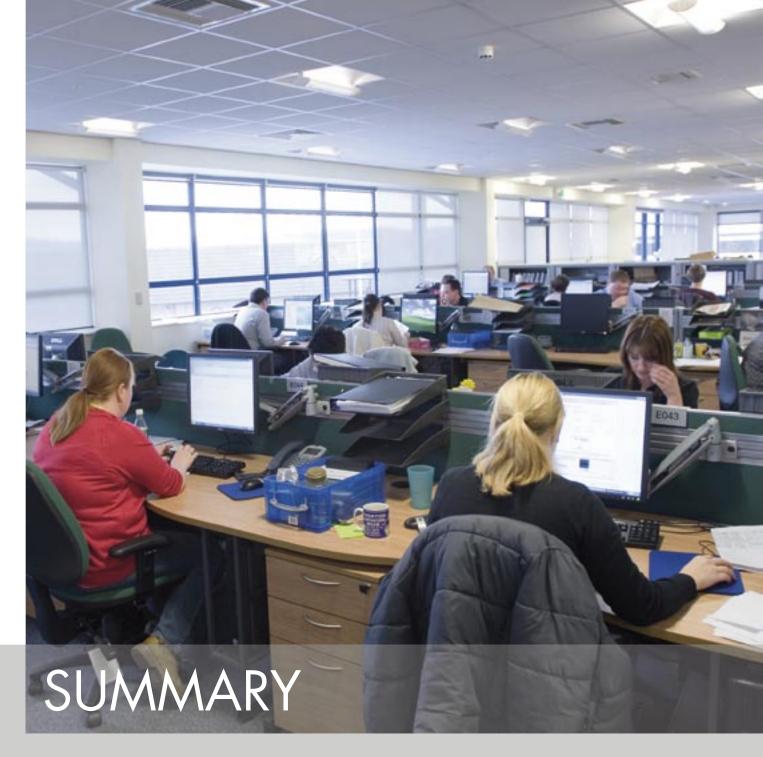# Shared services in the Department for Transport and its agencies

SUMMARY

Introduction

1   Shared services have the potential to release savings from increased efficiency and effectiveness of corporate services but achieving these savings requires efficient and effective implementation. In April 2005, after an 11 month review, the Department for Transport's (the Department) Management Board approved an outline business case to set up an in-house centralised Shared Service Centre in Swansea to provide the Department and its then six executive agencies with support services for human resources, payroll and finance. The Department aimed to streamline processes, better meet its business needs, reduce on-going costs and help the agencies and the central department to work more closely together.

2   Key elements of the Department's approach to the Shared Services Transformation Programme (the Programme) in April 2005 were to: build processes and the supporting IT system on the existing processes and systems in place in the Driver and Vehicle Licensing Agency and the Driving Standards Agency; use an existing framework agreement between the Driver and Vehicle Licensing Agency and IBM to deliver the IT system; set up a Departmental Programme Board to oversee the Programme in which the Driver and Vehicle Licensing Agency had a substantial role; and set a very demanding timetable for implementation, with the Driver and Vehicle Licensing Agency and the Driving Standards Agency expected to start using the services in April 2006 with roll out to the whole Department

by April 2008. In April 2005, the Departmental outline business case estimated the total cost of setting up the Programme at £55.4 million, with gross savings (before costs) expected of £112.4 million up to March 2015.

3   In practice, the Department delivered a design blueprint but could not agree a common set of underpinning business processes and the resulting customisation (some of which was essential for the operation of shared services) contributed to increased costs and complexity and some of the initial estimates were optimistic. These factors made use of the framework agreement expensive. The Programme Board failed to manage these problems; and the first two agencies were ill prepared for implementation. In consequence, there have been delays in implementation with the Driving Standards Agency and the Driver and Vehicle Licensing Agency beginning to use the Shared Service Centre in April 2007, and the central Department joining in April 2008. The Maritime and Coastguard Agency is expected to begin using shared services in October 2008. Forecasts at March 2008 show total costs of £121.2 million and gross savings of £40.1 million by March 2015 **(Figure 1)**, but savings here reflect only 215 posts while the Programme Board still has the objective of saving 309 posts.

4   In June 2007 the Driver and Vehicle Licensing Agency prepared a lessons learned paper outlining the principal successes and weaknesses of the Programme to date. The Department has since taken action to: improve governance of the Programme and strengthen its staffing; establish clear priorities; reshape its implementation plans; put greater emphasis on the contribution that shared services can make in improving overall resource management; improve management controls, contain expenditure and strengthen its management of suppliers; and identify the potential to maximise benefits.

5   Against this background, we examined the factors that led to the increasing costs of the Programme and delays in implementation and the steps taken by the Department since then to put the Programme back on track. In doing so, we have also identified lessons for other government departments considering introducing shared services initiatives in the future.

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1   Summary of cost benefits revision through business case/forecast estimates

Business case iteration:	Outline Business Case		Interim Business Case		Forecast costs and benefits identified to March 2008	
	April 2005		**January 2006**			
Cost/benefit item						
Gross benefits (£m)		112.4		107.5		40.1
Set-up costs (excluding severance) (£m)	34.7		47.8		113.6	
Severance costs (£m)	20.7		22.6		7.6	
Total costs		(55.4)		(70.4)		(121.2)
Overall Net Present Value (£m)		**57.0**		**37.1**		**(81.1)**
Full Time Equivalent staff reductions: Forecast	377 staff		376 staff		215 staff	
Full Time Equivalent staff reductions: Target	377 staff		376 staff		309 staff	

Source: National Audit Office analysis of data provided by the Department for Transport

NOTES

1   All figures are cumulative to March 2015 and discounted to 2005-06 terms.

2   The Overall Net Present Value (NPV) shows the overall net benefit/(cost) of the Programme to the Department but the final column only represents savings identified so far.

3   The Department's Management Board in January 2008 revised downwards the target for Full Time Equivalent staff reductions to 309 after they made the decision to reduce the number of agencies moving fully to shared services.

Conclusions

6 Significant changes to the assumptions underpinning initial estimates of costs, inadequate contract management and poor initial implementation of the Programme have meant that the Programme as originally envisaged will not achieve value for money. The Programme would, under the terms of the Department's initial financial appraisal, represent a net cost to the Department of £81.1 million up to 2015 and assuming no improvements in the Shared Service Centre's current productivity nor the achievement of target savings in each agency, both of which the Department is actively targeting. Since April 2007 the Department has improved considerably the management of the Programme. It has also developed a strategy to achieve further benefits by improving management information, and by adding a facility to support routine procurement and thereby achieve economies of scale. It has also rescheduled when individual agencies join shared services. Both the benefits and the development costs of the procurement function still need to be quantified. If the Department were to achieve additional savings of £50 million per year there would be a net benefit of £84.4 million up to 2015, less any additional set-up costs. Even then the Department would only break-even by 2012-13 at the earliest, some seven years after the Programme's initiation.

Main findings

7 The Department's original plan for shared services has proved to be unrealistic. It was over-optimistic to expect that the Shared Service Centre could become operational only one year after the Department's Management Board approved the outline business case in April 2005, given that the Programme involved agreeing a common set of processes across eight disparate organisations, purchasing, customising, testing and implementing an IT system, finding and fitting out a building to house the facility and recruiting and training staff. The time and cost for each agency to standardise their processes was also underestimated. In addition, the first two agencies had to change many of their business processes to use the Centre.

8 There were also problems with implementation, and even though risks to Programme delivery such as the optimism of the timetable were recorded at the start of implementation, the Programme Board took insufficient action to manage these risks, many of which subsequently materialised. The Department's Management Board defined roles for both the Driver and Vehicle Licensing Agency and the central Department but, in practice, there was unclear accountability and communications were slow. The Programme Board did not implement sufficient control of the design of the systems supporting the Shared Service Centre, which resulted in less standardisation of business practices and contributed to increased costs and delays. The Programme had insufficient time to test the system rigorously by the date set for delivery which led to the deferral of some items such as e-recruitment and time managment. The system proved unstable when it went live.

9 There was also insufficient management of IBM, the main contractors to the Programme. Poor specification of requirements by the Department, and a failure to take advantage of cheaper bulk day rates as a consequence of the basic underestimate of the amount of work required resulted in increased costs. A lack of checks and controls on authorising and paying for IBM's work also necessitated subsequent recovery of overpayments. To the end of March 2008, the Department has paid over £72 million to contractors on the Programme, over £54 million of which was paid to IBM.

10 Had the Department subjected the development of the supporting IT system to a full competitive process, they would have had to produce a more robust specification. This would have given them a better understanding of the costs involved (which in April 2005, were estimated at £16.5 million for technical delivery); a clearer framework for managing the contractor and the related costs; and subjected the supplier to the discipline of competitive pressures. In the Department's view, however, a full competitive process would also have delayed delivery of the Programme. The Driver and Vehicle Licensing Agency is now reviewing its framework agreement with IBM as part of a pre-agreed break point discussion, and the Department has yet to select a contractor to deliver the remainder of the Programme.

11 Since April 2007, the Department has made considerable efforts to correct existing deficiencies and to enhance Programme performance. It has brought in experienced civil servants and contractors to transfer the Maritime and Coastguard Agency and the central Department onto shared services. The Department needs to retain and build on this experience through the life of the Programme up to 2010. The Department has clarified governance, with the Director of Shared Services, who is also the Programme Director and has a wider coordination role, now reporting to the Department's Director General Corporate Resources who is the Senior Responsible Owner for the Programme. It created a benefits realisation team in June 2007, which is increasing the focus on securing effectiveness gains and efficiency savings. The Department is also reviewing its requirements for management information from shared services. Better management information should enable the identification of further efficiencies across many aspects of the business. The Department has put in place more rigorous controls

for managing its suppliers and is re-negotiating the terms under which it uses IBM for the Programme. In September 2007, the Senior Responsible Owner also reinstated the previously deferred pre-production environment to support system testing. The Department is also working to demonstrate to stakeholders the benefits that shared services will bring in terms of improved business processes and organisational effectiveness.

12   The Department has also changed the Programme's scope: only the payroll functions of the Vehicle Certification Agency and the payroll and human resources functions of the Highways Agency will move to the Shared Service Centre in Autumn 2008 and April 2009 respectively. The Department intends to review the business cases for the remaining agencies and functions that are scheduled to migrate after April 2009 and aims to achieve the best performance possible from the Shared Service Centre's relatively small customer base.

13   The performance of shared services, as measured by the Shared Service Centre, has improved since June 2007, but still does not meet the majority of the key performance targets, including those for prompt payments and resolving customer enquiries. It met only four of its 18 key performance indicators in January 2008. Performance in some areas, such as prompt payment targets, remains worse than before the agencies joined shared services, with agencies struggling to implement the full purchase order process.

14   There are still significant challenges for the Programme. Some users remain sceptical about the benefits to them and to their organisations. For example technical problems with the system have meant that many users maintain duplicate reports, such as annual leave and sickness absence, and the Shared Service Centre has not done enough to show users that it takes their concerns seriously and is resolving technical problems. Business managers within the agencies have also failed to communicate effectively information about the Centre to users. The move of the Maritime and Coastguard Agency onto shared services has been deferred to October 2008. The Department has deferred the module to add external recruitment because of outstanding issues with the technical system design which will require further security accreditation.

15   We recommend as follows:

Actions to be taken by the Department immediately

a   At the moment there is only a broad estimate of the potential benefits of adding a routine procurement facility, based on analysis conducted in November 2006. There is currently no estimate of the costs involved in making routine procurement part of shared services.

■   **The Department's benefits realisation team should carry out sufficient checks on the procurement returns from agencies to assure the Department's Management Board that adding a routine procurement facility to shared services would be justified by the benefits to the overall Programme.**

■   **The Department also needs to develop robust estimates of the costs of incorporating routine procurement into shared services, before deciding whether to proceed.**

b   Existing users of shared services do not have sufficient confidence in the system to use it to its full potential.

■   **The central Department, the Driving Standards Agency and the Driver and Vehicle Licensing Agency need to educate users of the individual and business benefits of maximising the use of the Shared Service Centre.** The Department should give new users adequate induction courses covering the benefits of the system as well as practical training, and refresher courses for those already using shared services.

c   Current users of shared services expressed frustration that Shared Service Centre staff were not addressing their concerns with the system.

■   **The Shared Service Centre should develop better ways of identifying potential user problems earlier and then act quickly to resolve them, and give advance notice of maintenance work and future upgrades.** The Shared Service Centre should establish regular feedback sessions for user groups to:

■   share best practice across user groups;

■   identify areas for improvement;

■   allow users to notify and articulate problems; and

■   enable the Shared Service Centre to inform users of upcoming maintenance and upgrade issues.

Issues to be addressed in the medium-term

d   Having decided to use the framework agreement with IBM for development of the supporting IT, the Department has not secured the best terms available within the framework agreement.

■   **The Department should renegotiate the commercial terms and conditions of the framework agreement that supports the Programme, so that the Department receives best value for money.**

e   The Department has a dedicated benefits team located within the central Programme, but not within the wider Department.

■   **The Department should require the Shared Service Centre and its individual business units to identify and realise benefits as a matter of routine business.** The central team should cascade its skills and experience to clearly identified persons/roles responsible for identifying and realising benefits in the central Department and agencies.

f   Until late 2006 the Programme Board did not enforce standardisation sufficiently on the agencies, and there was insufficient time to negotiate changes with the trade unions to personal terms and conditions of service.

■   **The Programme Board and the Design Authority (who are responsible for ensuring progress reflects an agreed set of processes) should establish a plan to standardise processes in areas such as travel and subsistence claims and annual performance appraisals, and if necessary impose best practice on the user community.**

g   Experienced contractors and Departmental staff working on the Programme are on short-term contracts, some of which are ending.

■   **The Department needs to establish a succession plan for all key posts working on the Programme and in the central Department.** The Programme Board should identify all key posts (particularly those on short-term contracts) to trigger prompt identification of suitable replacements. Longer-term, as the dedicated Programme team reduces, it needs to transfer key skills into the Shared Service Centre and the agencies.

h   The Department only considered a limited range of options for the provision of shared services. Private industry and local government have adopted a number of delivery models for shared services, including the use of private companies.

■   **The Department should consider all options in any future strategy for the provision of shared services, including buying in such services.**

Lessons for other government departments implementing shared services

16 The recommendations in this list are not intended to be comprehensive but arise from our analysis of the Department for Transport's experience, incorporating both positive and negative lessons drawn from the initiative. All departments considering introducing shared services should:

a establish a business case that:

- is based on a rigorous prior analysis of the business process and sufficient levels of consultation with those involved in the work;

- considers all delivery options, including the purchasing of services from an established external provider; and

- makes a realistic assessment of all associated costs and benefits for each option, without over-reliance on benchmarks to estimate costs and savings;

b collect data on the existing support system to provide baseline performance before moving to shared services;

c demonstrate to staff at all levels how shared services will benefit the organisation as a whole and individuals and why working practices need to change, for example by pointing out the cost benefits of standardising procedures and the merits for staff of being able to confirm the accuracy of payroll, overtime, travel claims and other financial details online before payment is made;

d set out in Service Level Agreements that any non-standard business processes required by business units will cost more;

e underpin the implementation timetable with realistic planning (which might include stretch targets) rather than drive it by a desire to introduce shared services arrangements by a non-negotiable date;

f appoint high calibre personnel with relevant experience of implementing shared service transformation programmes to key management and operational posts from the outset, while maintaining a level of civil service staff on implementation teams so that knowledge and skills can be transferred;

g transfer individual businesses to shared services incrementally to allow lessons to be learned from each transfer phase;

h provide adequate resources for data cleansing, migration planning and testing of data prior to service migration and provide realistic and timely staff training;

i engage closely with prospective shared service centre users prior to migration and sustain such liaison for a reasonable period after migration to resolve system glitches and to ensure sufficient "buy-in" by users of the shared services systems; and

j introduce clear audit trails for the validation, approval and payment of invoices within arrangements for managing external contractors responsible for delivering the shared service systems.