



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1790
SESSION 2010–2012**

7 MARCH 2012

Cross government

Efficiency and reform in government
corporate functions through shared
service centres

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Efficiency and reform in government corporate functions through shared service centres

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Amyas Morse
Comptroller and
Auditor General

National Audit Office

2 March 2012

This report looks at whether shared services have delivered value for money for central government and highlights the challenges which departments and the Cabinet Office have faced.

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Key facts

£1.4bn

spent to date on five
shared service centres

£159m

of planned savings by
end 2010-11

£255m

is the actual net cost of
those shared service
centres tracking benefits

Seven years evolving shared services

£1.4 billion spent to deliver the core back-office functions of human resources, finance, procurement and payroll

£159 million of savings expected from these Centres to the end of 2010-11

£255 million is the net cost of the two Centres that are tracking their cumulative benefits

One Centre broke-even within five years

Summary

1 All government departments need a range of corporate functions including human resources, finance, procurement and payroll to manage their operations effectively. Collectively known as the 'back-office' they deliver the core business processes needed to support front line services. Cost savings can be made by sharing these functions and the private sector has typically saved in excess of 20 per cent, with a less than five year return on investment.

2 In 2004, the Gershon Review recommended the UK Government pursue shared services to deliver cost savings. The Cabinet Office, with leadership from the Civil Service Steering Board has been supportive of this, encouraging individual departments to establish their own arrangements. As a result, between 2004 and 2011 eight major shared service centres have emerged from central government. In July 2011, the Cabinet Office issued a new vision for central government shared services. This describes a future of two cross-government shared service centres and a small number of stand-alone centres.

3 This report looks at whether shared services have delivered value for money for central government and highlights the challenges which departments and the Cabinet Office have faced. We analyse how they have been commissioned, how well government has performed as a customer and provide a detailed review of five of the eight shared service centres (the Centres). These are the Department for Environment, Food and Rural Affairs, the Department for Transport (DfT), the Department for Work and Pensions (DWP), the Ministry of Justice and Research Councils UK.

4 Our approach and criteria for assessing value for money includes:

- A financial analysis that includes the expectation that each Centre and its customers should deliver forecast benefits, net of costs and consistent with what can be achieved by the private sector.
- An operational performance assessment to evaluate:
 - the role of the commissioner of the Centre and the department or agency customer. This includes an assessment of whether customers act intelligently, working with their shared service centres to drive ongoing service improvements and efficiencies; and
 - the maturity of the shared service provider. For example, shared services should have a standard offering to enable operational efficiencies to be achieved.

Key findings

5 Departments have invested significant cost and effort in implementing shared services. Since the Gershon Review, central government has spent seven years implementing shared services. The five Centres we have examined were expected to cost £0.9 billion to build and operate core back-office functions. To date they have cost over £1.4 billion, an overspend of £0.5 billion.

6 Departments have not realised the planned benefits. From the five Centres we examined the Government should, by its own estimates, have saved £159 million to the end of 2010-11. Only one can demonstrate a break-even on its investment. The two Centres still tracking benefits report a net cost of £255 million.

7 Most customers of shared service centres have not driven benefits. By insisting on overly customised processes they have not acted as intelligent customers. Most have not optimised benefits from the implemented solutions or adequately worked with the Centres to understand the cost drivers. Departments and agencies have been hampered by the lack of detailed cost information and benchmarks. The Centres have prioritised increasing the number of customers or implementing new software, rather than working with existing customers to drive efficiency.

8 The services provided are overly customised. We found shared services to be more complex than we expected. They are overly tailored to meet customer needs. This limits the ability for the Centres to make efficiencies as they have an overhead of running multiple systems and processes.

9 The software systems used in the Centres have added complexity and cost. All the Centres we visited use Enterprise Resource Planning (ERP) software systems. These are complex and have proven to be expensive. They are designed to manage all the information generated by an organisation by using standard processes. These systems work most effectively with large volumes of heavily automated transactions. With a lack of scale and usage in some Centres, limited standardisation and low levels of automation, the cost to establish, maintain and upgrade these systems is high. As a result two Centres intend to totally re-implement their existing systems with simpler, standard ERP software, despite the significant investment already made. All the Centres acknowledge they need to simplify and standardise their systems and reduce customisation.

10 The Cabinet Office and Civil Service Steering Board could have done more to ensure shared services were implemented appropriately. While the Cabinet Office led by example in initiating their own shared service arrangements, more could have been done to challenge the performance achieved by customers and providers. They could have established reliable cost and performance benchmarks and done more to document best practice and lessons learned for customers. Also, they could have done more to remove the barriers to departments and agencies joining shared services. The Cabinet Office relied on a collaborative model of governance, which was consistent with the role of central government at the time. Under this model it was left to individual departments to implement shared services and eight shared services have been established. There has been little actual sharing of services between departments.

11 Departments have struggled to fully roll-out shared services across all their business units and arm's-length bodies. This is because participation has largely been voluntary. Of the five Centres we examined, three had not attracted the customers they had expected and two had potential spare capacity of 50 per cent.

The future

12 There are positive signs with the Cabinet Office taking more ownership and giving more attention to the efficiencies that can be gained from sharing back-office functions. The Cabinet Office has published a new strategic vision for shared services. This includes a vision of two independent centres with a number of stand-alone centres and a proposal that all are performance managed by a team within the Cabinet Office. The independent centres will be created from the foundations of the existing DfT and DWP facilities. The Cabinet Office team will oversee the transition of the services currently in departments to the independent centres by the end of June 2014. When this is complete, the Cabinet Office will govern the delivery and report benefits realisation of all shared services across central government.

13 The new strategy is ambitious and contains significant risk. The Cabinet Office has started to take on the leadership responsibilities required for establishing shared service provision. The strategic business case which they have developed, if fully implemented as set out, will address many of the issues which we have raised in this report. The strategy is particularly ambitious, especially in the speed of implementation. It contains significant risks which the Cabinet Office has identified.

Conclusion on value for money

14 The shared services initiative has not so far delivered value for money for the taxpayer. Since the Gershon Review recommended the creation of shared services in 2004, the Government has spent £1.4 billion against a planned £0.9 billion on the five Centres we examined. By creating complex services that are overly tailored to individual departments, government has increased costs and reduced flexibility. In addition, it has failed to develop the necessary benchmarks against which it could measure performance.

15 The Cabinet Office has issued an ambitious new shared services strategy to address these issues.

Recommendations

Recommendations for the Cabinet Office

- a** **The Cabinet Office strategy and business case, if managed, resourced and supported appropriately, will address most of the issues in this report.** The Cabinet Office should consider all of its options and assess whether a lower risk solution would provide better value for money, for example by extending the overall timescale of the project or by establishing additional procurement frameworks for back-office services. It should also ensure that its projections from the business analysis adequately reflect the identified risks of the project and have sufficient allowance for optimism bias.
- b** **The Cabinet Office did not have the powers to mandate shared services.** Without a mandate, we do not think that coherent shared services are likely to be achieved. If there is an overall value-for-money case for the taxpayer, the Cabinet Office should seek appropriate authority to mandate the shared services strategy and its implementation. The Cabinet Office should also make sure that there is clear accountability for implementing its new shared services strategy. This should be managed as part of a wider change programme, ensuring sufficient capability exists in the shared service centre and customer. The Cabinet Office should also ensure that the strategy aligns with other reforms across government such as Civil Service HR and the Clear Line of Sight project.
- c** **The planned benefits from the implementation of shared services have not been realised.** Costs and benefits will need to be measured in both shared service centres and customers and the Cabinet Office should use these to establish a clear baseline and incentivise continuous improvement. Performance information should be used to inform current and future strategy.
- d** **There have been barriers to departments joining shared services.** The Cabinet Office has recognised these barriers and should issue guidance to departments on overcoming them.
- e** **The Cabinet Office could have done more to challenge the performance of customers and providers by establishing reliable cost and performance benchmarks.** The new strategy helpfully includes proposals to develop reliable cost and performance benchmarks. The Cabinet Office should publish its measurement system and establish at an early stage benchmarks that can be used to assess the success of its strategy. These benchmarks should cover the performance of both customers and providers.

Recommendations for customers

- f** **Most shared service customers do not have adequate information on costs, performance and benefits to make informed decisions.** Customers, or those commissioning shared services, must set out clear accountability for managing all costs and benefits associated with shared services (not just those incurred in the shared service centre). They should make sure that these are recorded, independently scrutinised and then benchmarked with appropriate external comparators to assess performance.
- g** **Most customers of shared service centres have not acted as intelligent customers.** Customers should implement a professional management function to ensure shared services comply with service level agreements and reduce costs, by for example, standardising services, managing demand and improving service delivery.

Recommendations for shared service centres

- h** **There are other options to reduce costs in addition to increasing the number of customers or implementing a new ERP system.** Centres need to investigate ways of becoming more efficient in delivering their service to customers. They should explore all opportunities to reduce costs including accommodation, staffing, process and technology.
- i** **Shared service centres and their customers have not worked together to increase benefits.** Centres need to operate as independent business units but must also collaborate with their customers to achieve benefits and to monitor performance.
- j** **The benefits of shared service centres are not clearly demonstrated.** Bodies commissioning shared services and the centres themselves should ensure that the case for shared services is clearly evidenced. They need to clearly define the benefits and costs from shared services and separate these from the benefits and costs associated with implementing ERP systems.

Part One

Introduction

1.1 In this Part we set out how central government has introduced shared services since 2004. We highlight the challenges faced by government in delivering value for money, explain why we have undertaken this review and detail our approach.

Evolution of central government shared services

1.2 Every public sector body relies on a range of corporate functions, including human resources (HR), finance, procurement and payroll to manage its operations effectively. They deliver the core business processes that all organisations need for strong financial control. Collectively these are known as the 'back-office'. Cost savings can be made by sharing these corporate functions and private sector organisations have typically saved in excess of 20 per cent, with a return on investment of less than five years.¹

1.3 **Figure 1** shows the structure of a typical shared service centre set up to deliver these back-office functions. Shared service centres provide standardised services to multiple customers. The shared service centres include a customer management function and a call centre. Shared services in central government are based around two Enterprise Resource Planning (ERP) systems, Oracle or SAP. The management and flow of information is usually automated through the entire process, for example, for authorising expense claims.

1.4 In 2004, Sir Peter Gershon recommended greater use of shared services across government.² He identified four benefits:

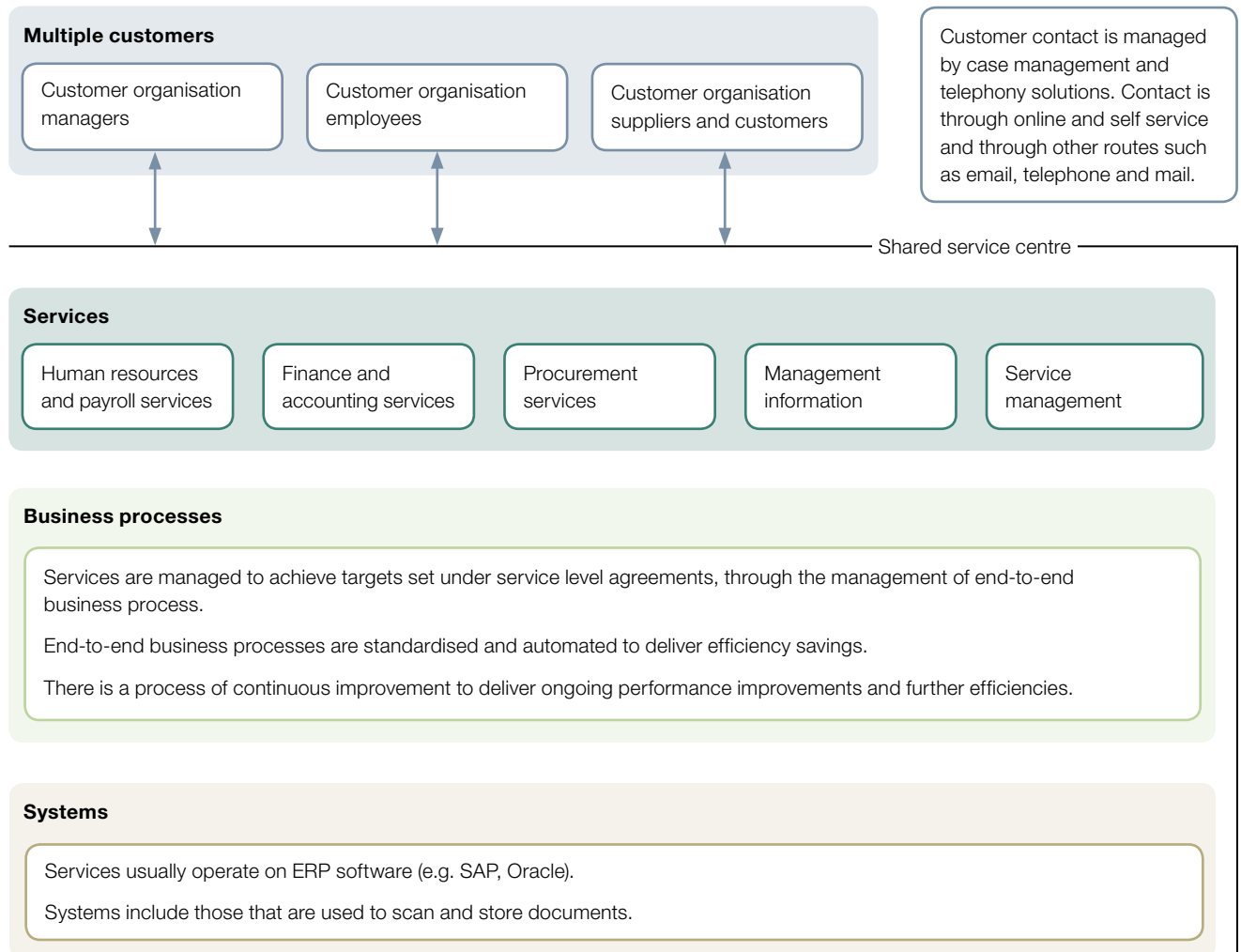
- sharing assets, such as ICT, buildings, resources and management, to reduce costs;
- greater operational efficiency through generating better management information and comparative benchmarking;
- professionalising corporate service functions; and
- freeing departments to focus on public service delivery, rather than basic corporate functions.

¹ Hackett Group, *Finance Shared Services Performance Study*, 2007.

² Sir Peter Gershon CBE, *Releasing resources to the front line, Independent Review of Public Sector Efficiency*, July 2004.

Figure 1

Architecture of a shared service centre



Source: National Audit Office

1.5 Appendix Three charts how shared services have developed over seven years. Following Gershon's recommendations, the Ministry of Justice (MOJ) Shared Service Centre was the first to commence live service in April 2006. In March 2011, the most recent customer joined the Research Councils UK Shared Service Centre. Today, over 80 per cent of central government employees are served by a shared service centre.

1.6 The Cabinet Office with leadership from the Civil Service Steering Board³ developed a two stage plan for shared services. The first stage was to encourage departments to establish centres for their own 'families' of arm's-length bodies. The second stage was for wider sharing to occur across departments. In 2008 to encourage this, the Cabinet Office piloted the use of the Department for Work and Pensions

³ The Civil Service Steering Board is responsible for the strategic leadership of the civil service.

(DWP) Centre for its own back office services to set an example to others. This was in accordance with its earlier advice in 2007 that smaller departments should join either the DWP or the HM Revenue & Customs (HMRC) Centres, rather than invest in their own systems. The advice reflected these Centres' perceived progress coupled with expected economies of scale and capability to manage increasing volume of customers and transactions. However, no department became a customer of HMRC and only the Department for Education (DfE) joined DWP. HMRC then continued to focus on the improvement of its internal operations rather than providing shared services. The planned second stage was not achieved.

Why we are examining shared services

1.7 The Cabinet Office now has overall responsibility for government strategy on back-office shared services and, as Appendix Three shows, has published its commitment to shared services in 2005 and 2010. Appendix Three also shows that we have regularly commented that expected benefits have not been realised and individual shared services have not been value for money.⁴ In addition, the Committee of Public Accounts set out recommendations for the Cabinet Office in 2008 (**Figure 2**).⁵ None of the recommendations have been fully implemented. All are relevant to shared services today.

1.8 Our February 2011 report on *Information and Communication Technology in government*⁶ summarised the following challenges:

- Government bodies have had limited incentives to share back-office services. Those supplying the service need to finance the up front investment, and potential customers perceive a loss of flexibility and control of the cost and delivery of their core business functions.
- The Government has given insufficient strategic direction and has not fully explored the ideal design for shared services to achieve economies of scale.

1.9 In July 2011, the Cabinet Office published its *Strategic Vision for Shared Services*. This contains plans for two independent cross-government centres and a limited and (reducing) number of single department-specific centres. At the same time, a number of reform initiatives offer opportunities for shared services across central government in:

- human resources, where government is seeking efficiencies by centralising the provision of standardised services (Civil Service HR);
- financial accounting Clear Line of Sight project, which was set up to simplify government financial reporting; and
- procurement initiatives, to provide centralised procurement for central government departments and savings for the UK public sector as a whole.

⁴ Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010–12, HC 1459, National Audit Office, October 2011 and Comptroller and Auditor General, *Shared services in the Department for Transport*, Session 2007–08, HC 481, National Audit Office, May 2008.

⁵ HC Committee of Public Accounts, *Improving corporate functions using shared services*, Session 2007–08, HC 190, May 2008.

⁶ Comptroller and Auditor General, *Information and Communication Technology in government: Landscape Review* Session 2010–11, HC 757, National Audit Office, February 2011.

Figure 2

Committee of Public Accounts conclusions and recommendations, 2008

Government lacks reliable information on the cost of corporate services. Departmental management boards should receive clear information on the cost and performance of their corporate services (finance, procurement, human resources and facilities management) so that they can consider the contribution these services make to key business objectives and whether they are providing value for money.

Inconsistency in the way corporate services are recorded prevents regular benchmarking to help secure improvements in value for money. The Cabinet Office should develop standard definitions and reporting timescales for corporate services. Departmental internal audit functions should provide assurance that these are followed. The Cabinet Office should undertake regular benchmarking exercises to identify further efficiencies.

It is not clear how the £1.4 billion potential annual savings from shared services will be achieved. The Cabinet Office needs clear information on the relative performance of corporate services. Departments should publish an overview of their corporate services performance in their annual report, including an analysis of costs by corporate function, how shared services are being used to improve value for money, and performance against centrally agreed benchmarks.

The Cabinet Office does not have sufficient grip on the cost of its activities to promote shared services. To improve its performance and operational efficiency, the Cabinet Office shared services team should record and analyse all its expenditure and assess the cost-effectiveness of different interventions.

Further savings could be achieved through economies of scale if more small departments bought their corporate services from larger departments. Smaller departments should evaluate the benefits of buying corporate services from one of the two designated sellers – HMRC and DWP. These two departments must develop the capacity to provide shared services and market the benefits to smaller public sector bodies.

Whether or not they move to using shared services, public bodies will miss potential efficiency savings if they do not streamline their administrative processes. Even when shared services are not adopted, public bodies should be able to show that they have mapped all the key processes in their corporate functions and used the results as a basis for driving out waste.

NOTES

- 1 Specific recommendations for NHS Shared Business Services and HM Prison Service are not included.
- 2 The £1.4 billion potential annual savings are from the wider public sector not central government alone.

Source: HC Committee of Public Accounts, Improving corporate functions using shared services, 2007-08, HC 190, May 2008

Our approach

1.10 Our report reviews whether sharing back-office functions across central government has delivered value for money. We also examine the Cabinet Office's new strategic vision published in 2011. This report is presented as follows:

- Commissioning shared services (Part Two).
- Financial and operational performance of the Centres (Part Three).
- The future direction of shared services (Part Four).

1.11 After discussions with the Cabinet Office we focused on five Centres, which together cover 50 per cent of central government employees. Appendix Four shows the locations of the five Centres we reviewed:

- The Department for Environment, Food and Rural Affairs (Defra) Centre provides services to 16,000 customer users (full-time equivalents)⁷ from the Department and 13 of its agencies. It also provides HR services for the Department of Energy and Climate Change.
- The Department for Transport (DfT) Centre provides services for 14,000 customer users from the Department and four of its agencies.
- The DWP Centre provides services for 130,000 customer users from the Department, the Cabinet Office and the Department for Education.
- The MOJ Centre manages two separate systems – serving 47,000 customer users for its National Offender Management Service and 27,000 for the Home Office.
- Research Councils UK Centre provides services to 11,000 customer users from seven Research Councils.

1.12 Appendix Four also provides information on three other major Centres which we did not examine because:

- The Ministry of Defence (MOD) had individual functional shared service centres and was restructuring these into a new single organisation called Defence Business Services, which was established in July 2011.
- The Department of Health NHS Shared Business Services Ltd does not provide services to central government.
- HMRC is focused on the improvement of its internal operations.

1.13 Our methodology is at Appendix One. This report is part of a series of NAO publications on ICT in government (Appendix Five).

⁷ All customer user numbers are given as full-time equivalent unless otherwise stated.

Part Two

Commissioning shared services

2.1 In this Part we focus on customer and commissioning activities and examine the roles played by the Cabinet Office and departments. We also consider the importance of being an intelligent customer and how well customers in our sample have performed. The benefits that shared service centres (Centres) and their customers have achieved are dealt with in Part Three of the report. We have examined how the Centres were created in detail in other NAO reports.⁸

2.2 The commissioner role is important when introducing any new service to government. For services to be successful there has to be clear management and ownership to ensure all stakeholders are realising benefits. As part of the business case for shared services, departments need to direct the use of shared services or have a champion to ensure that demand for the service is met. The implementation should be supported by appropriate change management, sharing of lessons learnt and best practice.

Championing shared services

2.3 Early efforts to champion shared services did not deliver expected outcomes (see paragraph 1.6). The Civil Service Steering Board supported by the Cabinet Office, has recommended that departments should share back-office services to reduce costs and improve the quality of these functions. Departments have also experienced difficulty in implementing shared services. Except for the Department for Work and Pensions (DWP), even those departments that have invested in shared service centres have not made it obligatory for their business units and arm's-length bodies to use them.

2.4 Our analysis shows that demand for services has not met the level envisaged in the original business cases in three of the five Centres. This has led to commissioners taking action to ensure the Centres are used. For example:

- Only four agencies and the central department have become customers of the Department for Transport (DfT) Centre since it started operations in 2007. Two of the migrated agencies do not use the full suite of shared services, including the Highways Agency which has maintained its existing Oracle finance system while using the DfT Centre for its HR and payroll services. Because not all the agencies that DfT envisaged in its original business plan use the Centre, it has subsidised the Centre. In 2010-11, the subsidy was £7.2 million. DfT intends to migrate three more agencies by 2013-14 as part of privatising its Centre.

⁸ Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010-12, HC 1459, National Audit Office, October 2011 and Comptroller and Auditor General, *Shared services in the Department for Transport*, Session 2007-08, HC 481, National Audit Office, May 2008.

- Similarly, the Department for Environment, Food and Rural Affairs (Defra) has subsidised shared services for Natural England and the Joint Nature Conservation Committee.

2.5 It is good practice to appoint a senior responsible owner to act as a champion for the introduction of any new service. This ensures there is clear responsibility and accountability for delivery. For example, the Ministry of Justice (MOJ) Centre had an executive who championed the shared service programme consistently within the MOJ through its implementation into operation, ensuring customers joined as planned with standard services.

Barriers to joining shared service centres

2.6 The departments and the Cabinet Office have been unable to remove the barriers for introducing shared services. We identified the following barriers:

- **Governance and culture** – Without an independent centre, smaller departments and agencies have been reluctant to share services with a large department as they feel they will not get the same attention as the primary parent customer.
- **Security** – The Maritime and Coastguard Agency wanted to use the DfT Centre. At the time it was not accredited to use the Government Secure Intranet system, so was unable to join.
- **Cost recovery** – The Centres are expected to recover costs but are not allowed to generate a ‘profit’ or ‘loss’ in year. This has caused problems for the Centres in the treatment of any over- or under-recovery of costs and how to share the costs of investment in services or systems when taking on a new customer.
- **Procurement** – Procuring services outside central government requires substantial effort. We found that if an entity outside central government (for example a local authority) wished to take a service from a Centre such as DWP, then a full formal procurement process, including issuing a tender in the Official Journal of the European Union would be required.
- **Value Added Tax (VAT)** – Some customers (for example, non-departmental public bodies) are unable to recover VAT on services received, which significantly undermines the business case for shared services as the services provided would be subject to VAT. In November 2011, the Government provided an exemption for educational bodies and third sector organisations.

2.7 We were told these barriers inhibit customers from developing a business case to join a shared service, and that the Cabinet Office or HM Treasury could play a role in modifying these rules and constraints.

Intelligent customers

2.8 To be an intelligent customer requires an in-house capability with enough business and technical understanding to procure and manage services to drive value for money. When we interviewed senior customer users of the Centres, we found all recognised its importance. The Home Office and the Department for Education operate the most advanced intelligent customer function with regular communication, partnership working and a focus on cost management. In the case of the Home Office a process of forecasting demand is well established. We found examples, however, where the Centres are being used in inefficient ways:

- **Inefficient processes** – A major principle of shared services is to minimise customisation, but few customer departments have standardised or simplified their business processes before switching to a Centre.
- **Duplication of effort** – One customer department had retained services that should have been transferred to its Centre.
- **Lack of planning** – Most customers were unable to forecast and manage their service requirements, leading to unnecessary and sudden peaks in their Centre's workload.

2.9 There is also no forum for customers to share their experiences. We found little evidence of customers comparing performance between Centres. Departments have placed more effort into building the Centres, rather than professionalising and spreading best practice among their customers.

2.10 The Cabinet Office does not undertake any reliable cost or service benchmarking. Between 2005 and 2008, the Cabinet Office did attempt to spread best practice, producing a shared services toolkit and creating a knowledge base on its website. It also facilitated a special interest group. Since 2010, however, shared service centre directors have met only occasionally and the toolkit and knowledge base have been removed from the Cabinet Office website and archived.

Part Three

Financial and operational performance

3.1 In this Part we assess the performance of the core back-office functions of HR, finance, procurement and payroll of the five main central government shared service centres (Centres). In the private sector savings can be most easily gained from sharing these corporate functions and they are normally the first set of services to be shared. Two aspects of value for money are assessed:

- the cost and financial benefits of the implementation and service – this is included in our financial analysis; and
- the quality of the services delivered – this is included in our operational performance analysis.

3.2 Our analysis shows that from 2003-04 to 2010-11, £1.9 billion has been spent in building and operating the five Centres. Of this, £1.4 billion was to deliver core back-office functions. The remaining £0.5 billion was spent by some of the Centres to provide other services. For example, Research Councils UK administers research grants and the Department for Work and Pensions (DWP) provides compensation recovery. The Compensation Recovery Unit recovers costs from bodies such as insurance companies for benefits paid out to the general public for payments in respect of accidents, injury or disease. The costs to set up and operate these additional activities are excluded from our financial analysis.

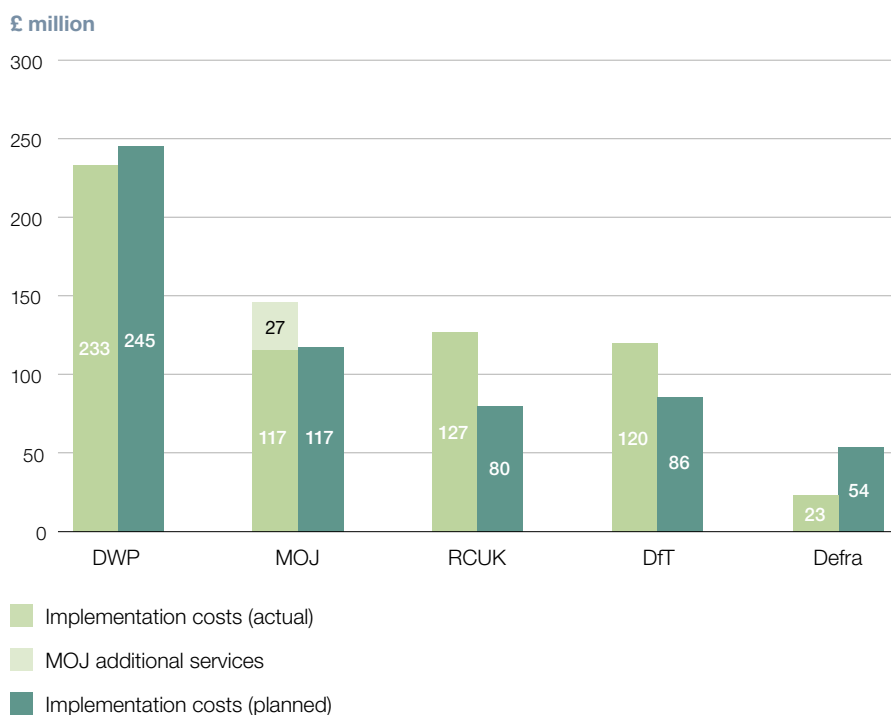
3.3 For the Research Councils UK, we used data that had been already gathered for our published report on the Centre⁹ to evaluate its financial performance and comment on relevant aspects of operational performance. For the other four Centres, we assessed their financial and operational performance using data gathered during our fieldwork.

⁹ Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010–12, HC 1459, National Audit Office, October 2011.

Financial analysis

3.4 £1.4 billion has been spent on delivering core back-office functions against a budget of £0.9 billion. Within this figure we determined that the set-up cost for the five Centres has been £648 million, against an original budget of £581 million (**Figure 3**). Our calculations include the cost of implementing the new systems and services such as ICT infrastructure, software licences, software and service development, project management, training, staff severance costs and the costs of adding new customers to the service. All figures in our analysis are in 2010-11 values. Our analysis used total cost information and user numbers as detailed transactional information was either insufficient or lacking consistency to allow comparison. The data has been adjusted so that general conclusions can be drawn.¹⁰

Figure 3
Shared service centres' implementation costs



NOTES

- The costs refer to the setting up of core back-office functions.
- DWP used existing systems rather than building a new system for its Centre. The costs of these systems are included.
- MOJ costs exclude services provided to the Home Office. MOJ is consolidating services to the full department and upgrading its software. To date it has spent an additional £14.4 million.
- Figures may not add up due to rounding.
- DWP = Department for Work and Pensions, MOJ = Ministry of Justice, RCUK = Research Councils (UK), DfT = Department for Transport and Defra = Department for Environment, Food and Rural Affairs.

Source: National Audit Office review of business cases

¹⁰ Details of these adjustments are in the full methodology published on our website at www.nao.org.uk/shared-services-2012

3.5 Our analysis of the implementations show that two of the Centres overspent their budget:

- The Centres for Research Councils UK and the Department for Transport (DfT) cost over £100 million each to build, in both cases an overspend of at least a third. We have previously reported that by end of March 2011, Research Councils UK had overspent its budget by £51 million.¹¹ The reasons for this included complex governance arrangements, slow decision-making and the lack of a clear vision for the project from its start.
- Ministry of Justice (MOJ) spent its £117 million original budget to complete its set-up. It has since spent £27 million on additional capability with extra budget. This was requested by customers, with the objective of delivering additional benefits to users.
- The Department for Environment, Food and Rural Affairs (Defra) Centre has cost the least, £23 million against an original budget of £54 million. Implementation was halted early and consequently it has fewer customers and services than originally planned.
- The DWP Centre has the largest customer base and the highest implementation cost at £233 million, although it actually underspent against its budget of £245 million.

3.6 We found that three of the Centres avoided severance costs as staff left or were reallocated to other roles within their departments. Defra's total saving against budget was primarily due to it not incurring the expected severance costs. DfT incurred severance costs of £4.5 million against an expected £28.3 million and Research Councils UK incurred severance costs of £1.5 million against an expected £8.5 million.

3.7 We examined the running costs of shared services. This includes the cost to run the shared service core back-office functions and includes costs for the shared service staff, ICT and running the office. To ensure the numbers were comparable we adjusted the costs to remove specialist services provided by the Centres. This included services such as the grants administration provided by Research Councils UK.

3.8 Our analysis (**Figure 4**) shows that running costs also varied between the shared service centres. In 2010-11, Defra had the lowest running cost at £11.1 million, while DWP had the highest running cost at £63.2 million.

¹¹ Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010-12, HC 1459, National Audit Office, October 2011. These figures are in 2007-08 values and include all services delivered.

Figure 4
Shared service centres' annual running costs

Shared Service Centre	2008-09 (£m)	2009-10 (£m)	2010-11 (£m)
Department for Environment, Food and Rural Affairs	12.2	13.2	11.1
Research Councils UK	1.1	3.5	16.8
Department for Transport	23.6	19.2	16.9
Ministry of Justice	45.9	43.1	38.6
Department for Work and Pensions	68.7	87.3	63.2
Total	152	166	147
Total customer users	190,000	220,000	210,000

NOTES

- 1 Costs refer to core back-office functions.
- 2 Ministry of Justice Centre costs exclude services provided to the Home Office.
- 3 Department for Environment, Food and Rural Affairs ICT charges prior to 2010-11 were estimated.
- 4 Figures may not add up due to rounding.

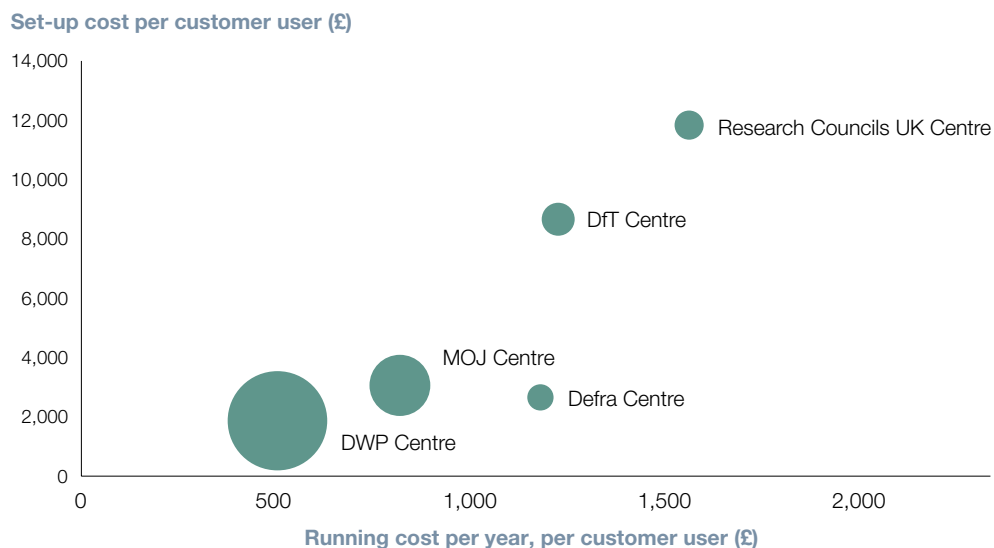
Source: National Audit Office review of management information

3.9 Due to the relatively high fixed costs we would expect economies of scale in setting-up and operating shared services. Fixed costs include management, ICT and premises costs. Our analysis in **Figure 5** overleaf indicates that Centres may achieve efficiencies when setting-up for a larger population of users. In the case of DWP and MOJ the large number of users results in a lower cost per user. However, there are other factors involved, for example Defra had a low set-up cost of £2,700 per customer user and a small user base. It also had a low operating cost per customer user but its system and services are the most limited.

3.10 Centres have reduced their running costs per customer user in recent years which indicates that they may have achieved operational efficiencies (**Figure 6** on page 23). Research Councils UK Centre is currently showing a comparable cost to that of Defra and DfT when they were at an equivalent stage in their programme, when they started full operating service.

Figure 5

Relationship between the set-up costs and running costs per customer user



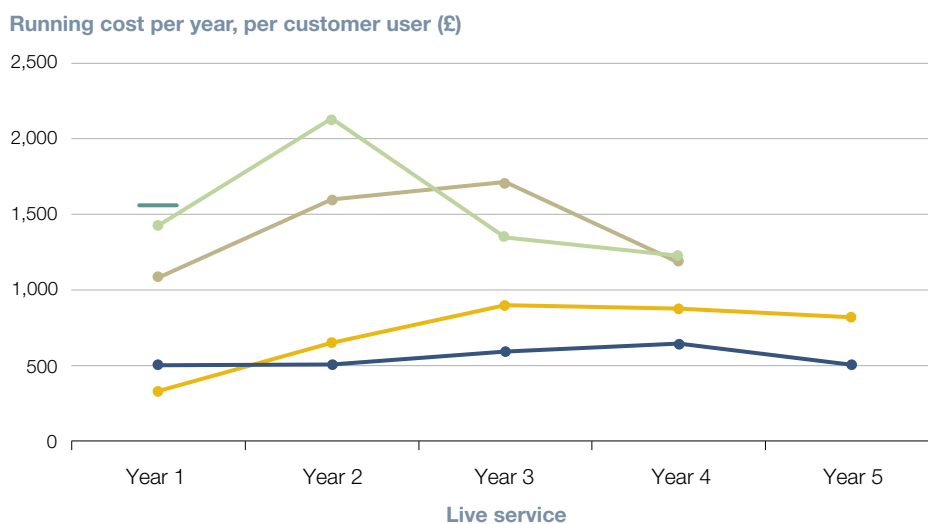
Shared service centre	Number of core customer users (FTE)	Set-up cost per customer user (FTE) (£)	Running cost per customer user (FTE) (£)
Research Councils UK	11,000	12,000	1,600
DfT	14,000	8,700	1,200
Defra	8,800	2,700	1,200
MOJ	47,000	3,100	820
DWP	130,000	1,900	500
The five Centres	210,000	3,100	710

NOTES

- 1 Running costs are for 2010-11.
- 2 Costs refer to core back-office functions.
- 3 Running costs for Defra have been reduced to reflect 8,800 users who use core services.
- 4 MOJ Centre figures exclude services provided to the Home Office and MOJ Courts and Tribunals Service.
- 5 Bubble area represents number of customer users served.
- 6 Figures may not add up due to rounding.
- 7 DWP = Department for Work and Pensions, MOJ = Ministry of Justice, DfT = Department for Transport and Defra = Department for Environment, Food and Rural Affairs.

Source: National Audit Office review of management information

Figure 6
Running cost per customer user



● Research Councils UK Centre	1,600				
● DfT Centre	1,400	2,100	1,300	1,200	
● Defra Centre	1,100	1,600	1,700	1,200	
● DWP Centre	500	500	590	640	500
● MOJ Centre	330	650	900	880	820

NOTES

- 1 Year 1 of a live service is when the bulk of customer users receive services from a Centre. For DWP and MOJ Centres this was 2006-07, for Defra and DfT Centres this was 2007-08 and for the Research Councils UK Centre this was 2010-11.
- 2 Costs refer to core back-office functions.
- 3 MOJ Centre figures exclude services provided to the Home Office and MOJ Courts and Tribunals Service.
- 4 DWP = Department for Work and Pensions, MOJ = Ministry of Justice, DfT = Department for Transport and Defra = Department for Environment, Food and Rural Affairs.

Source: National Audit Office review of management information

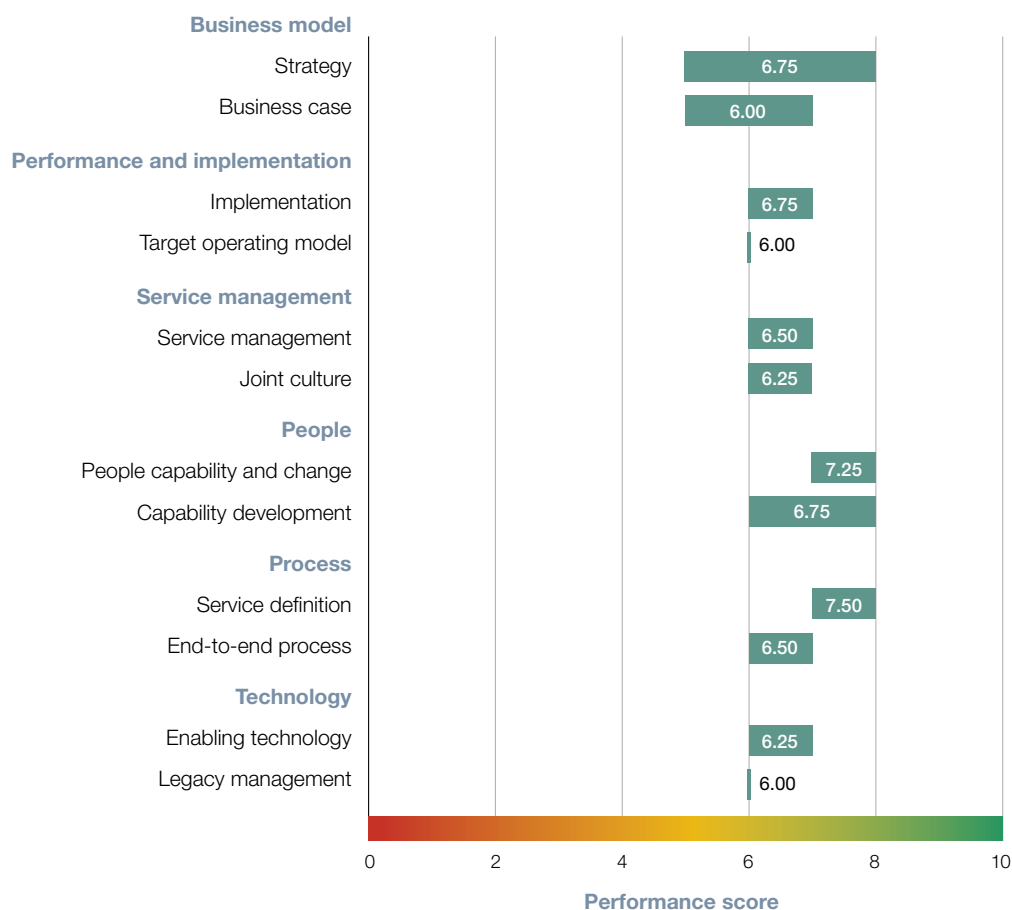
Operational analysis

3.11 There has been no comparative analysis, business intelligence or metrics available from the Cabinet Office, from individual Centres or their customers to enable us to compare the operational performance of each Centre. We therefore used our own framework, described in Appendix Two, to determine how well each Centre is currently operating.

3.12 The framework was developed from our previous work on shared services, a review of the public and private sectors and input from industry specialists. From this we identified the performance factors required to achieve value for money when developing and operating shared services. Within each factor, we identified the key areas a Centre would need to address to ensure that it was operating effectively. We also considered the importance of the customer role to successfully operate a Centre.

3.13 The detailed performance assessment of the four Centres we visited is at Appendix Six. We assessed and scored each of the Centres against a number of factors (**Figure 7**). We gave each sub-factor a score from 1 to 10. In our view, a mature and high performing shared service would score 10. We found that operational performance was generally ‘adequate’ to ‘good’. The following paragraphs describe our overall findings for each of the factors.

Figure 7
Range and mean operational performance scores for the four Centres we assessed



NOTE
1 Figures in the bars are the mean scores.

Source: National Audit Office

Business model

3.14 While current business models were generally adequate we found that the original business models adopted by the Centres were flawed as they were built for a demand that was not guaranteed. Consequently there are substantial risks to the viability of several of the Centres we examined. Three (DfT, Defra and Research Councils UK) told us that they need more customers to deliver value for money and the remaining two (MOJ and DWP) also see growth of customer numbers as key to their future plans. In some cases the original business plan to set up a Centre changed. For example, DfT's original plan was to provide services for the Department and all its agencies. Only four agencies have become customers. Defra's original plan was halted. The Centres have worked with these changes to provide a stable service to customers and to develop plans for the future.

3.15 The business model based on growth has led two of the Centres, Defra and Research Councils UK, to find additional customers although they provide extremely low numbers of transactions. For example, four of Defra's customers are agencies with fewer than 150 employees each.

3.16 Despite the substantial investment of £1.4 billion, the tracking of overall net benefit has been poor. We found confusion between the Centres and their customers as to who should be tracking the benefits. The expected benefit of the five Centres to date was £159 million but we have not been able to determine any overall net benefit (**Figure 8** overleaf).

3.17 Although shared service centres have reduced their running costs over time (see **Figure 4**), only three departments have tracked net benefits:

- MOJ was delivering net savings of £33 million per year before it stopped tracking benefits at break-even (ahead of plan). These benefits may still exist, but as they are not captured, we did not include them in our analysis.
- DfT has tracked benefits to date showing a net cost totalling £129 million. The net savings for this Centre in 2010-11 were £1.3 million. At this rate it would seem difficult to break-even.
- Research Councils UK is tracking benefits but our previous study found that these benefits were not being monitored effectively. It is showing a net cost to date of £126 million. This does not take account of the savings from its strategic procurement service which is reported to have saved £35 million to the end of 2010-11.¹² These savings are excluded from our comparative analysis in **Figure 8** because the other Centres do not have an equivalent service. If these savings are included, Research Councils UK is likely to reach break-even point in 2014.

¹² Comptroller and Auditor General, *Shared services in the Research Councils*, Session 2010-12, HC 1459, National Audit Office, October 2011.

Figure 8
Benefits achieved from shared service centres

	DfT	Research Councils UK	Defra	DWP	MOJ	The five Centres
Planned net benefit/(net cost) to date (£m)	(22)	(71)	61	80	111	159
Actual net benefit/(net cost) to date (£m)	(129)	(126)	Benefits not tracked	Benefits not tracked	Benefits tracked to break-even only	
Planned break-even (years)	8	More than 10 years	4	8	5	
Projected break-even (years)	Never	Not known	Not known	Not known	5	

NOTES

- 1 The benefits and break-even do not include the benefits from non-core back-office functions.
- 2 If strategic procurement savings are included, the Research Councils UK Centre is likely to reach break-even in 2014.
- 3 DWP = Department for Work and Pensions, MOJ = Ministry of Justice, DfT = Department for Transport and Defra = Department for Environment, Food and Rural Affairs.

Source: National Audit Office review of business cases

3.18 It is our judgement that many of the benefits generated could have been achieved by other means or with lower investment. For example, some of the Research Councils UK procurement savings might have been delivered by their existing joint procurement arrangements. Other savings could have been made through improved efficiency measures. For example, DfT has made a number of savings in its corporate services, reducing headcount by more than 40 per cent through management restructuring.

Performance and implementation management

3.19 All five Centres have completed their implementation phase and are now running a live service. Most outstanding issues have been resolved. The Centres have all successfully managed to introduce new customers while maintaining the service for existing customers. Research Councils UK is currently in a stabilisation phase after the introduction of the seventh research council as a customer.

3.20 Our analysis in Figure 8 shows implementation projects have been expensive, with lengthy anticipated and actual break-even periods ranging from four to eight years. Typically, shared service centres in the private sector target and achieve less than five years for break-even.¹³

¹³ Hackett Group, *Finance Shared Services Performance Study 2007*.

3.21 Our evidence shows that neither customers nor the Centres have a shared target operating model in their original business case or founding documentation. However, they all have documentation that provides part of what would be expected in a target operating model. The target operating model is important as it sets out how a Centre is expected to operate and deliver its standard set of services. The lack of a standard government target operating model also means that Centres cannot be compared and benchmarked easily.

3.22 We have found that customers demanded tailored services and governance arrangements allowed such developments to happen. This means reduced scope for efficiencies as the Centres incur the overhead of running multiple processes for various customers. For example:

- MOJ manages two separate Oracle systems, one for its Home Office customer and another for its National Offender Management Service customer.
- DWP use additional manual processes for Cabinet Office employees as they are not all willing to use the system directly themselves.
- DfT recruitment data is reformatted into a separate document for central departmental staff instead of using the system's standard screen.

Service management

3.23 Our analysis shows the Centres provide a professional service management function. In all cases they have recruited staff with prior service management experience, some from the private sector. They have Service Level Agreements (SLAs) with their customers and services are individually well defined. We found that service performance was reviewed regularly by Centres and their customers.

3.24 Although SLA performance is measured there are rarely any financial consequences for poor Centre performance or customer non-compliance with Centre service requests. These SLA arrangements do not help customers to appreciate the cost of non-standard process or non-compliance. Our analysis shows that there are few levers available for the Centres and their customers to encourage efficiencies.

3.25 Figure 9 overleaf shows the number of staff in 2010-11 working in the Centres on core back-office functions was 2,700. This represents an average 87 customer users to every Centre member of staff. The ratio varies from 35 for Research Councils UK Centre to 120 for DWP. The Centres with the highest ratios have a lower running cost per customer user.

Figure 9

Shared service centre staff numbers 2010-11

Shared Service Centre	Centre FTE	Customer FTE	Customer FTE per Centre FTE
Department for Work and Pensions	1,100	130,000	120
Ministry of Justice	850	74,000	88
The five Centres	2,700	230,000	87
Department for Transport	250	14,000	56
Department for Environment, Food and Rural Affairs	210	8,800	41
Research Councils UK	310	11,000	35

NOTES

- 1 Number of Centre staff is the number (FTE) providing core back-office functions at year-end.
- 2 Number of customer users is the number (FTE) receiving core back-office functions at year-end.
- 3 Ministry of Justice figures include Home Office users and the Ministry of Justice Centre staff who provide service to these users.
- 4 Figures may not add up due to rounding.

Source: National Audit Office review of management information

People

3.26 Our analysis shows that each Centre had people with the right skills in delivering back-office services and experience in running shared services. Management and staff we spoke to were motivated to deliver a good service. However, we did not see good practice in understanding future skills. The Centres had no formal plans to address skill gaps or their existing plans lacked detail. Succession planning is not easy to manage. Civil service staff policies can make it hard to earmark specialist staff for promotion because vacant positions have to be open to all staff across government. The civil service recruitment freeze means that three Centres have key vacancies and others are heavily dependent on a small number of key staff. For example, DWP had been running with the key vacancy of Payroll Manager for over six months and DfT has had a vacancy for a Chief Operations Officer for 10 months.

3.27 The four Centres we visited are located where civil service pay remains competitive, but filling some of the more specialist roles, in particular ICT skills, is more problematic. As a result, the Centres are dependent on a small number of staff or contractors. For example, Defra has only one and a half staff (full-time equivalent) with advanced technical Oracle skills supplemented by contractors when required. The DfT has responded to this challenge by recruiting specialist independent contractors. Others rely heavily on their ICT providers such as Oracle for development and support.

Process

3.28 In each of the Centres we found a good understanding of process management. They had all invested in developing definitions for their HR, financial and payroll services. All had good procedures to update process documentation in place for any changes and updates required.

3.29 However, our analysis found that:

- While the Centres were clear about the owner of an individual process within the Centre, there was not always a clear single recognised owner of a process in the customer department from beginning to completion of the process. This meant that there was not a full understanding of how an action in one part of the process can cause a reaction and impact on the process elsewhere.
- There is little standardisation of process definitions of the services provided to individual customers of a Centre so customers are not easily able to compare financial and operational performance. Greater standardisation would reduce costs.
- Although each of the Centres has well documented processes they are often very complex. Private sector shared service centres cut costs and increase efficiency by automating processes. We found the Centres were over reliant on manual processes and software packages such as Excel and Access. For example, in the Defra Centre, the system did not have tools to manage stages in the process electronically, such as authorisations. We found the Centres had not fully developed the management information to interrogate the time and cost of transactions.
- There is no consistency of ownership of the end-to-end process between the Centres. Even within a single Centre there is some inconsistency in ownership between customers. This has caused confusion about responsibilities and will need careful consideration by departments where shared services are to be outsourced or if they are moved outside of their parent departments.

3.30 All the Centres told us they understood the need to make their processes more efficient and to move to simpler and automated processes. They identified the barriers to progress in this area as customers insisting on special requirements and having no power to mandate standard processes to be used by customers. However, the Centres could do more. For example, Centres could price their services so customers can choose lower cost and automatic standard processes without a mandate being necessary.

Technology

3.31 All the Centres we reviewed have chosen to base their technology solution on large Enterprise Resource Planning (ERP) systems. These systems integrate management information across an entire organisation, including HR, finance and accounting and payroll. They include a range of integrated software applications to facilitate the flow of information between all functions within an organisation. Four of the Centres use an Oracle system, and one (DfT) uses SAP. These ERP systems are complex and it is not easy to modify them when needs change, such as when an organisation is restructured or processes are redesigned. We found the Centres are only using a small part of the capability their ERP systems provide. The systems are capable of handling larger volumes of transactions and more services and it is not clear why such expensive solutions were bought. Other smaller and simpler accounting packages were not looked at to see if they may have provided the required functionality.

3.32 All the Centres we reviewed handle the migration of customer historic data well. Migrating legacy systems¹⁴ into the Centres has been discouraged. Decommissioning legacy systems and moving them to the Centre is a technique that the private sector uses to ensure customers join the Centre as agreed.

3.33 We found that ICT security was good, although there was one isolated serious security breach at Defra in 2010. The Centre has improved its ability to detect such events.

¹⁴ This includes the old ERP or accounting software and supporting ICT infrastructure.

Part Four

The future of shared services

4.1 In this Part we assess the future of shared services, the work in progress by the Cabinet Office and the risks of their emerging business case called '*next generation back-office shared services for Government*'. This work is part of a longer-term shift to extend shared services beyond the back-office to the front-office. This includes sharing key management positions and other administrative functions such as procurement and ICT, as part of the wider civil service reform agenda.

The new strategic vision

4.2 In July 2011, the Cabinet Office published its strategic vision for government shared services. This described two independent accredited shared service centres managed by the Cabinet Office. One of these would be the Department for Transport shared service centre, currently being outsourced to the private sector. It would target the smaller and medium-sized government departments as its customers. The other centre would be created using the Department for Work and Pensions as the foundation. The Cabinet Office plans to establish benchmarks, service standards and accreditations for shared services. It will also support departments and their arm's-length bodies to migrate into the two centres by June 2014.

4.3 Under the plans, some departments may make a case to maintain their own back-office corporate services but only if they are large enough. These stand-alone service centres:

- will increasingly be monitored against performance targets;
- can offer services to others if they outperform the two independent shared service centres; and
- can be compelled to become a customer of one of the two independent shared service centres, if there is a value-for-money case.

4.4 One of the urgent drivers for publishing a new strategy in July 2011 was that three shared service centres¹⁵ face an investment of £47 million to upgrade their Oracle ERP systems before November 2013. The current version of Oracle will not be supported by the manufacturer past this date. This means that if their core system fails, there is a high risk that they would not be able to re-instate it quickly. This gave the Cabinet Office an opportunity to see if it could derive better value-for-money options for shared services.

Current business planning

4.5 Since publishing the strategic vision for back-office shared services in July 2011, the Cabinet Office has undertaken a more detailed analysis of the costs, benefits and performance of shared services. The analysis has underpinned a new strategic outline business case. At the time of this report, the Cabinet Office's plans had just been approved and the Cabinet Office has been doing workshops with all departments to explain the proposal and get 'buy-in'.

4.6 This current Cabinet Office analysis is relying on a self-assessment of the shared service centres and surveys of all departments and their arm's-length bodies with over 250 employees. Details of current systems and support arrangements for each organisation were also collected. The data has been limited and the data collection exercise was carried out in a short timescale. However, the subsequent detailed analysis and feedback sessions with departments have established initial performance benchmarks and identified that future savings could be achieved.

4.7 The Cabinet Office data show that the total spend on finance, HR, procurement and payroll is £1.5 billion per annum. The Cabinet Office estimates that its new strategic vision could save between £67 million and £128 million per annum as a minimum. To obtain these savings an investment of between £44 million and £95 million is required. This consists of £50 million of transition costs and between £26 million and £77 million on redeployment, offset by one-off savings of £32 million by avoiding Oracle upgrade costs.

4.8 The estimate of savings does not include specific allowance for optimism bias and based on government experience to date, the estimate of transition cost appears low for such a large and complex programme. The savings from upgrade costs will depend on whether the Government can implement the project quickly to avoid individual departmental upgrades. Other operational savings should be possible but there is little evidence to assess how far the Government can make these savings from shared services.

¹⁵ Department for Work and Pensions (DWP), Ministry of Justice (MOJ) and the Department for Environment, Food and Rural Affairs (Defra)

4.9 The business case is a useful starting point and recognises many of the challenges that have hampered departments implementing shared services in the past. Importantly, it recognises the need for a set of standards and benchmarks to manage shared service performance. By making the centres independent, a more commercial and robust relationship will exist. It will also help address cultural concerns of smaller organisations which have been reluctant to share services with larger departments. The Cabinet Office has also challenged the requirement for departments to use large ERP systems and it acknowledges that smaller, simpler software solutions may be appropriate.

Challenges and risks to be addressed

4.10 The Cabinet Office work to define its strategic outline business case has identified significant risks to the successful transition to shared services:

- **Risk from technology** – The programme depends on achieving the implementation, to avoid having to locally upgrade the Oracle systems, by November 2013. Government will also have to collaborate with Oracle to use licences more flexibly and to work more centrally rather than locally with individual departments.
- **Governance and Accounting Officer accountability** – Governance, including accountabilities need to be clear. The Cabinet Office does not have the authority to mandate shared services. It acknowledges that having no mandate could lead to non-standardised services replicating the past issue of over-customisation.
- **Operational and commercial considerations** – The transition plan could be unrealistic owing to issues that may arise in the planning phase. External barriers (see paragraph 2.6) such as funding and procurement rules may continue to prove challenging for some departments.
- **Cultural** – As part of a major business transformation project, departments will have to change their ways of working. Departments may not accept the benefits of shared services and refuse to join the programme. If they do join, they may be unable to agree to a common process. Standard processes and procedures and an openness to smaller, simpler software solutions will also be required.

4.11 The Cabinet Office assessment of the risks is that they are very significant, high impact and highly likely, even after mitigation. The financial impact of these identified risks are not factored in to their estimate of savings and, in addition, we have identified further risks to the project:

- **Cabinet Office resources** – The project is currently being managed in the Cabinet Office by a team of just three people. The further work involved is considerable, with a total of £2 million provided for this, but the Cabinet Office will need considerable senior skilled staff at short notice to direct and deliver this project successfully.
- **Timeframe and pace of change** – Much is planned in a very short timeframe, including restructuring accountabilities and creating new roles between the centre of government, the new independent shared service centres and departments. Changing culture takes time and will include enabling the new centres to transfer new customers and develop the departments' 'intelligent' customer functions.
- **Critical dependencies** – The Centres need to consider the broader efficiency and reform programme being led by the Cabinet Office such as Civil Service HR and Clear Line of Sight (see paragraph 1.9). The Cabinet Office recognises the importance of these dependencies but we found no evidence of the Centres or their customers actively managing this relationship.
- **Shared service customers** – The further work required to standardise shared services should also address those elements that are retained by customers of shared services. This has yet to be clearly defined.
- **Legacy systems** – In implementing shared services it is important to ensure that legacy systems are not retained, incurring unnecessary cost. The removal of such systems also encourages departments to transfer to a centre. This issue has still to be addressed by the Cabinet Office.

4.12 To ensure that government obtains value for money from its new strategy, the Cabinet Office will need to address all these issues. The Cabinet Office also needs to develop a more detailed business case and it should consider all its options. This should include whether a lower risk solution would provide better value for money, either by extending the overall timescale of the project or by establishing additional procurement frameworks for back-office services. The Cabinet Office must also learn the lessons from the past seven years' experience of government shared services. We will continue to investigate shared services and will update the Committee of Public Accounts on the progress made over the next two years.

Appendix One

Methodology

Method

Interviews, document review and data analysis with senior customers of shared service centres (Centres).

Application of our analytical framework (see Appendix Two) to Centres. For each service, this was based on:

- interviews with a range of senior and operational staff, including key contractors and other external stakeholders;
- document review covering a range of policy, strategy and operational documents; and
- financial and quantitative analysis.

Interviews and document review relating to the Government's new shared services strategy and plans.

Review of private sector literature and research.

Expert panel.

Focus group.

Purpose

To evaluate the role of the intelligent customer and assess the Centres from a customer perspective.

To evaluate the operational and financial performance of the Centres.

To understand the future direction and its likely effects on the existing services.

To set the Government's shared services strategy in context and gather information on best practices and potential benchmarks.

To test our findings and conclusions.

To inform our framework and methodology and understand the critical success factors for shared services.

NOTE

1 A detailed methodology is published on our website at www.nao.org.uk/shared-services-2012.

Source: National Audit Office

Appendix Two

Our analytical framework

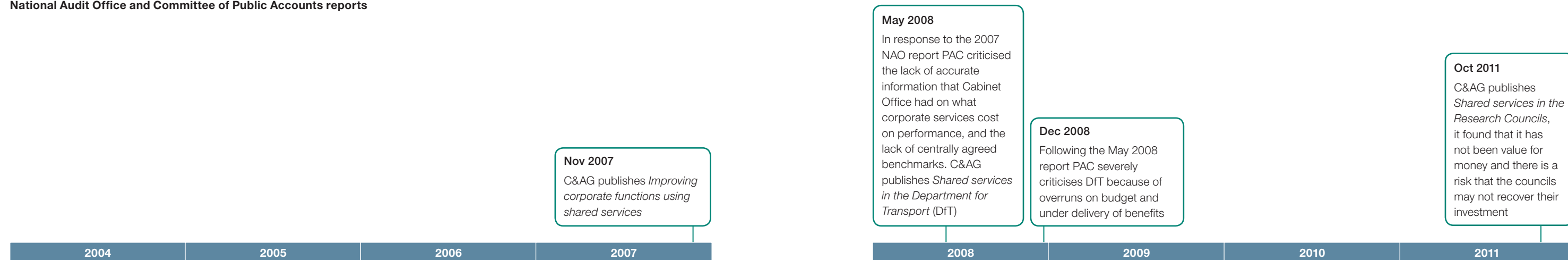
VFM factor	Best Practice outcomes	Poor	Adequate	Good
Economy				
1 Business Model	1.1 A clear and agreed strategy exists with optimal benefits	... the strategy does not exist or its formulation is lacking rigour and coherence, and/or is not supported by the appropriate stakeholders	... the strategy is partially complete but lacks key components, makes inappropriate assumptions or is not fully supported by appropriate stakeholders	... executive leadership drives an ambitious strategy, and secures commitment to its rationale, objectives and success criteria including agreed realisable benefits
	1.2 An agreed business case exists, is funded and is sustainable	... the business case and realisation plan does not exist or does not stand up to best practice scrutiny	... a business case and/or realisation plan exists, but is deficient in one or more key areas	... the business case and realisation plan are supported by stakeholders and are sufficiently funded to cover implementation, operation and service enhancement
Effectiveness				
2 Implementation and Performance Management	2.1 The service has been built on sound foundations (implementation project)	... implementation has been haphazard, ineffective and/or costly, and has not (yet) delivered a fully functioning solution	... implementation has delivered many of the key elements of a best practice solution, but is deficient in one or more key areas	... implementation has followed professional project management standards, including a clear lifecycle and effective change management
	2.2 The service operates according to its target model	... there is no target operating model, and/or the service is inconsistent, non-standard and not cost-effective	... a target operating model partially exists, lacks one or more key elements and/or is not fully integrated with the performance management regime for the service	... a defined documented and agreed target operating model exists (e.g. encompassing service definition, performance metrics, governance, IT architecture) and performance is managed against defined criteria within this target operating model
3 Service Management	3.1 An effective service management regime includes an intelligent customer	... a service regime does not exist, and/or lacks an effective intelligent customer regime	... a service management regime and/or intelligent customer regime exists but is lacking one or more key elements	... customers understand the success criteria for the service, supported by an agreed SLA and engaged with the service via a professional commissioning function that represents users
	3.2 Multiple customers are engaged in service management and evolution	... there are no effective multi-customer forums and/or customers are not effectively involved in service evolution	... a multi-customer regime exists, but cultural factors inhibit its success and/or customers are involved in service evolution but the approach is lacking in one or more elements	The culture supports customers and suppliers working together in discussions on strategy, performance management and service evolution, which input to shared service management decisions about future direction and investment
4 People Framework	4.1 Resources are able to manage operations as well as change	... centre and/or customer staff are not capable of fulfilling their duties and/or have had insufficient training	... centre and customer staff have many of the capabilities necessary for the service, but lack capability in one or more key areas	... centre staff are fully trained in the new business process and fully qualified for their role, including technical, functional and customer service disciplines, and where retained function and end users are effective in their new roles and responsibilities
	4.2 Capability is nurtured and developed	... there is no effective capability planning and management	... capability planning and management exists but is lacking one or more key elements	... recruitment, retention and development activities are aligned with the needs of the centre and its customers, and supporting infrastructure (e.g. premises) is fit for purpose

VFM factor	Best Practice outcomes	Poor	Adequate	Good
Efficiency				
5 Process Framework	5.1 There is an agreed service offering	... there is no documented service offering, and/or the definition is not agreed between the supplier and its customers	... the service offering is documented but lacks one or more key elements, or is not fully agreed	... the documented service offering is owned by the service managers, supported by process and design documentation, and reflects the agreed SLA
	5.2 There is clear end-to-end process definition, control and ownership	... there are no clear process definitions and/or controls and ownership are unclear	... processes are defined but lack clarity in one or more key areas	... its services are designed within wider end-to-end business processes and control frameworks that are owned by customers
6 Technology Framework	6.1 The service is supported by the right enabling technology	... the service is inefficient and/or is not enabled by its supporting technology	... technology enablement is demonstrable but is lacking in one or more key areas	... all enabling technology (applications, infrastructure, security) are integral to the design of the multi-customer service and deliver cost-effective solutions. Technology will also be optimised to meet the challenges of operational delivery and business change
	6.2 Arrangements are in place to handle legacy systems and data	... legacy arrangements are not known or not addressed in an efficient way	... legacy arrangements are addressed, however there are one or more areas of inefficiency outstanding	... the new design integrates efficiently with any related legacy arrangements, including transition arrangements (e.g. reconciliation and termination) and ongoing access to, and storage of, management reporting and data interfaces

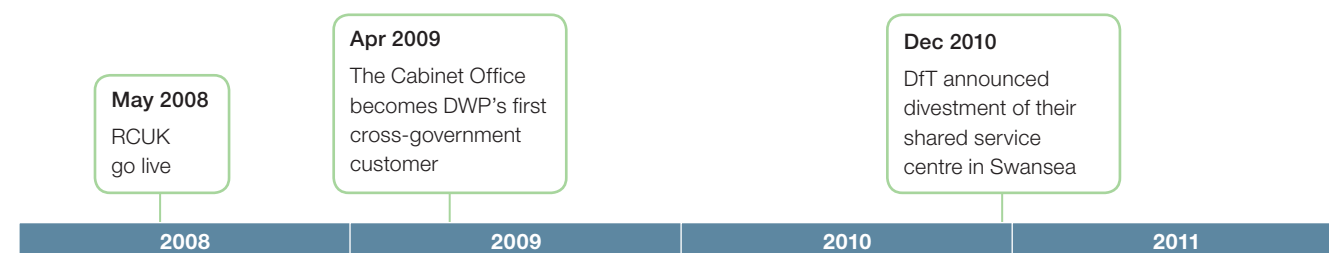
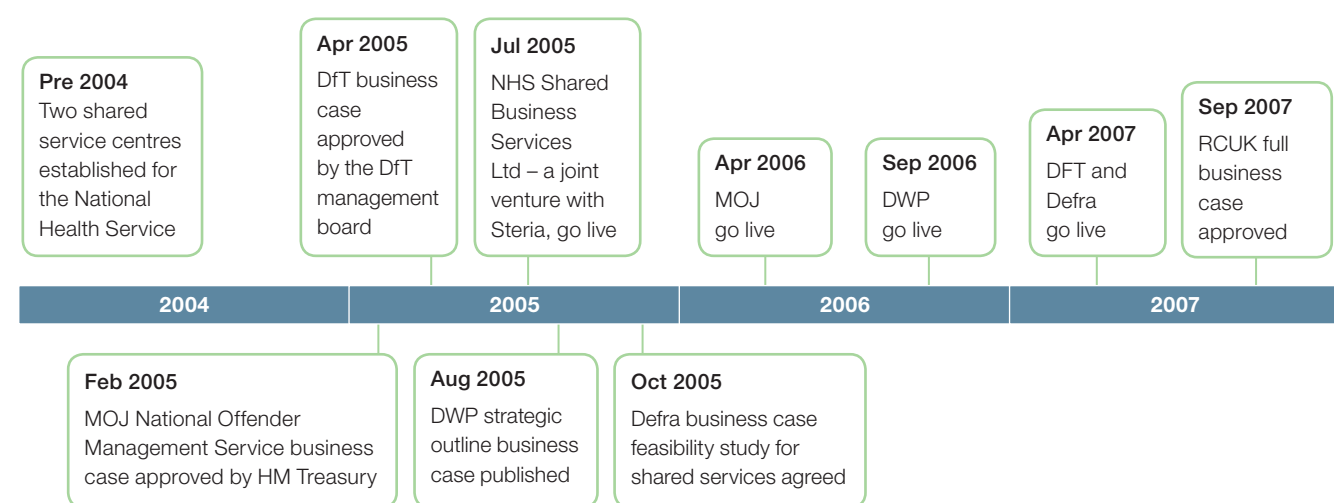
Appendix Three

Key events in developing central government
shared services

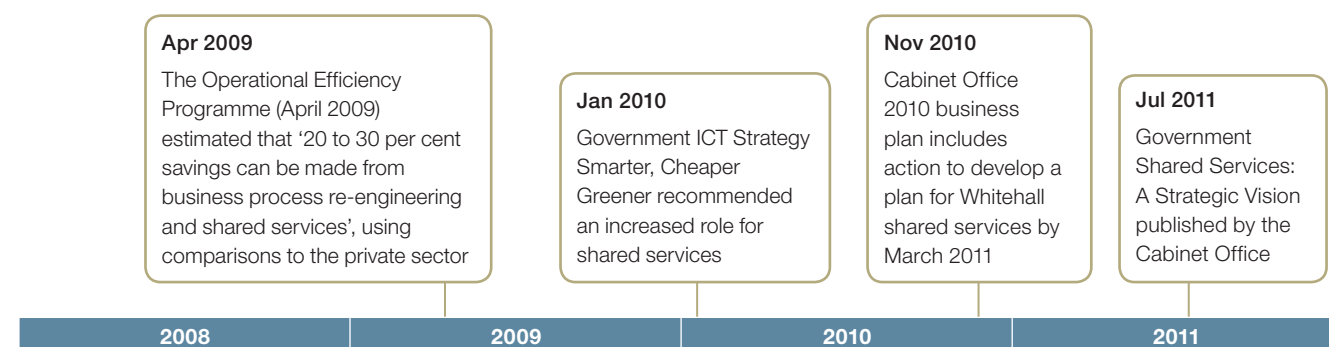
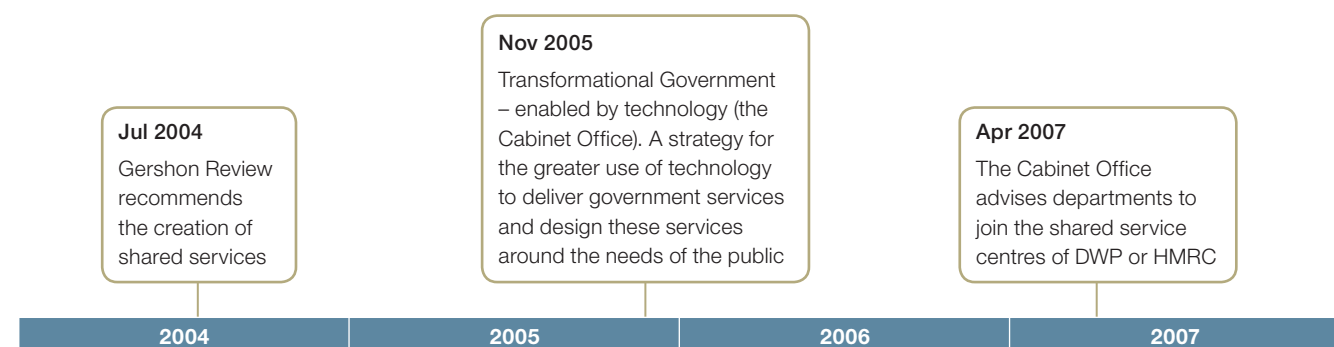
National Audit Office and Committee of Public Accounts reports



Sequence of events in shared services



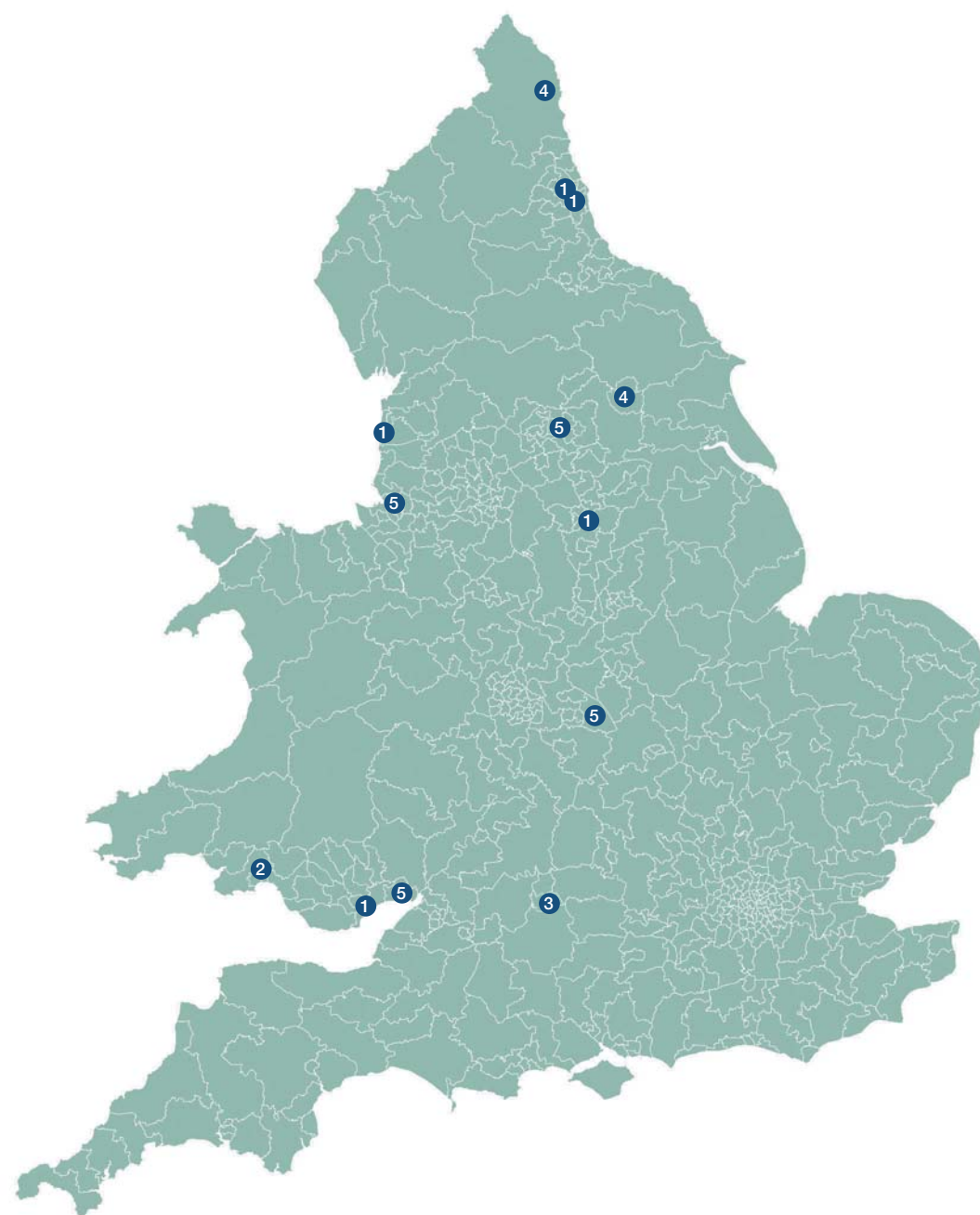
Cabinet Office and HM Treasury documents



Appendix Four

The eight major shared service centres

The five shared service centres we evaluated



1 Department for Work and Pensions

Largest shared service centre in terms of operational cost and customer users. Evolved from existing Department for Work and Pensions accounting systems. Services available from September 2006.

Sites: Norcross (main site), Cardiff, Newcastle, Sheffield, Washington

Services: Finance, human resources, payroll and procurement, Civil Service Pensions, Compensation Recovery Unit

Number of staff: 4,100 of which 1,100 deliver core services

Customers served: 8

DWP and four agencies – 120,000 users

Child Maintenance and Enforcement Commission – 10,000 users

Department for Education – 3,000 users

Cabinet Office – 1,500 users

Operating cost per annum: £63.2 million

Enterprise Resource Planning System:

Oracle 11i, upgrade to Oracle v12 planned in 2012-13

2 Department for Transport

Services launched in April 2007. Subject to a NAO report in 2008. Department for Transport started a process to divest to the private sector in 2011.

Sites: Swansea

Services: Finance, human resources, payroll and procurement

Number of staff: 250

Customers served: 5 – Department and four Agency bodies – 14,000 users

Operating cost per annum: £16.9 million

Enterprise Resource Planning System: SAP

3 Research Councils UK

Shared service centre for Research Councils UK (RCUK). Most recently implemented shared service centre, with services available from 2008, and implementation completed in 2011.

Sites: Swindon

Services: Finance, human resources, payroll and procurement, grant payments, strategic procurement, IT services

Number of staff: 640 of which 310 deliver core services

Customers served: 7 research councils – 11,000 users

Operating cost per annum: £16.8 million

Enterprise Resource Planning System: Oracle 12

4 Department for Environment, Food and Rural Affairs

Smallest shared service centre in terms of operational cost. Services launched in April 2007. Currently looking to merge with the Environment Agency's accounting function.

Sites: York (main site), Alnwick

Services: Finance, human resources, payroll and procurement

Number of staff: 210

Customers served: 15

Department and 13 Agency bodies (not all use full services) – 16,000 users of which 8,800 use all the core service

Provides human resources services for the Department of Energy and Climate Change

Operating cost per annum: £11.1 million

Enterprise Resource Planning System: Oracle 11i, upgrade to Oracle v12 in 2012-13

5 Ministry of Justice

Established a system for National Offender Management Service providing services from April 2006. The Home Office joined as a customer in 2009 which required a separate system. Abandoned an initiative to deliver a Ministry of Justice-wide system on cost grounds in 2008; approved the investment in 2011.

Sites: Newport (main site), Leeds, Newbold Revel, Liverpool

Services: Finance, human resources, procurement

Number of staff: 1,100 of which 850 deliver core services

Customers served: 3

National Offender Management Service – 47,000 users

Home Office – 27,000 users

Ministry of Justice Courts and Tribunals – 24,000 users (from 2012-13)

(the rest of the Ministry of Justice uses an outsourced provider)

Operating cost per annum: £38.6 million (excluding services provided to the Home Office)

Enterprise Resource Planning System: Oracle 11i, upgrade to Oracle v12 in 2012-13 and plans to completely re-implement their system to remove all customisation.

All five shared service centres

Number of staff: 6,000 of which 2,700 deliver core back-office services

Customers served: 38 organisations, 240,000 users of which 230,000 receive core back-office services

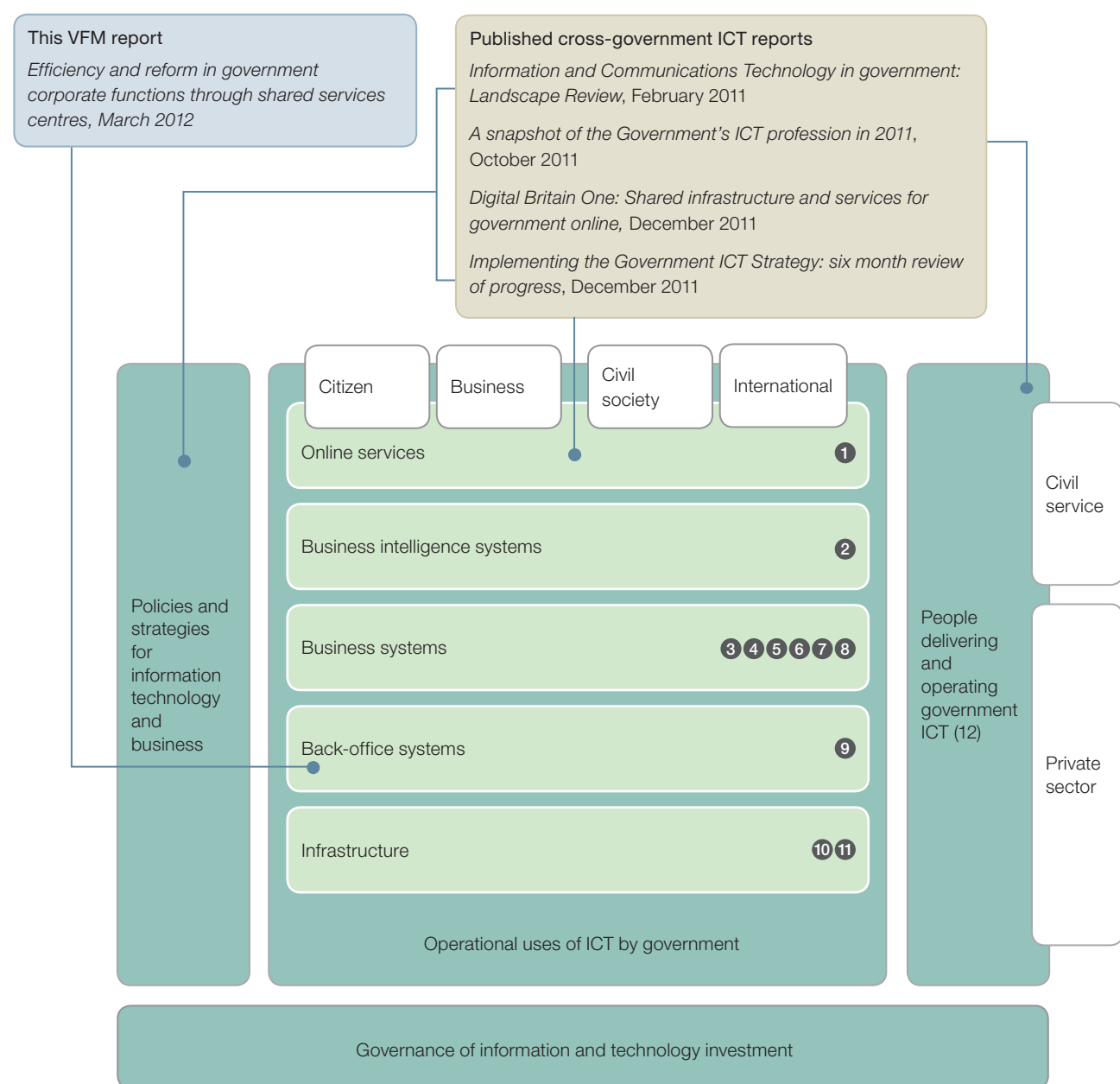
Operating cost per annum: £147 million

 Other central government major shared service centres

Department	Users	Customers	Services	Enterprise Resource Planning System
HM Revenue & Customs (HMRC) Has not offered services beyond the Department. Currently looking to improve its service for existing customers.	67,000	HMRC	Finance, human resources, payroll and procurement	SAP
Department of Health (DH) The first shared service centre in government, subsequently formed into a 50/50 joint venture with Steria. The centre is known as NHS Shared Business Services Ltd.	120,000	NHS trusts	Finance and payroll Commercial procurement solutions Family health services	Oracle v12
Ministry of Defence (MOD) Currently seeking a commercial partner. Intention is to focus on MOD.	86,000	MOD only	Civilian human resources, finance, knowledge and information, payroll, national security vetting	Oracle 11i Upgrade to Oracle v12 in 2012-13

Appendix Five

National Audit Office reports on government ICT



Published client reports, focused on ICT

Online services

- 1 *HM Revenue & Customs: The expansion of online filing of tax returns, November 2011.*

Business intelligence systems

- 2 *Ministry of Defence: The use of information to manage the logistics supply chain, March 2011.*

Business systems

- 3 *The National programme for IT in the NHS: an update on the delivery of detailed care records systems, May 2011.*
- 4 *The failure of the FiReControl project, July 2011.*
- 5 *Crown Prosecution Service: the introduction of the streamlined process, November 2011.*
- 6 *The introduction of the Work Programme, January 2012.*
- 7 *Child Maintenance and Enforcement Commission: cost reduction, February 2012.*
- 8 *HM Revenue & Customs: The compliance and enforcement programme, March 2012.*

Back-office systems

- 9 *Shared services in the Research Councils, October 2011.*

Infrastructure

- 10 *Department for Environment, Food and Rural Affairs: Geographic information strategy, July 2011.*
- 11 *Mobile technology in policing, January 2012.*

People delivering and operating government ICT

- 12 *Adult apprenticeships, February 2012.*

NOTE

1 For published client reports focused on ICT see opposite page for a full list.

Appendix Six

Detailed operational performance

Performance Framework			Department for Environment, Food and Rural Affairs	Department for Transport	Ministry of Justice	Department for Work and Pensions	Research Councils UK
Value-for-money factor	Sub-factor	Description					
Business Model	1.1 Strategy	1.1 A clear and agreed strategy exists with optimal benefits					
	1.2 Business Case	1.2 An agreed business case exists, is funded and is sustainable					
Implementation and Performance Management	2.1 Implementation performance	2.1 The service has been built on sound foundations (implementation project)					
	2.2 Performance against Target operating model	2.2 The service operates according to its target model					
Service Management	3.1 Service management regime	3.1 An effective service management regime includes an intelligent customer					
	3.2 Joint culture	3.2 Multiple customers are engaged in service management and evolution					
People Framework	4.1 People capability and change	4.1 Resources are able to manage operations as well as change					
	4.2 Capability development	4.2 Capability is nurtured and developed					
Process Framework	5.1 Service definition	5.1 There is an agreed service offering					
	5.2 End-to-end process management	5.2 There is clear end-to-end process definition, control and ownership					
Technology Framework	6.1 Enabling technology	6.1 The service is supported by the right enabling technology					
	6.2 Legacy management	6.2 Arrangements are in place to handle legacy systems and data					
Financial metrics			Budget set-up cost £54m Actual set-up cost £23m Set-up cost per customer (FTE) £2,700 Operational cost per customer (FTE) £1,200 Number of Centre staff (FTE) 210 Ratio of customer to Centre staff (FTE) 41:1	Budget set-up cost £86m Actual set-up cost £120m Set-up cost per customer (FTE) £8,700 Operational cost per customer (FTE) £1,200 Number of Centre staff (FTE) 250 Ratio of customer to Centre staff (FTE) 56:1	Budget set-up cost £117m Actual set-up cost £144m Set-up cost per customer (FTE) £3,100 Operational cost per customer (FTE) £820 Number of Centre staff (FTE) 850 Ratio of customer to Centre staff (FTE) 88:1	Budget set-up cost £245m Actual set-up cost £233m Set-up cost per customer (FTE) £1,900 Operational cost per customer (FTE) £500 Number of Centre staff (FTE) 1,100 Ratio of customer to Centre staff (FTE) 120:1	Budget set-up cost £80m Actual set-up cost £127m Set-up cost per customer (FTE) £12,000 Operational cost per customer (FTE) £1,600 Number of Centre staff (FTE) 310 Ratio of customer to Centre staff (FTE) 35:1

Performance assessment not carried out



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