 - Help inform the council's future HR strategy onwards until 2016
- 2.2 A market position statement was produced in September 2012 which set out the HR vision to be '*a successful HR service that concentrates on the business first and foremost*'. The vision recognises that to enable the council to achieve its priorities, HR needs to be clear about how it operates at three distinct but inter-related levels:
1. Value for money – doing the day to day business in a leaner way
 2. Adding value – doing the best for the business
 3. Creating value – creating capability for the future

- 2.3 It should be noted that the HR service is required to reduce its budget by £425,000 over the next four years. This is the context within which the vision will be delivered. As such, the position statement incorporated a broad outline of the plans in place to achieve these savings. This is based on reducing the administrative function (value for money), maintaining our strong and established advisory role (adding value) and reallocating resources to facilitate greater capacity at the strategic level (creating value). It takes into account the following considerations:
- Analysis of transactional business shows some activity that we believe could be delivered more effectively and efficiently. The soft market testing exercise provided a valuable opportunity to seek external views on alternative delivery mechanisms that minimise administrative resources
 - External peer reviews and inspections confirm strengths in advisory and preventative functions. We want to continue working close to the business with managers on people management issues. Our capability in this area has been further enhanced over the last two years through a development programme focusing on collaborative working, coaching and mediation skills. Benchmarking data indicates that we are low cost and high performing in these areas.
 - We have the in-house skills and proven expertise to deliver a stronger strategic function, but need to release capacity from elsewhere in the service to do this.
- 2.4 The HR service has a good track record of generating income from the sale of professional services to external bodies. During 2012/13, the service generated £85,000 income through commercial activity with academies, local colleges and external organisations covering HR, health, safety and welfare and training. It also has schools contracts to the value of £220,000 and provides an administrative service to 164 Disclosure and Barring Services (previously CRB) umbrella organisations generating a further £10,000 per annum. The HR service has recently secured business from out of county schools to provide health and safety services – it is anticipated that this is an area of commercial business that will continue to expand.
- 2.5 A SWOT analysis was carried out to determine HR's current position against the vision. As a result, three improvement themes were identified:
- Streamlining transactional business
 - Joining up the HR system with other IT systems such as payroll and finance
 - Sustaining sickness absence reduction through proactive and preventative measures
- 2.6 The council invited external market providers to enter into dialogue around these improvement themes, as well as commenting more broadly on the council's HR vision. To ensure the exercise was carried out appropriately and all potential responders received equal treatment, the market position statement was uploaded on to the SCMS portal along with a Prior Information Notice (PIN) and questionnaire. The PIN expired on 19 October 2012, with 17 external companies formally responding.

2.7 Following a selection process, a group comprising of the Cabinet Member for Policy & Resources, Director of Policy and Resources, Assistant Director HR and two supporting officers met with eight external companies between 30 October and 8 November 2012. The companies are listed below:

- Absoft Ltd
- ATOS IT Services UK
- Capita Consulting
- Foretel
- ICE Creates Ltd
- Mouchel
- Northgate Arinso
- Price Waterhouse Coopers

2.8 Each 45 minute session consisted of an initial discussion during which participants were asked to provide a brief overview of their company and given the opportunity to expand on their submission followed by around the table questions. Minutes of each session were recorded.

Summary of key findings

Key finding 1: Review HR functions and staffing

General issues identified

2.9 The HR vision was viewed as strong, business-focused (clearly aligned to council priorities) and proactive. Feedback confirmed that the vision is reflective of current professional thinking around the HR function moving away from a focus on administration (back office) and towards contributing to business goals as a strategic partner and helping the organisation to build capacity. All external companies fundamentally agreed with the HR vision and commented that it was consistent with other organisations facing similar challenges.

2.10 Both ATOS and ICE Creates commented that there should be more emphasis on people in the vision. It was identified that the new workforce strategy (currently in draft) will fill in these gaps and provide the detail on how the council invests in its workforce and enables them to perform to their fullest potential in order to achieve the council's priorities.

2.11 A common theme that emerged was the capability of managers and the role of HR in supporting them to carry out their management responsibilities efficiently and effectively. This ranged from providing managers with the access to information and tools to carry out tasks associated with day-to-day management tasks, to supporting them at a more strategic level in managing transformational change and driving employee engagement. Feedback supports the recognition within the HR vision that the service adds value and creates organisational capability by supporting managers to be ready to address the difficult aspects of management.

2.12 A number of the external companies fed back on the need to ensure that the operating model supports the vision. That is, that structure, processes, skills and technology support the HR vision enabling capacity currently directed at delivering transactional business to be freed up to focus on service delivery at the 'adding value' and 'creating value' levels.

2.13 Another key consideration is the ratio of HR employees to the size of the workforce it provides services to. Both Capita and ATOS identified that the HR staffing ratio at present is

in line with benchmarking but there is a recognition that this ratio needs to keep pace with a reducing workforce. That is, there is a requirement for staffing levels within HR to reduce which is further echoed by the requirement to make £425,000 savings over the next four years.

- 2.14 This requires a review of both how HR delivers its services (functions) and the resources and skills (staffing) it needs now and in the future to do this.

Streamlining transactional business

- 2.15 All external companies recognised and understood the need for HR to do more with less – that is, deliver improved services with reduced budgets and staffing. This was invariably identified as using technology to cut costs and redeploy reducing HR resources to areas of work where they are adding and creating value. Capita, Foretel, Northgate Arinso and Mouchel commented that the council has done a lot of what it needs to do already and had ‘got the low hanging fruit’ through the automation of HR processes via e-forms, streamlining processes so that HR only touches the process where it adds value and ongoing developments to expand self-service options.

- 2.16 Given these observations on the council’s current position, the external companies were asked what they saw as the next steps. The predominant themes emerging from discussions were:

- Undertaking lean reviews to strip out remaining waste and further integrate processes where possible. This includes looking where technology can be further utilised to automate processes
- Identifying further opportunities for channel shift and self service options to meet increasing expectations for instant access to information
- Understanding the ‘voice of the customer’
- Giving managers the tools to carry out their line management responsibilities more efficiently with HR being involved in a ‘supporting’ rather than ‘doing’ capacity
- Segregating transactional business from the professional core with expertise focused on high level, added value activities including more emphasis on developing and planning HR programmes to take the organisation forward.

- 2.17 Alternative forms of service delivery were discussed, but there was no clear indication from external companies that the administrative element of the HR function would be better delivered through external provision. The feedback tended to focus on how further gains in efficiency could be made through lean review and ongoing development of self service provision.

- 2.18 There is a good level of skills and experience within the service from e-form development and business process re-engineering undertaken over the last five years, which has already delivered efficiencies and streamlined ways of working. This could be further enhanced by ensuring that the HR service maintains a sustainable level of skills in systems and process thinking’ in order to identify further efficiencies through lean review.

Joining up HR systems and other IT systems

- 2.19 The soft market testing exercise clearly established that there is no best system (ie. integrated vs. interface) but only the best for what the council's needs are. Absoft, a SAP software provider, was selected to take part in follow up discussions in order to gain a perspective on a fully integrated IT solution, which could cover HR, payroll and finance (ledger). Although an integrated system avoids the challenges of interfaces between discrete systems and offers consistency across functions, it was established that it is expensive with high up-front costs and can lose the functionality of smaller systems which are significantly cheaper.
- 2.20 Mouchel suggested that there is no business case for the cost of a fully integrated system. In a view echoed by other companies, they advised that taking into account the complexity of managing an integrated system and the total cost of ownership, it does not make financial sense to move away from small, functioning systems that can interface with one another and offer greater flexibility at lower cost.
- 2.21 Northgate Arinso advised that consideration needs to be given as to whether a new system could compete against the existing HR system both in terms of cost and functionality. They suggested that there may be some value in exploring the integration of payroll into the existing HR system when the current payroll software contract expires. This will provide a solution that avoids duplication across current HR and payroll systems.
- 2.22 Over the last five years there has been significant development work between HR and Bond to enable interfaces with other systems, integration of e-forms, bespoke customisation and implementation of the BP Agent. In mid-December 2012, the upgraded system was implemented providing enhanced functionality. Work is underway with Bond to implement further developments (HR Info) which will provide an enhanced platform for e-forms and self-service significantly reducing the need for manual intervention and re-keying of information. This also gives the HR service greater scope for the further automation of processes.
- 2.23 The information gathered through discussions with external companies will enable the council to take an informed decision on whether there are gains to be made by moving from small, functional systems with the ability to interface to a large, integrated system. The initial exercise indicates that Bond HR Professional is a low-cost, functional system which meets the current needs of the council. Further work will be undertaken to determine how HR and payroll systems may integrate more effectively in the future, including consideration of the suitability of Bond HR professional payroll, alongside other systems, to provide the payroll software as part of the planned procurement exercise.

Key finding 2: Increase commercial opportunities

- 2.24 Current commercial activity is outlined in para 2.4. The HR service sells a full range of services externally across HR, health and safety, learning and development and welfare. This includes:
- Delivery of various training programmes - John Leggott College
 - Provision of IIP support – John Leggott College
 - Welfare service - North Lincolnshire Homes, North East Lincolnshire Council

- Health, safety & welfare service – John Leggott College, various schools and academies
- HR support – North Lincolnshire Homes, John Leggott College
- HR service – various schools and academies

- 2.25 Over the past few years, the HR service has established a local market presence and been able to win commercial work through reputation and the ability to offer a service delivered by qualified practitioners across a number of professional areas. The service also enjoys a high level of repeat business from schools, academies and colleges. This provides a solid commercial base upon which to build.
- 2.26 Feedback from the soft marketing testing exercise supports HR's position that it should continue to utilise its reputation and credibility, built up through paid work for external organisations, to market and sell professional services more proactively. Capita offered some particularly useful feedback on how HR should continue to build its reputation and be seen as a trusted provider selling professional services at a cost effective rate.
- 2.27 The HR service is actively seeking further commercial work, both with local organisations and more widely as it develops a presence regionally. One key area for expansion is to actively compete for business through formal tenders (in line with the council's commercial policy). There are also plans to sell specialist skills and bespoke services more actively. However, in order to continue growing the commercial base, while maintaining adequate in-house provision, the service will require additional capacity. It is proposed that this can only be achieved by using income to self-fund additional posts within the HR service.

Key finding 3: Work with external partner to develop transformational approach to attendance and engagement

Maintaining sickness absence reduction

- 2.28 There was no response to the soft market testing exercise from specialist attendance management companies. However, a common theme emerged from discussions with participating companies – in order to maintain sickness absence reduction there needs to be a clear understanding of the root causes of absence.
- 2.29 It was acknowledged that the council is already adopting best practice around sickness absence procedure and processes (demonstrated by the 17 per cent reduction over the last four years). A number of the external companies made suggestions regarding good practice but these were all areas that had been addressed through the implementation of the sickness absence improvement plan in 2010 including tightening processes and systems for reporting absence, return to work interviews, earlier occupational health intervention, training and advice to managers. There was a consensus within the group that further work in this area would be 'tinkering around the edges'. There has continued to be a high completion rate for manager checklists during 2012/13 – 96 per cent – indicating that the sickness absence procedure is being adhered to by managers.
- 2.30 Despite this external validation of the council's sickness absence policy and processes, sickness absence levels increased during 2012/13 by 1.51 days – from 8.50 days to 10.01 days. Although there was an eight per cent fall in the number of days lost due to short term absence (up to 20 days), long term absence (over 20 days) increased by 14 per cent. This

has resulted in an overall increase of five per cent in the number of days lost. Long term absence accounted for 66 per cent of all absence, which is proportionally higher compared to other unitary authorities – 55 per cent (CIPFA HR benchmarking, 2012).

- 2.31 Although the number of days lost has increased during 2012/13, the periods of absence have reduced by 549 (from 7,965 to 7,416), which equates to a 7 per cent reduction overall. This reflects a trend of fewer periods of absence but for a longer duration. On average, a period of absence lasted for 5.94 days in 2012/13 compared to 5.26 days in 2011/12. The impact of long term absence on this overall figure is reflected in an increase in average duration from 36.9 days to 39.4 days for periods lasting over 20 days. The average duration of short term absence remains unchanged as 2.24 days.
- 2.32 The most common reasons for sickness absence during 2012/13 were stress and depression (23.9 per cent), musculo-skeletal problems (17.9 per cent) and infections (12.8 per cent). The predominance of stress and depression and musculo-skeletal problems mirrors national trends: *'stress and musculo-skeletal injuries are the most common causes of long term absence in the public sector, and after minor illnesses, are also the top causes of short term absence'* (CIPD, 2013). From the data available, it is not possible to identify the proportion of absence that is work-related as opposed to non work-related.
- 2.33 To achieve sustained sickness absence reduction, feedback from external companies suggests that the council needs to take a transformational approach and seek to understand the root causes of absence. This requires a shift in focus from the procedure and process, to the impact of cultural and behavioural aspects on attendance. This includes key drivers of employee engagement - leadership, management style, performance management, and whether employees feel valued, rewarded (non-financial) and supported. These are all strategic elements that are beyond the day-to-day management of sickness absence and require greater input at 'added value' and 'creating value' levels.
- 2.34 This supports HR's current view that more emphasis needs to be placed upon understanding the impact of culture and employee engagement on attendance, motivation and performance. The HR service has already drawn on the expertise of the external market to deliver the 2013 employee. Analysis of the results will assist the council in understanding the correlation between attendance and engagement. It is crucial that this is used to establish a baseline from which a transformational approach to attendance and engagement can be developed.
- 2.35 The soft market testing exercise has indicated the need to seek an external partner to act in an independent, 'critical friend' role to assist the council in examining its culture and the impact on attendance, employee engagement, motivation and performance, all of which are crucial for the achievement of council priorities. An external partner provides a wider perspective than attempting to explore culture using in house provision alone. The professional input from HR practitioners will be further enhanced by the involvement of an external partner in a number of ways:
- An external partner is able to examine culture through a different lens – they can stand back and provide an outsider's perspective
 - They are uniquely positioned to challenge assumptions and practices from an objective standpoint as they are not part of the internal culture

- They provide a trusted source that will ask provocative questions and offer helpful critiques to in house HR professionals
- They share expertise, learning and initiatives from similar organisations to develop sustainable and transformational approaches

3. **OPTIONS FOR CONSIDERATION**

3.1 The options presented for consideration by the Cabinet Member for Policy and Resources are as follows.

3.1.1 **Option One** – Consider and agree the delivery of the HR Soft Market Testing improvement plan (**Appendix one**)

3.1.2 **Option Two** – to suggest changes to the proposals.

3.1.3 **Option Three** – to reject the priorities within the improvement plan and retain the current arrangements (do nothing)

4. **ANALYSIS OF OPTIONS**

4.1 **Option one** is proposed as the best option as it enables the delivery of the HR vision, which has been identified as strong, business-focused and proactive. The improvement plan builds upon the strengths of the HR service established and verified through the soft market testing exercise, while identifying areas for improved service delivery and increased utilisation of technology. It recognises the need to reduce, redirect and redeploy resources from transactional business activities to a professional core focused on delivering added value and creating value activities to support the council to meet its priorities with reducing resources.

4.2 Reviewing HR functions and staffing will ensure that the HR service is the 'best fit' to deliver the HR vision and also contribute to the delivery of the council's priorities. This will also ensure that the HR service meets the £425,000 budget savings required over the next four years. Effectively, this option provides the means by which HR can deliver more with less.

4.3 By increasing commercial opportunities, HR can continue to build on the growing base of commercial activity it has developed. This will increase income levels which will mitigate the effect of budget cuts and potential loss of business as more schools move to trust status, while maintaining service viability and preventing loss of professional skills.

4.4 Adopting a transformational approach to attendance and engagement will enable the council to identify more sustainable ways of reducing sickness absence. The need to develop a programme of support with an external partner as opposed to using in house provision alone to deliver this improvement is outlined in para 2.29 above.

4.5 In summary, the suggested option provides the following benefits:

- Provides a clear HR vision supported by a new workforce strategy
- Ensures HR functions and staffing levels are fit for purpose to deliver the HR vision

- Delivers financial efficiencies and required budget savings
- Maximises technology to reduce back office functions and improve customer experience
- Maintains a strong, professional core working close to the business
- Strengthens strategic capacity and ability to create value for the council
- Delivers sustainable income generating opportunities
- Adopts a transformational approach to attendance and engagement

5. **RESOURCE IMPLICATIONS (FINANCIAL, STAFFING, PROPERTY, IT)**

5.1 Financial

There are financial implications if external partners are engaged to support the improvement plan.

5.2 Staffing

There are no immediate staffing implications in implementing the improvement plan.

5.3 Property

There are no property implications.

5.4 IT

There are no direct IT implications.

6. **OTHER IMPLICATIONS (STATUTORY, ENVIRONMENTAL, DIVERSITY, SECTION 17 - CRIME AND DISORDER, RISK AND OTHER)**

6.1 An Integrated Impact Assessment has been completed and no negative impacts or other implications have been identified.

7. **OUTCOMES OF CONSULTATION**

7.1 The soft market testing group support the improvement plan.

8. **RECOMMENDATIONS**

8.1 That the Cabinet Member for Policy and Resources approves the proposed soft market testing HR improvement plan

DIRECTOR OF POLICY & RESOURCES

Civic Centre
 Ashby Road
 Scunthorpe
 North Lincolnshire
 DN16 1AB
 Author: Helen Manderson, Assistant Director HR
 Date: 3 June 2013

Background Papers used in the preparation of this report: None

Appendix 1 – Proposed Soft Market Testing Improvement Plan February 2013

HR Soft Market Testing Improvement Plan

1	Review HR functions and staffing	Outcomes: <ul style="list-style-type: none"> • HR is fit for purpose to deliver HR vision and workforce strategy • HR staffing ratios reflect changing workforce size • Capacity building at strategic levels • Clear professional competency & skills framework • Business partnering/service centre model • Reduction of administrative function • Lean processes which minimise manual intervention • Continuous improvement approach to transactional business achieves efficiencies • Achievement of four-year budget savings 	
Supporting priority actions		Lead	Timescale
i	Agree and promote the new HR vision and workforce strategy & plan	Assistant Director, HR	Apr 2013
ii	Enhance self-service provision through the implementation of HR Info to provide opportunities to reduce manual intervention and further automate transactional processes across the council	Principal HR Officer (OD)	Initial roll out from Jun 2013
iii	Review HR functions and staffing structure to ensure the service is the 'best fit' to contribute to the delivery of council priorities	HR Management Team	Sept 2013
iv	Identify further opportunities for channel shift to meet increasing customer expectations for instant access to information	Heads of HR	2013/14 ongoing
v	Review HR systems and processes to ensure they are efficient, effective, well-aligned to business processes and meeting customer needs	Heads of HR	2013/14 ongoing
vi	Contribute to the review of the existing payroll system to ensure opportunities for integration with HR systems are identified and maximised	To be determined	Dependent on timescales set by Financial Services
2	Increase commercial opportunities	Outcomes: <ul style="list-style-type: none"> • Commercial opportunities are actively sought • Increased levels of income to meet targets • Mitigate the effect of budget cuts and loss of business as schools move to trust status • Greater ability to self-fund posts • Maintain service viability and loss of skills • Exploit existing skills and expertise to a wider market 	

Supporting priority actions		Lead	Timescale
i	Develop clear pricing structure in line with council's commercial policy	HR Management Team	Apr 2013
ii	Continue to develop the professional HR brand	Project group to be identified	Jun 2013
iii	Identify opportunities to maximise existing commercial opportunities	Heads of HR	2013/14 ongoing
iv	Create additional sustainable income streams	Heads of HR	2013/14 ongoing

3	Work with external partner to develop transformational approach to attendance and engagement	Outcomes: The council adopts a transformational approach which; <ul style="list-style-type: none"> • Is based on a clear understanding of current and desired culture • Takes into account the drivers of employee engagement • Clear leadership, effective management, communication and involvement results in discretionary effort (going the extra mile), increased well-being, reduced sickness absence, improved productivity and performance • Focuses on root causes of sickness absence leading to reduction • Is informed by an external 'critical friend'
----------	---	---

Supporting priority actions		Lead	Timescale
i	Use results of 2013 employee survey to determine baseline on the level of employee engagement	HR Strategy & Performance Officer	Jun 2013
ii	Undertake follow up analyses and action based on key findings from 2013 employee survey	Project group to be identified	Sep 2013
iii	Seek external support on identifying transformational approach to culture, engagement	Assistant Director, HR	Dec 2013
iv	Equip leaders and managers with the skills to motivate, develop and engage through service transformation and change	Head of Org Development	2013/14 ongoing