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Department for Business, Innovation and Skills

Shared services in the Research Councils

Key facts

65%
The overspend on implementation costs, totalling £130m, against an initial budget of £79m.

12,000
The number of full-time equivalent staff employed by the Councils and using the Centre.

£73m
The minimum underachievement of total savings between 2007-08 and 2010-11 recorded by the Councils compared to full business case estimates.

£3.6 billion	The total spend by Councils on funding research activities in 2009-2010.
£13 million	The extra cost of terminating the contract with Fujitsu.
5	The number of functions provided by the Centre, being finance, human resources, procurement, grants and ICT. Grants and some elements of procurement are not typical in government shared service centres.
£395 million	The business case forecast of total savings expected over ten years.
£27 million	Best case savings reported by project to March 2011.

Summary

1 In January 2006 the seven UK Research Councils agreed with the Department for Business, Innovation and Skills (the Department) to work in partnership to harmonise back-office activities across their organisations in full by 2009. The Councils decided the best way to achieve harmonisation would be to develop and implement a shared service centre (the Centre) to deliver human resources, finance, ICT, procurement and grants allocation functions. Grants allocation is vital to the Councils' activities as they collectively spent £3.6 billion in 2009-10 on funding research activities. Harmonisation was intended to achieve efficiencies in the science budget as part of the 2007 spending review.

2 Project delivery was not straightforward. The seven Councils, which have diverse business models including a network of research institutes and have historically operated as autonomous bodies, were required to work in partnership. The Councils had some experience of joint working prior to the project through a partnership established in 2002. However, they were slow to implement recommendations on sharing back-office functions made in a quinquennial review in 2001.

3 Implementation was due to be completed by December 2009 at a cost of £79 million. The project, however, was subject to delays and costs escalated. The Councils migrated to the Centre on a phased basis from 2008 onwards. The project completed its development phase in March 2011. Responsibility for the Centre lay with a separate company, RCUK SSC Limited, wholly owned by the Councils.

4 This report examines why costs escalated so significantly beyond the original business case and the extent to which the project is delivering the savings and efficiencies expected of it. Our study methods, undertaken in early 2011-12 are summarised in Appendix One.

Key findings

5 **The project has cost £130 million against an original budget of £79 million, a 65 per cent overspend, and projected savings are significantly less than expected.** Our analysis suggests that only £2 million of the overspend was due to scope changes, with the remaining £49 million due to not fully budgeting for items in scope or overruns and inefficiencies. The Councils were more realistic from late 2009 when they replanned budgets and milestones. They have not monitored benefits effectively and, therefore, our findings are presented in the context of a lack of clarity by the Councils about how far they are adrift from the business case. The available evidence shows that they are at least £73 million adrift to date. The Councils are currently targeting a positive net present value for the project that will result in the project taking around two years longer than planned to pay back the investment. We consider that this is based on a number of unsound assumptions; there is a risk that the Councils may not be able to pay back their investment within the ten years of the business case and that the overall net present value may be negative.

6 **The business case analysis underpinning the decision to opt for the chosen shared service solution was flawed.** The financial case for the chosen option relied heavily on making savings from better procurement for the Councils – some 85 per cent of the gross savings to be generated. These projections were inherently uncertain and did not take into account that some savings might have been delivered by existing joint procurement arrangements. The financial analysis should have prompted a re-evaluation of the available options but this did not happen. The Councils have to date claimed procurement savings of £35 million against the business case. Our review of a sample of high-value savings found that at least 35 per cent were not cash savings and therefore should not be counted against the project investment.

7 **Complex governance arrangements contributed to slow decision-making.** The Councils sought to gain a consensus on project direction and delivery which was a significant challenge. Early governance structures were complex. Reviews commissioned at various points during the project showed that responsibilities and accountabilities needed clarification, resulting in governance evolving over time. The governance was made more challenging by the Councils acting as both clients and owners of the Centre. A review in June 2010 produced recommendations to address key governance problems for the rest of the project. There is no evidence that the Department, as sponsor of the Councils, intervened when it became clear the project was likely to overspend.

8 **The lack of a shared vision of how shared services would work contributed to costs escalating and slippage.** The project board did not have a clear early view of what sharing services would look like, as the Councils had found it hard to agree a common way forward given their individual needs. Projects do not always have a clear design from the outset, but the outline design, known as a target operating model, was not agreed until August 2008. Even at this stage the design lacked the usual detail to agree a full business case. The Councils also did not fully address the culture changes needed to support staff moving to the Centre and to promote new ways of working. The grants package was implemented at a later point with more effort given to specifying the design upfront.

9 **The contract with Fujitsu to put in place ICT systems was poorly managed by the project team and was subsequently terminated.** In August 2007 Fujitsu was appointed to build and maintain the systems underpinning the Centre, under a ten-year contract worth £46 million. A number of weaknesses were evident:

- Fujitsu was placed second in the initial supplier evaluation. The project board was concerned that the bidder placed first overall had not scored well against quality criteria. Subsequently a mathematical error in the scoring was identified leaving Fujitsu as the front-runner. The assessment panel decided therefore to appoint Fujitsu, but on the basis of a vote rather than after reperforming analysis. In September 2007 the Office of Government Commerce warned that the contract was at risk of challenge.
- When Fujitsu was appointed the project team lacked a sufficiently clear design specification for the Centre. This led to miscommunication between the project and Fujitsu about expectations and deliverables. Consequently, Fujitsu did not deliver to agreed milestones.
- The Councils' project team ultimately terminated the contract, having paid £32 million to Fujitsu, and elements of the system had to be rebuilt in-house. Had the contract worked as planned, we estimate that subsequent costs of at least £13 million would not have been incurred.

10 **By March 2011, fifteen months later than planned, the Centre was operating and delivering services across the five functions covered in the business case.** A technical review commissioned by the Councils in October 2010 suggests the Centre will provide a workable ICT platform for the existing client group. The grants function developed by the project, for example, has allowed the Councils to stop using older systems that were increasingly at risk of failing. A single shared service platform has the potential, if managed effectively, to offer broader benefits. These include: better access to management information for cross-Council comparisons to identify potential efficiencies and quality improvements; improved access to specialist skills across the functions in a single centre; and, potentially, a simplified and improved control environment.

11 Some of the shared end-to-end processes, particularly finance, have still to operate to the performance levels needed. Stabilising the performance of shared service processes can take time following their launch and this should be taken into account when judging early performance. The Centre has had difficulties producing robust financial and management information, so Councils have sometimes run parallel systems or managed their business without adequate data. The Councils took a decision in late 2010 to defer delivery of some of their 2010-11 accounts until after the Parliamentary summer recess. This was based on their assessment of the scale of issues involved, the timescales available to fix these issues and the risk of disrupting implementation of the new grants system. By the end of July 2011, two Councils had submitted audited accounts to Parliament for 2010-11.

12 There is significant scope to achieve further savings from the shared service processes. Our work has found that while some building blocks are in place, there is scope for further process harmonisation and improved management of end-to-end processes. Charges paid by the Councils to the Centre do not relate to the quality or quantity of service, so there is little incentive at present to drive efficiency savings. Data for a new charging mechanism, linking costs to volumes, is being collected through a trial in 2011-12. The Councils and the Centre plan to adopt this in 2012-13.

13 The Department has plans to expand the numbers of client bodies served by the Centre. The Centre considers it can achieve efficiencies for the Councils by offering its service to new clients, allowing for fixed costs to be shared among a greater number of clients. The Centre estimates this would reduce the cost of services to the Councils by a third in real terms by 2014-15. Subject to agreeing a business case, the Department is looking to transfer the core-department and a number of the larger partner organisations to the Centre by March 2014. This would allow the Department to reduce the number of back-office systems. These tentative plans are a major project; the Department has been allotted a share in the ownership of the Centre and has put in place a higher level of oversight and governance than for a normal project. In summer 2011 the Department commissioned PriceWaterhouseCoopers to assess stability and readiness for expansion. The review concluded that the Centre's operations are close to being stable. However, some functions are more stable than others and substantial work is required before any expansion takes place.

Conclusion on value for money

14 The shared service centre project has not to date delivered against its key objectives, notably harmonisation of back-office functions. With available evidence showing delivered savings already adrift of the business plan estimate by at least £73 million, implementation of this project does not represent good value for money. The uncertainty of the targeted savings means there is a risk that, without tight management, the Councils may not recover their investment.

15 While the Centre is delivering a service across five functions, service performance across all of these, particularly finance, is not yet where it needs to be. There is now a considerable sunk cost. To be value for money in the future, the Councils and the Centre need to improve service performance quickly, harmonise end-to-end processes and drive genuine savings across all functions. Expanding client numbers without stabilising the service and adequately addressing the cultural change needed among the new clients would carry significant risks. Before sanctioning transfers, the Department will need to assure itself that there is stability, that its plans are realistic and that the transfer is value for money.

The Department's view on the way ahead

16 The Department, the Councils and the Centre consider the facility will deliver value for money. While they accept the project has not lived up to the full business case, in their view the project has produced an asset which will recover its investment with a positive net present value. The Centre also considers that its processes and functions are at an early stage of maturity and development is as good as would be expected in other shared service centres, with steps taken already to stabilise and improve service delivery.

Recommendations

17 We make the following recommendations:

To the Centre

a **The Centre's processes are not yet mature. Working with its clients it needs to:**

- prioritise stabilising processes, notably in finance, and fix current service issues – some of these will relate to processes within its clients;
- embed continuous improvement in the end-to-end processes and drive greater efficiencies for its customers, particularly through maximising non-procurement benefits, for example, by harmonising processes; and
- work with the Councils to implement the planned payment mechanism and agree meaningful performance metrics.

To the Councils

b **The Councils are not yet achieving real cost and efficiency savings.** The Councils need to remove any duplication of effort and make sure all relevant activity is directed through the Centre. They should also review their procedures for deciding which procurement savings can be legitimately recorded against the business case.

To the Department

c **The Department's plan to transfer its back-office functions and those of its partner organisations needs to draw upon lessons learned from the project so far.** As a priority, the Department should clearly define what stabilisation in the Centre will look like and assure itself that performance criteria are consistently met before it transfers services.

To all departments

d **The issues encountered in this project are not unique across government and have been identified in previous NAO reports and by the former Office of Government Commerce. When implementing a Centre or similar project, departments need to:**

- take proper account of external review recommendations about project weaknesses, addressing these effectively before moving ahead to the next phase. Occasionally, departments will need to step in when there is substantive evidence that a project is not under control;
- invest time and effort in the important cultural change that is needed to drive through a project of this nature;
- ensure suitable governance arrangements are in place which encourage effective and timely decisions. Boards need to be a manageable size, with roles and functions defined and the Senior Responsible Officer clearly accountable for decision-making; and
- ensure that the financial case for a project has been fully tested and that estimated benefits come from a range of sources and are credible.