

CABINET REPORT

11 June 2012



Report of: CHIEF EXECUTIVE

Subject: Future options for the provision of a strategic HR function

1. TYPE OF DECISION/APPLICABLE CATEGORY

Non Key Decision.

2. PURPOSE OF REPORT

2.1 To set out options for the future provision of a strategic HR function. This report will present three options for cabinet to consider.

- Reappointment of a Chief Customer & Workforce Services Officer,
- undertake an internal restructure which removes the strategic HR post
- Continue to share a Head of HR with Darlington Borough Council.

3. BACKGROUND

3.1 The financial pressures facing the Council have been set out for Members in other reports on a regular basis and all departments are required to identify savings to balance budgets. As a consequence, officers are regularly looking at options to make savings and critically review each post that becomes vacant. We do this in order to be sure that we need the post and to see if the service can be provided in a more cost effective way by either restructuring or by sharing the costs with a partner. As such, officers are in regular contact with other local authorities to share best practice and identify potential opportunities for efficiencies and savings.

3.2 Last year Darlington BC considered the options available to them as they prepared for the retirement of an Assistant Director – Human Resource Management (HRM) at Darlington Borough Council in March 2012. In August 2011 Cabinet agreed to enter into a contractual agreement with Darlington BC for Hartlepool's Chief Customer & Workforce Services Officer to undertake the lead HR role for both local authorities. This decision followed initial discussions at Chief Executive level and Darlington's assessment that this joint arrangement would satisfy their requirements. Temporary arrangements were made to re-allocate some responsibilities of the Chief Customer &

Workforce Services Officer to other Chief Officers in the Chief Executive's Department.

- 3.3 The Chief Customer & Workforce Services Officer has tendered her resignation to take up another post and will leave the employment of Hartlepool BC on 30 June 2012. In light of this resignation it is important for both councils to reassess their needs for a shared strategic HR post for which HBC has been the employing council.
- 3.4 As with all potential vacancies, it is important that the council considers the need to replace, restructure or change the shape of how services are delivered. The options for the future delivery of this service are presented below for members to consider. As part of the consideration of future options it is important for cabinet to be aware of the strategic HR functions that are required by any public sector organisation with significant staffing resources. It is essential as part of any future service configuration the council is able to draw upon strategic advice that has:
- knowledge and understanding of employment law, national agreements, regional networks and local policies to carry out constitutional requirements and to ensure compliance with statutory regulations and national/local agreements
 - expertise in monitoring and managing corporate and operational HR activities;
 - an on-going relationship with a range of local, regional and national local government and trade union officers to maintain effective industrial relations and to act as the Council's lead negotiator
- 3.5 The 3 options for the future delivery of this support are outlined in Section 4.

4. OPTIONS FOR CONSIDERATION

4.1 Option 1 – Recruit into a HBC only Chief Customer and Workforce Services Manager Post

- 4.1.1 HBC could withdraw from the HR partnership with Darlington Borough Council and reappoint into the Chief Customer & Workforce Services Officer post. Whilst this option would ensure the council has the capacity and specialist skills to deliver a strategic HR service, it also offers increased management capacity and cost across the senior management team. The current partnership arrangement with Darlington Borough Council has been successful. It has ensured that both organisations have made efficiency savings, and have shared resources and skills whilst still offering a strategic high level professional HR service to both councils. Schools are a major contributor to the costs of the HBC HR service and this option would be acceptable to them as it gives them the continuity they require and gives confidence that the council is still providing a strategic HR service. In Hartlepool all bar 3 schools buy into the service and over 90% of schools indicated their satisfaction with the HR service they receive via the annual negotiation with schools as part of the SLA reviews. However recruiting into a

like for like post may not be a realistic longer term option. The council is increasingly looking for additional savings and a corporate restructure may be required in the next twelve months which may mean an alternative service delivery method would be required. The council is also looking at innovative ways to reduce costs and ensure service sustainability and the work on collaboration may offer options for shared services or alternative options for HR in the future such as a bi or tri borough approach to the delivery of HR services. Recruitment to the post would mean taking on employment liability for the council at a time when we are looking to limit such liabilities. As this post is a Chief Officer post recruitment into this post would require an appointments panel to be set up by full council who would then progress the recruitment process.

4.2 Option 2 – Undertake an internal restructure that removes the Strategic HR Post

4.2.1 HBC could undertake an internal restructure that removes the Chief Customer & Workforce Services Manager from the establishment and reallocates the management of these services to another Chief Officer with the Chief Executive's Department. This would allow the council to make some savings as a result of this change; however, these will be limited by the need to provide additional HR capacity at a lower level. This more operational post would be expected to lead strategically:

- on all single status and job evaluation issues, involving key negotiations with trade unions
- by acting as the LA lead in relation to the LGA role as negotiator in relation to national changes to staff terms and conditions
- by representing the council in any regional and sub regional partnerships,
- on any future corporate restructure which may include changes to Chief Officer posts,
- on any HR issues relating to future collaboration opportunities
- in supporting the significant HR issues that will arise from the future budgetary issues including redundancy and restructurings issues.
- on HR strategy and policy development and workforce development.

4.2.2 This approach to removing the strategic HR post is one that has been used in two neighbouring councils, both of whom increased HR operational capacity at the same time and reallocated duties to other Chief Officers. However in doing so it is important to note that both of those authorities have significantly more Chief Officers than Hartlepool does to share out the responsibilities and duties. Important to note is that one of those authorities who undertook this change some time ago is now training the Chief Officer who took on most of these services in HR and Personnel management and the other is just appointing an operational HR lead at a salary that is virtually equivalent to the HBC lowest grade of Chief Officer i.e. Band C.

- 4.2.3 This option would however, allow the council to remove a post at Chief Officer level in keeping with the requirement to protect front line services. This option does have a number of risks inherent within it. Any restructure and reallocation of responsibilities and duties of the Chief Customer and Workforce Services Officer of HR would involve a significant change and would require formal consultation with those Chief Officers affected by this change. It is also possible that any change may have an impact on the officer's grade due to the additional responsibilities that they would be required to manage and become accountable for. This reallocation of duties and strategic responsibility could have the potential to leave the council at increased risk of employment litigation due to the lack of specialist and strategic HR advice.
- 4.2.4 A more significant risk is that any removal of strategic HR capacity may cause concern for schools if they feel the council is not capable of providing them with the strategic HR function they currently purchase. Schools fund approx 30% of the councils HR function which also supports the council's HR offer. Any large scale removal of funding from the HR service by schools would provide the council with a significant budget pressure as the Council would lose the economies of scale from the strategic HR function supporting both the Council's own requirements and schools requirements. . It would therefore be essential that if Option 2 is taken significant reassurance would need to be given to schools to convince them that any new service reconfiguration does not dilute the service they purchase from the council and would still offer them the strategic advice they require. The savings in this option may be limited as there would be a need to create additional operational HR capacity to meet the needs of the council going forward. This capacity is likely to involve the appointment of an additional HR advisor. It may also result in the need for some adjustment to the grading of other officers involved in any reallocation of duties. This option would increase operational capacity but would limit strategic capacity

4.3 Option 3 – continue in a shared arrangement with Darlington Borough Council

- 4.3.1 In August 2011 Cabinet agreed to enter into a contractual agreement with Darlington BC for Hartlepool's Chief Customer & Workforce Services Officer to undertake the lead HR role for both local authorities.
- 4.3.2 A contract was agreed which included a break clause at six-months to protect the interests of the respective parties. Monitoring arrangements of the contract since it began formally on 1 November 2011 indicate that both local authorities are satisfied that the shared role provides the required leadership and management of the HR service and would confirm the contract beyond the six month break clause.
- 4.3.3 Darlington Borough Council have considered their options regarding a future HR service and potential replacement in the light of the resignation of the shared strategic HR post and have decided that they do want to retain a strategic HR lead. As a result they will progress and appoint into a strategic

HR post irrespective of the HBC decision on the future option they wish to take. DBC however, have agreed to hold their recruitment process until HBC have made a decision in relation to their requirements for a strategic HR post to enable a post to be clearly advertised as either a sole DBC post or a post that offers a shared service to HBC.

- 4.3.4 It was in light of the successful shared arrangement for the last 6 months that Darlington BC offered to take the role as lead authority and recruit to the Assistant Director – HRM, a vacancy that remains on Darlington Council's structure so that the shared arrangements can continue without delay. Darlington BC recognise that the role within Child and Adult Services that offers a shared schools improvement service ie Assistant Director – Performance & Achievement was recruited to by Hartlepool BC and in the spirit of partnership would like to take employer responsibility for any replacement to the shared HR function. This option would enable Hartlepool to minimise its legal and financial obligations in relation to employee liabilities as we would in effect be buying a service.
- 4.3.5 If HBC were to proceed into a shared arrangement it is suggested that this is done for an initial period of 12 months then reviewed. This enables Hartlepool to reconsider its position in 12 months once the outcome of any collaboration work is known. It enables any corporate restructure to take place without any additional employee liabilities to consider but allows senior HR advice at a time when significant change is taking place within the organisation. This option would be acceptable to schools as they are comfortable with how the service has been delivered in the last 6 months. A key objective for the shared role was to begin work on the development of an arm's length, LA delivered, specialist support service for schools across most of Tees Valley. This would work with academies and free schools as much as with local authority community, foundation or trust schools. This is important as the aim is to avoid schools buying independent LA services from the plethora of schools advisory services that are springing up as a result of the academies policy drive. This would support not only HR but other local authority school buy back services such as school improvement, payroll, legal and finance.
- 4.3.6 If option 3 is taken it is suggested that the formal legal contract that already exists between the two authorities which agrees to share equally the costs of the post is used. It would ensure the same contractual terms would apply that HBC was comfortable with previously but instead names Darlington BC as the contractor and Hartlepool BC as the client. Darlington BC would therefore become the employer of the new postholder and under the main terms and conditions of employment determined by Darlington BC. The new employment contract would specify the requirement to deliver services to other organisations.
- 4.3.7 If option 3 is taken Darlington BC would welcome Hartlepool BC Members and Officers' involvement in the recruitment process to select a new postholder. As a Chief Officer post a formal appointment by Members is required under Darlington's constitution.

- 4.3.8 As with option 2 the substantive duties of the Chief Customer & Workforce Services Officer which include responsibility for workforce services, customer services, shared services, revenues and benefits services would need to be reallocated. Options for permanently relocating services within the Chief Executive's Department were already under consideration due the current shared arrangement and a further report would be presented to Cabinet as part of any corporate restructuring proposals.
- 4.3.9 This option gives HBC less than a whole time post offering strategic capacity but as the post holder will be involved on behalf of both LA in many strategic forums and in responding to the same policy changes would in terms of economies of scale. This option may still incur some additional cost due to the reallocation of duties and the impact on grading of other officers.

5. FINANCIAL IMPLICATIONS

- 5.1 The costs (which include employer overheads - national insurance and pension costs) associated with implementing each of the three options presented are outlined below. Some of these costs may vary slightly dependent upon the outcome of any recruitment or restructuring process and associated grading issues. However the costs outlined below are a realistic reflection of the true costs of each option.

5.2 Option 1 – Recruit into a HBC only post

- 5.2.1 This option would require additional savings to be found of £51.7k per annum to fund the remaining half of the post as the partial costs of this post were incorporated into the savings programme agreed by council last financial year. The full year costs (including employer overheads) of this post is between £91.9k - £103.4k p.a

5.3 Option 2 – Undertake an internal restructure that removes the Strategic HR Post

There would be a requirement to increase the capacity of the HR function. This would entail the potential appointment of an additional HR advisor at Band 15 - £54.9k (minimum of grade) to £59.9k (maximum of grade) with oncost.

5.4 Option 3 Shared Service with DBC

- 5.4.1 Full year savings associated with sharing the cost of the post were originally estimated as being £51.7k (inclusive of pension and NI saving). This amount was included in the Chief Executive's Department savings proposals and was based on equal sharing of employment costs between Hartlepool and Darlington Councils.
- 5.4.2 The DBC grade of the Assistant Director – HRM to be filled has a salary range of £72,000 - £84,000 p.a. with a total of seven incremental points. This is

slightly different to the salary range within Hartlepool BC for the Chief Customer & Workforce Services Officer which is £72,254 - £81,062 p.a.

- 5.4.3 The costs of a shared Assistant Director HR with DBC (inclusive of pension and NI saving) would be dependent upon the starting salary on appointment and incremental progression. There will be a very small amount of additional savings for Hartlepool at the minimum at the grade and a small decrease in the savings when the maximum of the grade is achieved. This amount is estimated between £45k (minimum of grade) £52.5k (maximum of grade).

5.5 Financial Summary

- 5.5.1 The following table summaries the cost of the above options at the maximum of the grade (all figures include employers overheads):

Option	Total Cost	Additional Cost to existing shared arrangement with DBC (which HBC lead)
1. Recruit into a HBC only post	£103.4k	£51.7k
2. Undertake an internal restructure that removes the Strategic HR Post	£59.9k	£8.2k
3. Shared Service with DBC *	£52.5k	£0.8k

* The cost of a shared Strategic HR posts may reduce if work on collaboration across 3 authorities enables this arrangement to be extended beyond HBC and DBC.

6. CONSULTATIONS

- 6.1 If either Option 2 or 3 were chosen there would be a requirement of formal consultation to take place with those staff that would be affected by these changes. In relation to the current shared HR service consultations were undertaken with those staff affected by the requirement to reallocate service responsibilities last summer and no adverse comments were received regarding the proposals. It was not possible however to conclude the consultations at the time given the temporary nature of the shared arrangements with DBC.
- 6.2 As mentioned previously both Options 2 and 3 require ongoing formal consultations and these would need to commence as soon as a decision is made upon the option taken as both options are slightly different in emphasis and may involve different council officers.
- 6.3 The Trade Unions were previously consulted on the proposals inherent with a shared post with DBC i.e. Option 3 and wrote a letter of support for this option at the time. They would be involved in any further consultation relating

to whichever option is taken.

- 6.4 In relation to both options 2 and 3 there could be the potential in the future to extend shared HR arrangements across the three local authorities involved in the collaboration work. This would enable further savings to be achieved whilst retaining the services of a qualified HR professional at a strategic level.
- 6.5 A number of scrutiny chairs have made representations to CMT in relation to the future delivery of a strategic HR function. Whilst they are fully cognisant of the challenges ahead and supportive of the need to continue to provide a dedicated and clear strategic HR service they do not feel that this should be done by Option 1 i.e. reappointing to a permanent full time Chief Customer and Workforce Services Officer post. They feel the costs of this option are prohibitive and do not feel it meets the authority's needs going forward. Option 2 i.e. a shared service with Darlington is also not one that they wish to see continue as they feel the costs of continuing with this arrangement are also prohibitive.
- 6.6 They have indicated that in their view some form of internal restructure would be of more value to the council but would wish to see the costs associated with this limited significantly. This would mean that the increase in HR capacity that is required for Option 2 would potentially not be able to be fulfilled by the appointment of an additional HR advisor, but via the re-grading staff currently providing an HR service. This would have the impact of altering the nature and type of duties undertaken by staff but would not offer the additional capacity CMT feel is required.
- 6.7 A key issue for cabinet to consider in any option is the position of schools in relation to the HR service. We must ensure we continue to provide a full HR offer to schools, one that they will want to continue to buy into as any apparent dilution of this service may see them look elsewhere for HR support and a council budget pressure will result.

7. Conclusions

- 7.1 Dependent upon the option taken by cabinet there is a requirement for further work to be undertaken by CMT and for cabinet to address this as part of the recommendations of this report.
- 7.2 If Option one is chosen a report will be presented to full council to request the setting up of an appointment panel as the Chief Customer and Workforce Services Officer post is a council appointment, in line with the councils constitution on the recruitment of Chief Officer posts. It will also require additional savings to be found for the budget this year as part costs of this post were agreed as a budget saving by council as part of last year's budget process.
- 7.3 If Option 2 is taken CMT will develop a new operational structure within this area and a consultation process will commence which will involve those

officers who would be impacted by the restructure process. The outcome of that process will be reported back to cabinet for decision in relation to the reallocation of duties inherent within the current Chief Customer and Workforce Services Officer post and any grading issues that may be impacted on by this option.

- 7.4 If Option 3 is chosen cabinet will need to agree to enter into a new agreement with Darlington Borough Council to share a joint Head of HR and that the Acting Chief Executive and/or Chief Solicitor be delegated to finalise the legal agreement with the General Purposes Committee. Cabinet are also asked to nominate the appropriate Member/Officer to be involved in the recruitment process undertaken by Darlington BC.

8. RECOMMENDATIONS

- 8.1 Cabinet are asked to consider the three options presented within this report and to make a decision on which option they feel best meets the needs of the Authority going forward.

- 8.2 Dependant upon which option is chosen one the following set of recommendations will be required to be agreed upon.

8.3 Option 1

- 8.3.1 Cabinet to agree to a report being presented to full council for the recruitment to the Chief Customer and Workforce Services Officer post and for cabinet to receive a further report on the additional savings that would be required to fund this post in its entirety.

8.4 Option 2

- 8.4.1 Cabinet to receive a further report to consider the outcome of the staff consultations and the impact any changes may have on officer grading.

8.5 Option 3

- 8.5.1 Cabinet are asked to agree to enter into a new agreement with Darlington Borough Council to share a joint Head of HR and that the Acting Chief Executive and/or Chief Solicitor be delegated to finalise the legal agreement with the General Purposes Committee. Cabinet are also asked to nominate the appropriate Member/Officer to be involved in the recruitment process undertaken by Darlington Borough Council.

9. CONTACT OFFICER

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