

Audit and Assurance Committee Meeting

Date of Meeting	Thursday 3 December 2020
Paper Title	Internal Audit Report – Shared Services
Agenda Item	7
Paper Number	AAC3-C
Responsible Officer	Jim Godfrey, Finance & Resources Director
Status	Disclosable
Action	For discussion

1. Report Purpose

1.1. To consider the Internal Audit Report on Shared Services.

2. Recommendations

2.1. The Committee is invited to **discuss** the Internal Audit Report on Shared Services.

3. Internal Audit Progress Report

3.1. This report provides an overview of the progress that has been made in exploring opportunities for shared services.

4. Risk Analysis

4.1. The work of the Internal Auditor is informed by an assessment of risk. The prompt implementation of the actions, in response to the audit recommendations, will enable GCRB to reduce the risks relating to compliance with the Financial Memorandum.

5. Equalities Implications

5.1. There are no equalities implications as a result of the recommendation in this report.

6. Legal Implications

6.1. There are no specific legal implications arising from this report.

7. Resource Implications

7.1. The provision of internal audit is a necessary component of an organisation's overall governance arrangement with regard to both financial and other matters.

8. Strategic Plan Implications

8.1. Through the Regional Outcome Agreement and associated requirements, GCRB has to have effective governance arrangements, of which internal audit is part.

Glasgow Colleges Regional Board

Shared Services

Internal Audit Report No: 2020/03

Draft issued: 30 October 2020

2nd Draft issued: 2 November 2020

Final issued: 24 November 2020

LEVEL OF ASSURANCE

Requires Improvement

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Level of Assurance

In addition to the grading of individual recommendations in the action plan, audit findings are assessed and graded on an overall basis to denote the level of assurance that can be taken from the report. Risk and materiality levels are considered in the assessment and grading process as well as the general quality of the procedures in place.

Gradings are defined as follows:

Good	System meets control objectives.
Satisfactory	System meets control objectives with some weaknesses present.
Requires improvement	System has weaknesses that could prevent it achieving control objectives.
Unacceptable	System cannot meet control objectives.

Action Grades

Priority 1	Issue subjecting the organisation to material risk and which requires to be brought to the attention of management and the Audit and Assurance Committee.
Priority 2	Issue subjecting the organisation to significant risk and which should be addressed by management.
Priority 3	Matters subjecting the organisation to minor risk or which, if addressed, will enhance efficiency and effectiveness.

Management Summary

Overall Level of Assurance

Requires Improvement

System has weaknesses that could prevent it achieving control objectives

Risk Assessment

This review focused on the controls in place to mitigate the following risks on the Glasgow Colleges Regional Board ('the GCRB') Strategic Risk Register:

- Opportunities are missed/not resourced appropriately and the potential to add value via the strategic plan is overlooked (net risk score: medium)
- Working relationships within the Glasgow College Region (e.g. students, staff, board members) are ineffective and reduces our collective impact (net risk score: medium)

Background

As part of the Internal Audit programme at the GCRB for 2019/20 we carried out a review of the progress which has been made in exploring opportunities for shared services across the Glasgow Region. The Annual Plan for 2019/20, agreed with management and the Audit and Assurance Committee in October 2019, identified this as an area where risk can arise and where Internal Audit can assist in providing assurances to the Executive Director and the Audit and Assurance Committee that the related control environment is operating effectively, ensuring risk is maintained at an acceptable level.

Shared services can be defined as a scenario where *“two or more organisations who give responsibility for a discrete element of their provision to a separate business entity which is wholly owned by themselves”*. Across the public sector, organisations are increasingly turning to "shared services" as a means of delivering cash savings, under the guise of increased efficiencies. In the past this has typically referred to "back office" operations like processing of records, payroll, human resources and finance. Shared services can be a complex and technical issue to progress successfully. Merging services can throw up multiple issues which can have a major impact on service delivery and the staff working in the affected services.

The Further Education environment has seen significant change in recent years. New technologies are challenging established learning strategies, as well as changing the outlook and expectation levels of new learners entering the education system. The significant increase in the direct cost of further education, together with reductions in Government funding means that colleges individually, and as a sector, have looked at changes to service provision in the search for innovation and efficiencies. Shared service delivery is one of those options being considered.

Shared Services

Scope, Objectives and Overall Findings

This audit examined, through discussion with senior staff from the colleges in the Glasgow Region, the progress which has been made in exploring opportunities for shared services across the Glasgow Region. Staff from two of the three Glasgow Region colleges provided input into this audit.

The table below notes the objectives for this review and records the results:

Objective	Findings			Actions already in progress	
	1	2	3		
The specific objectives of this audit were to ensure that:					
1. Senior management and Board members of each College in the Glasgow Region are committed to exploring opportunities for shared services with other Glasgow Region colleges.	Satisfactory	0	0	0	✓
2. Appropriate groups have been established and these are actively exploring opportunities for shared services across the Glasgow Region colleges.	Requires Improvement	0	1	0	
3. The Colleges have investigated the structures and resources required to deliver shared services opportunities including how funding, assets and staffing could be aligned in a sustainable framework.	Satisfactory	0	0	0	✓
Overall Level of Assurance	Requires Improvement	0	1	0	
		System has weaknesses that could prevent it achieving control objectives			

Audit Approach

We assessed whether the above objectives have been met through discussions with relevant staff at each of the Glasgow Region colleges and GCRB Executive. The Glasgow Region shared services considerations were compared against relevant examples of good practice in the education sector and wider public sector.

Shared Services

Summary of Main Findings

Strengths

- Discussions with representatives from two of the three Glasgow Region colleges confirmed that there was an appetite, at both Board and management levels, to explore opportunities for shared services, where it could be identified that real cash releasing savings could be achieved. We also noted that representatives from the senior management teams of each Glasgow Region college previously met to discuss potential opportunities and challenges for improving the delivery of support functions and front-line services; to investigate where efficiencies could be made; to develop effective models for collaboration; and to promote innovation. Groups were previously established which considered, amongst other things, opportunities for shared services.
- Although shared service entities have not been established as set out in the above definition, we did identify examples of peer and regional collaborative working, particularly around regional curriculum planning and delivery to reduce inefficiencies and control costs. Examples were also noted of colleges working individually with local authorities (and other external agencies) to deliver services as part of the work progressed through community planning partnerships. We also identified collaborative working between colleges as part of a regional approach to the delivery of the foundation apprenticeships programmes, including liaison with schools in the Greater Glasgow area.

Weaknesses

- At the time of our audit we noted that there had been no recent active engagement between the Glasgow Region colleges in relation to shared services, however we have recognised that the impact of the COVID-19 pandemic has meant that each of the colleges' focus has been on business continuity issues. The longer-term financial impact of the pandemic may also influence the Glasgow Region colleges decisions on future engagement around shared services and provision delivery.
- Shared service arrangements in the Glasgow Region are largely reliant on the three colleges finding a consensus and then developing a formal agreement which sets out the way forward. However, in our view there is a need for increased focus and impetus around the delivery of shared services activity and it is our view that there is scope for the GCRB Executive to play an enhanced strategic role in engaging with College Principals to identify workable opportunities for identifying and delivering shared services activity across the Glasgow Region; in reviewing any potential impact on staff and students; and in determining resource requirements.

Acknowledgements

We would like to take this opportunity to thank the staff at the GCRB and each of the Glasgow Region colleges who helped us during our audit.



Main Findings and Action Plan

Objective 1: Senior management and Board members of each College in the Glasgow Region are committed to exploring opportunities for shared services with other Glasgow Region colleges.

Discussions with representatives from two of the three Glasgow Region colleges confirmed that there was an appetite, at both Board and management level, to explore opportunities for shared services, but only where it could be identified that real cash releasing savings could be achieved. Barriers to developing shared services beyond those initiatives already in place were also highlighted, and these are detailed in the following sections of this report. Our review of documentation confirmed that shared services and collaborative working were part of regular discussions between the college principals, however a formal agreement on a way forward had yet to be agreed.

The ongoing sector review by the Scottish Funding Council includes a specific focus around collaboration and shared services. Therefore, there is a clear expectation, placed on the HE/FE sector, to be able to demonstrate that opportunities for shared services have been identified, explored, planned and implemented (where a robust business case can be developed for the shared services model).

Shared Services

Objective 2: Appropriate groups have been established and these are actively exploring opportunities for shared services across the Glasgow Region colleges.

In defining shared services as “*two or more organisations who give responsibility for a discrete element of their provision to a separate business entity which is wholly owned by themselves*”, we noted that there are currently limited examples of such arrangements in place between the Glasgow Region colleges. We noted, through discussion with the colleges, that representatives from the senior management teams of each Glasgow Region college have previously met to discuss potential opportunities and challenges for improving the delivery of support functions and front-line services; to investigate where efficiencies could be made; to develop effective models for collaboration; and to promote innovation. Groups were previously established which considered, amongst other things, opportunities for shared services, such as the Sustainability Group. Each of the three Glasgow Region colleges work with APUC and HEFESTIS around procurement and data protection services, respectively. We noted that the colleges, through work undertaken with APUC in recent years, have closely scrutinised procurement practices, resulting in the sharing of issues and good practice, and achieving savings both locally and regionally.

At the time of our audit we noted that there had been no recent active engagement between the Glasgow Region colleges in relation to shared services, however we have recognised that the impact of the COVID-19 pandemic has meant that each of the colleges' focus has been on business continuity issues. The longer-term financial impact of the pandemic may influence the Glasgow Region colleges decisions on future engagement around shared services and provision delivery.

Although shared service entities have not been established as set out in the above definition, we did identify examples of peer and regional collaborative working, particularly around regional curriculum planning and delivery of activity to reduce inefficiencies and control costs. Examples were also noted of colleges working individually with local authorities (and other external agencies) to deliver services through community planning partnerships. We also noted examples of colleges working collaboratively as part of a regional approach to delivery of the foundation apprenticeships programmes, including liaison with schools in the Greater Glasgow area.

Across the further education sector, and the wider higher education and public sectors, the shared service environment is not well defined. For instance, an example of a shared services arrangement could easily be:

- three colleges create a separate, not-for-profit limited company, with Principals as directors;
- the company carries out, for example, the human resource (HR) and payroll functions for the group / region; and
- each college pays the company an appropriate fee for the services it receives.

However, this does not provide clarity on issues such as whether:

- the shared company must be in a separate, neutral building?
- that all staff associated with these functions must be co-located?
- colleges have the ability to retain an on-site presence for each shared function?
- that the manager with primary responsibility for the new company needs to be neutral and recruited from outside the group?

Shared Services

Objective 2: Appropriate groups have been established and these are actively exploring opportunities for shared services across the Glasgow Region colleges (continued)

Discussions with the colleges highlighted that when considering shared services as an option, significant challenges arose around the development of a shared understanding of a) what can be shared, b) the models for sharing, c) the legal structures required and d) the combination of variables. When considering shared services across the further education sector (and the wider public sector) it is worth noting that there is no common vocabulary for discussing shared services, and therefore no definitive mechanism or template for making straightforward and meaningful comparisons. For instance, the terms joint committee, joint initiative, joint venture, strategic partnership, informal collaboration, or a partnership agreement are often used with no consistency in terms of definition or meaning.

Whilst recognising that the need for savings has been the catalyst for discussion around shared services, we noted that the colleges specifically highlighted that the real driver should be the need to develop innovative ways of improving the quality of provision for learners.

Observation	Risk	Recommendation	Management Response		
Shared service arrangements in the Glasgow Region are largely reliant on the three colleges finding a consensus and then developing a formal agreement which sets out the way forward. However, in our view there is a need for increased focus and impetus around shared services and there is therefore scope for the GCRB Executive to play an enhanced strategic role in engaging with College principals to identify workable opportunities for shared services across the Glasgow Region; in reviewing any potential impact on staff and students; and in determining resource requirements.	Shared service opportunities, and the potential to add value to service delivery across the Glasgow Region, are missed or are not fully exploited to their full potential.	<p>R1 In order to progress the shared services agenda within the Glasgow colleges region, we should suggest a two-step approach to reinvigorate and facilitate the shared service discussion as follows:</p> <p>Step 1 - the GCRB Executive should consider leading the establishment of a regional working group which specifically focuses on identifying opportunities for shared services across the Glasgow colleges region.</p> <p>Step 2 - the GCRB Board should then consider the role which it should play if a consensus cannot be reached on how to implement the shared services initiatives identified. Any intervention by the Board would be informed by an analysis of any potential benefits; the barriers which may prevent opportunities being realised; and the resource requirements, from all parties, which are needed to achieve successful implementation.</p>	<p>The two-step process is agreed and will be progressed as an important component of the Review of Coherent Provision and Sustainability of the Glasgow College Region.</p> <p>To be actioned by: Step 1 – Executive Director Step 2 – GCRB Chair</p> <p>No later than: 30 June 2021</p>		
			<table border="1"> <tr> <td>Grade</td> <td>2</td> </tr> </table>	Grade	2
Grade	2				

Shared Services

Objective 3: The Colleges have investigated the structures and resources required to deliver shared services opportunities including how funding, assets and staffing could be aligned in a sustainable framework.

As described above, we noted that there have been previous formal discussions between the three Glasgow Region colleges to identify the services / functions with the potential for sharing; the vehicles for collaboration; and the legal structure available.

Delivery model

Our discussions with management confirmed that there are challenges in determining the most appropriate and workable delivery model in designing shared services. Options that have been previously discussed, albeit informally, include establishing functions where each of the colleges share staff and resources or establishment of a separate company limited by guarantee. Other practical issues considered included estates capacity and where staff would be located, employment contracts, and importantly how the interface with learners and staff would be maintained or enhanced.

Alignment of policies, procedures, and procedures, and addressing potential salary differentials, would also be a requirement before regional shared service models could be implemented.

It was the view of the college managers we spoke to that for some support service areas, such as business development, that there was an opportunity for GCRB to play a more enhanced role, particularly in working with local authorities and national agencies in promoting the profile and opportunities within the Glasgow Region.

Impact on colleges, staff, and students

Colleges identified that there were challenges in ensuring that a balance is achieved between developing shared services which can improve the efficiency and effectiveness of back-office services, but which does not alter the competitive environment in which the colleges work or the independence of each institution. Sharing of business systems or software may also create challenges around sharing of sensitive data which would need to be overcome through strict confidentiality rules to ensure that partners could only access their own data.

College managers also felt that it was important to note that not all staff within the Glasgow Region colleges may wish to journey from independent teams into a central service; which may result in staff choosing to leave to seek alternative employment with a resultant loss of valuable local knowledge and experience. However, creation of a centralised shared service may also create more opportunities for career progression within a larger team, and place less reliance on individual expertise, and consequently more resilience against knowledge loss from staff turnover. The transfer of staff into a shared service entity under TUPE arrangement would result in issues around specific requirements of the Local Government Pension Scheme which would need detailed consideration.

Savings

Some concerns were expressed by college managers that shared service arrangements may not necessarily generate any significant savings. Cost sharing and demonstrating real cash releasing savings were viewed as barriers to effective shared services. In the current financial climate, with increased staff costs in recent years and a reduction in non-SFC grant income due to the impact of the COVID-19 pandemic, the colleges we spoke to took the view that now would not be the time to commit financial resources to the start-up costs associated with developing shared service arrangements.

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