

Regional Impact Assessment Statement

Shared Services Reform

September 2007

Shared Services Reform — Regional Impact Assessment Statement

Proposal

In September 2006, the South Australian Government announced that it would establish a Shared Services Organisation (SSO) to support all Government portfolios. The SSO will reduce duplication of internal administrative services and create more simplified, streamlined and efficient processes. While reductions in employment are anticipated, the intention is to improve the quality of services that support agency front line and core business.

The initiative is a recommendation of the Greg Smith Review of government spending and will provide services in functional areas including Information Communication and Technology Services, Human Resources (including payroll), Finance and Procurement.

The proposal to Cabinet recommends the centralisation of these in scope services. It is recognised that this approach will result in changes to positions and staffing throughout the State.

The Minister for Finance has responsibility for carriage of the initiative. The Shared Services Reform Office (SSRO) was established by the Department of Treasury and Finance in October 2006 to develop a reform strategy and, when approved by Cabinet, to implement the shared service reforms. The Chief Executive Shared Services Steering Committee is the lead governance group providing strategic oversight for the scope of services and projects undertaken by SSRO.

It is anticipated that the initiative will deliver savings of up to \$35 million annually by 2009-10. Savings from the initiative will be redirected into priority areas such as health, education and community safety.

The development of the South Australian Shared Services model is benefiting from the lessons learnt from implementation of models operating interstate and overseas. International shared services models are employed and working well in the United States, Canada, New Zealand, and the United Kingdom. Australian examples of state and territory government shared services operations include those in Queensland, Western Australia, Northern Territory and the Australian Capital Territory.

Regions

The shared services initiative is expected to impact on regions as implementation takes place.

It is estimated, based on 2005-06 data, that there is a count of approximately 2,295 full-time equivalents (FTEs) currently dedicated to corporate and business service activities that are defined as being 'in scope' and under consideration as part of the shared services initiative. This total comprises a metropolitan count of 2,039 FTEs and a non-metropolitan count of 256 FTEs (around 11 per cent). The corresponding number of people employed in these positions is 3,315 in the metropolitan area and 558 in non-metropolitan areas (around 14 per cent of people). The FTE count includes the total number currently under consideration for the entire project. The FTE count under consideration for the first stage of the project is subject to Cabinet endorsement of the strategy and implementation plan, both of which are not finalised.

Table 1 below shows the FTE count by region currently dedicated to all corporate and business service activities which are 'in scope' for the shared services initiative. Also shown are unemployment rates in each region derived from data published by the Commonwealth Department of Employment and Workplace Relations. Almost 90% of the FTE count is in the Adelaide Metropolitan region, which also has the second highest unemployment rate of all regions.

Table 1: 'In scope' Corporate and Business Services FTE count by region

Region	FTE count	% share of total	Unemployment rate ¹
Adelaide Metropolitan	2,039	88.85	5.4
Adelaide Hills	10.5	0.46	2.6
Barossa	7.9	0.34	4.1
Eyre and Western	56.3	2.45	4.8
Far North	23.0	1.00	5.6
Fleurieu and Kangaroo Island	22.5	0.98	4.8
Limestone Coast	44.5	1.94	4.2
Murray and Mallee	53.9	2.35	5.2
Yorke and Mid North	37.6	1.64	4.7
Total	2,295	100.00	5.1

Stakeholders

There are a number of regional stakeholders associated with the shared services initiative.

These include agencies likely to be affected by shared services reforms, (in particular Health and DFEEST), the employees of those agencies, regional communities where impacts are likely to occur, and the peak bodies representing those regions (for example, the Regional Communities Consultative Council (RCCC)). The Public Service Association of South Australia (PSA) has an interest in representing members who are likely to be affected by the reforms.

Information and Consultation

It is recognised that consultation with key stakeholders is an important part of the shared services reform. Accordingly, a governance and consultation framework has been established to provide ongoing direction and leadership and to enable open and transparent change. The framework includes steering committees, reference groups and consultative groups.

Key committees and groups include the:

- **Chief Executive Shared Services Steering Committee** — which is the lead governance group providing strategic oversight of the shared services reform program.
- **Shared Services Reference Group** — through which agency interests and needs are represented

¹ Unemployment rates are the average of the four quarters to March 2007. They have been derived from the Department of Employment and Workplace Relations *Small Area Labour Markets* publication, March Quarter 2007.

- **Workforce Strategy Group** — which discusses workforce strategy issues relating to the establishment and ongoing operation of the shared services organisation; and
- **Workforce Consultative Group** — which includes senior PSA representation and acts as a consultative forum for employee related issues associated with the transition to shared services.

The Workforce Consultative Group is the peak workforce consultative forum throughout the reform process and will operate in a manner that is consistent with the consultative provisions contained in clause 22 'Consultative Processes' of the *South Australian Government Wages Parity (Salaried) Enterprise Agreement 2006*. Notwithstanding the establishment of this peak group, existing industrial instruments will continue to apply.

While the key committees and groups listed above are the primary consultation groups, links have also been established with existing groups including Senior Management Council, HR Directors' Forum, Chief Information Officers and the Senior Finance Officers Forum. The SSRO is also regularly speaking with other jurisdictions including WA, ACT and Queensland to learn what went well and, in hindsight, how they would do things differently.

Recognising a need to expand on the formal consultation framework, a program of agency briefings was undertaken to communicate more directly with agencies and staff likely to be affected by the reforms. The purpose of these briefings was to generate a broader awareness of the shared services reform initiative and to listen to staff comments and feedback in the early part of the reform process. In excess of 60 briefings were conducted to over 3,000 metropolitan and regional staff in this process. With assistance from Regional Facilitation Groups, 12 regional forums involving 236 staff were held in Port Lincoln, Whyalla, Port Augusta, Port Pirie, Clare, Murray Bridge, Struan, Berri and Mount Gambier. The forums, which received positive feedback, contributed to the overall awareness and understanding of the reform initiative by agency staff. The level of attendance was a positive indication of successful regional engagement. Feedback and insight gained from agencies and staff through this process proved most valuable and has been considered during development of the change strategy. A further program of agency briefings is planned which will include briefings in regions.

The Regional Communities Consultative Council (RCCC) is appointed on the recommendation of the Minister for Regional Development to advise Government on regional issues with a focus on economic, social and environmental matters. Its members live and work in regional South Australia. The RCCC raised concern about the impact of shared services reforms on regional communities and suggested that a regional hub be considered (discussed further below). It has been involved in consultations through formal communication channels and will continue to be involved at key points in the reform process. These key points will be associated with Cabinet decisions on strategy, process and implementation of the reforms where those decisions are likely to impact on regional communities. Regional Facilitation Groups (RFG) will also be engaged.

Tailored communiqués will be provided to regions on a regular basis before and during the implementation phase with detailed information on the reforms as they relate to each region.

The SSRO has a web presence which was established following the Government's announcement of the shared services initiative in September 2006. The website can be found at <http://www.treasury.sa.gov.au/ssro/>. It contains regularly updated information on the shared services initiative, the types of services that are considered to be in scope for the project, the governance and consultation frameworks including membership of the various committees and groups, the broad operating principles and answers to frequently asked questions.

A monthly newsletter is also published on the SSRO website notifying readers of current developments with the project. Notification of the newsletter's release is advised by email to all staff on the SAGEMS network. Nine newsletters have been published by the SSRO with the first being issued in December 2006.

Summary of Impacts and Analysis

Impacts from the shared services reforms will result from resource levels becoming excess to requirements as reforms are implemented. It is intended that regional agencies will not suffer any reduction in services nor will regional communities.

Based on data for 2005-06, the total FTE activity dedicated to in scope corporate and business services across South Australia is approximately 2,295. This total comprises a metropolitan count of 2,039 FTEs and a combined total for all other non-metropolitan regions of 256 FTEs — see Table 1 on page 2.

Implementation of the shared services initiative is estimated ultimately to give rise to 20-25% efficiency improvement on average when fully implemented. This will release an estimated \$35 million annually for redirection to frontline services in areas including health, education and community safety when fully implemented.

The non-metropolitan region with the largest corporate and business services activity presence in terms of its FTE count is Eyre and Western with 56.3 FTEs. This is closely followed by the Murray and Mallee region (53.9 FTEs), Limestone Coast (44.5 FTEs) and Yorke and Mid North (37.6 FTEs). The remaining four regions have an FTE count fewer than 25 that is considered to be in scope with the Barossa (7.9 FTEs) having the least.

By agency, the largest in scope regional FTE counts are in Health (186), DFEEST (43) and DEH (8).

The shared services anticipated efficiency gain of up to 20-25% is predicated on a reduction in FTE activity of a similar magnitude. The efficiency gain is dependent on many factors, which are still the subject of detailed analytical investigation.

The staging of the implementation in terms of timing and the order that functions will be transitioned is subject to a future decision by Cabinet.

The RCCC has raised concerns that the centralisation of positions may have social and economic impacts on regional communities, for example, through job losses or relocation of staff and as increased costs. It is not possible to quantify these impacts in any meaningful way but it is acknowledged that there will be impacts as functions are initially transferred to the Adelaide CBD. It is noted, however, that the FTE count affected represents about 0.11% or 11 FTEs per 10,000 of the regional labour force.

Notwithstanding the effect of the drought on regional communities, impacts resulting from implementation of the shared services initiative will be offset to some degree by the general healthy state of the labour market in regional South Australia. In many regions the unemployment rate is lower than or near to the state average. Average unemployment rates² for the year to the March quarter 2007 are: Adelaide Metropolitan (5.4%); Adelaide Hills (2.6%); Barossa (4.1%); Eyre and Western (4.8%); Far North (5.6%); Fleurieu and Kangaroo Island (4.8%); Limestone Coast (4.2%); Murray and Mallee (5.2%); and Yorke and Mid North (4.7%). Coupled with future direct and indirect employment effects of major projects with a regional presence, prospects for regional labour market conditions remain relatively positive.

State Government regional initiatives announced in the 2007-08 Budget which will provide increased employment opportunities in regional areas include spending of \$13.6 million over three years for new education projects in regional areas, \$12.4 million over four years for the expansion of the Roxby Downs police station and \$1.5 million to upgrade the infrastructure of the Naracoorte Health Service.

A significant example of service relocation from the metropolitan area to a regional hub is the future relocation of Yatala Labour Prison and Adelaide Women's Prison from Northfield to Mobilong and the construction of an adjacent forensic mental health centre. The construction phase of these projects

² Average unemployment rates for the four quarters to March 2007 derived from DEWR data. DEWR data is based on Australian Bureau of Statistics regional labour force data and Centrelink data on recipients of Newstart and Youth Allowance.

between 2009 and 2011 will create a significant number of jobs in the Murray Bridge area while the operation of the new facilities is anticipated to require approximately 500 FTEs across a spectrum of activities including custodial services, medical and psychological services, education and training services, facilities management (including cleaning and catering) and administration. These employment gains will be associated with losses in metropolitan Adelaide.

Regionally based employees affected by shared services, including those who are redeployed, will need to be managed fairly and equitably in a way that is consistent with the relevant instruments. These include legislative provisions (e.g. PSM Act); awards and enterprise agreements; Commissioner's Standards; relevant policy documents/prescriptions.

These instruments provide the overall principles or processes that need to be followed, however, the actual instruments and level of detail may vary depending on the class of employees in question. By way of example, the Commissioner's Standards contain specific provisions that relate to redeployment of excess employees and relocation expenses for employees who relocate their households due to their employment.

Options considered

Regional Hub

Consideration was given to locating the Shared Services Organisation, or some of its functional elements, in a regional location.

Transitional and logistical issues involved with setting up a shared services organisation are extremely complex and to overlay a significant geographical relocation would run a significant risk of compromising the process. These issues include the added difficulty around the practical transition of people, resources and assets to a regional location, the difficulty of providing the labour force base for the organisation if many of the current staff currently live either in the CBD or other regions and the complexity surrounding establishing ICT connectivity to a regional area (and the ongoing support of the environment). Given the potential size of the shared services organisation, the ability to attract and retain the required number of staff also would be problematic.

At the moment, the vast majority of the potential jobs to be affected are in the metropolitan area. Transition costs and disruption to organisations and individuals clearly will be much lower if the shared services organisation is also located in the CBD or metropolitan area.

From a regional impact perspective it is also the case that a regional hub model would only ameliorate the impacts of shared services centralisation in one region. The Adelaide metropolitan region would experience the loss of up to 2,000 FTEs. The adjustment costs associated with this would be significant.

That said, it is possible that the shared service organisation, once established, may need to have some regionally based employees in order to deliver services effectively.

Learnings from other jurisdictions clearly indicate that a single shared services organisation offers the best outcome.

Phased implementation

The proposed approach to be recommended to Cabinet includes a phased implementation. There are four stages proposed for the implementation:

- **Pre transition discovery** — to identify and resolve all issues, obtain the detailed information necessary to finalise the design of the service and prepare for transition of functions and staff to the SSO.

- **Service design** — defines the initial service and how it will be provided following transition to the SSO
- **Transition** — physical transition of staff, resources and assets to the SSO
- **Post transition review** — involving a formal process to review the transition and the refining of the strategy for the next service transition.

The services to be transitioned first will be dependent on a number of factors including risk, cost, time, benefit and difficulty. Dependencies on the various services to be transitioned will also be a consideration.

Consultation during implementation phase

It is proposed that there will be ongoing consultation with the RCCC at key points during the implementation phase.

Consultation with staff and agencies affected by the implementation will also occur through a separate process consistent with industrial provisions.

Preferred Option

Location of the Shared Services Organisation in the Adelaide CBD is the preferred option based on the premise that it would minimise transition costs and the disruption to agencies and employees affected by the reforms.

While given due consideration, the placement of the shared services organisation in a regional centre would require the relocation of up to 1,700 metropolitan Adelaide FTEs to a regional centre. It also would result in only one regional area benefiting from the reforms. The impact of reforms is clearly minimised by location of the SSO in the Adelaide CBD or metropolitan area.

While the regional areas currently have a much lower presence than the Adelaide CBD in terms of corporate services effort, efficiency gains in the regions remain significant for the overall savings target.

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