



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 1459
SESSION 2010–2012**

21 OCTOBER 2011

Department for Business, Innovation and Skills

Shared services in the Research Councils

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the NAO, which employs some 880 staff. He and the NAO are totally independent of government. He certifies the accounts of all government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work led to savings and other efficiency gains worth more than £1 billion in 2010-11.



National Audit Office

Department for Business, Innovation and Skills

Shared services in the Research Councils

Ordered by the House of Commons
to be printed on 19 October 2011

Report by the Comptroller and Auditor General

HC 1459 Session 2010–2012
21 October 2011

London: The Stationery Office
£15.50

This report has been
prepared under Section 6
of the National Audit Act
1983 for presentation to
the House of Commons
in accordance with
Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

18 October 2011

In January 2006 the seven UK Research Councils agreed with the then Department of Trade and Industry (now part of the Department for Business, Innovation and Skills) to work in partnership to harmonise back-office activities across their organisations in full by 2009.

© National Audit Office 2011

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Contents

Key facts **4**

Summary **5**

Part One

Background **11**

Part Two

The decision to establish
the Centre **16**

Part Three

Establishing the Centre **21**

Part Four

Current operation and
future strategy **28**

Appendix One

Study methods **39**

The National Audit Office study team consisted of:

Paul Bilton, Louise Bladen,
Richard Jones, Thabang Nonyane,
Kevin Summersgill and David Wilson
under the direction of Peter Gray.

This report can be found on the
National Audit Office website at
www.nao.org.uk/research-councils-2011

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Website: www.nao.org.uk

Twitter: @NAOorguk

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.

Part One

Background

1.1 In 2006, the seven Research Councils (the Councils) decided to set up a shared service centre (the Centre). This Part of the report sets out the background to the Councils and the project to set up the Centre.

The Research Councils

1.2 The seven Councils are non-departmental public bodies funded by the Department for Business, Innovation and Skills (the Department) from the science budget. The Department chooses how to allocate the science budget between the Councils but, to preserve academic independence, has limited powers to direct the Councils' activities. In 2009-10 the Councils spent £3,618 million (see **Figure 1** overleaf). Research activity is funded in three main ways:

- Research organisations, such as universities, bid to the Councils and are awarded grants following a review by an expert panel. They receive 64 per cent of the research funding.
- Twenty-three fully owned or arm's-length institutes, such as the National Institute for Medical Research, receive 22 per cent of the funding.
- Other research activities, typically subscriptions to international organisations such as the European Space Agency, account for 14 per cent of the research funding.

1.3 Since 2002, the Councils have worked within a strategic partnership known as Research Councils UK. This partnership aims to enable cross-Council, multidisciplinary research, coordinate activities with the academic community and share best practice.

Figure 1

The gross expenditure of the seven Councils, 2009-10

	Example research fields	Research			Non-research expenditure (£m)	Gross expenditure (£m)
		Through grants (£m)	By owned or arm's-length institutes (£m)	Other research e.g. international subscriptions (£m)		
Arts and Humanities Research Council	English, modern languages, history, music, and creative and performing arts	102.5	0.0	0.0	9.1	111.6
Biotechnology and Biological Sciences Research Council	Genomics, stem cell biology, animal health and welfare, biodiversity	315.3	141.2	0.0	43.9	500.4
Engineering and Physical Sciences Research Council	Mathematics, chemistry, physics, engineering, computer sciences	799.6	0.0	27.0	29.2	855.8
Economic and Social Research Council	Sociology, economics, anthropology, law, political science	192.3	0.0	5.3	13.5	211.1
Medical Research Council	Public health, stem cell research, brain sciences, intensive care	315.3	291.4	56.2	127.4	790.3
Natural Environment Research Council	Earth sciences, climate change, polar research, natural resources	152.4	159.1	97.7	64.1	473.3
Science and Technology Facilities Council	Astronomy, nuclear physics, particle physics, space science	157.9	112.7	241.5	163.5	675.6
Gross expenditure (£m)		2,035.3	704.4	427.7	450.7	3,618.1

NOTE

1 Non-research activity includes administration, depreciation and restructuring costs.

Source: National Audit Office analysis of 2009-10 Annual Accounts

Shared service centre project

Origins of the project

1.4 The Councils' proposal to establish a shared service centre reflected a response to wider pressures:

- A 2004 review across the public sector led by Peter Gershon, the Government's efficiency adviser, had suggested greater scope for generating efficiencies by sharing common support services across organisations.¹ By September 2007, when the Councils approved the full business case for the Centre, shared service centres were providing transactional services across several parts of government.
- The 2001 quinquennial review of the Councils, conducted by a review team led by a senior Departmental official, accepted that multiple Councils needed to ensure appropriate diversity in research focus and methods. The review, however, identified a strong case for converging business processes to deliver efficiencies within the Councils and to grant recipients. Follow-up reviews, including a progress review in 2004, found that implementing measures to increase common working had been slow.

1.5 In January 2006 the Department (the then Department of Trade and Industry) told the Councils that they should make a step-change in the number of back-office activities commonly used, ensuring full harmonisation by 2009. This represented the start of the project. The Department's timetable was based on the need to realise efficiency savings within the next spending period, 2008-09 to 2010-11.

Scope and governance of the project

1.6 The Councils identified five functions to include in the project: human resources, finance, procurement, grants, and ICT systems and services. The Councils established a board to oversee the project, chaired by a Chief Executive from one of the Councils who was also the Senior Responsible Officer for the project. The project board included senior representatives from all Councils plus an official from the Department. Overall, the seven Chief Executives of the Councils were formally accountable for the project, reporting on progress to the Department as the Councils' sponsor.

1.7 The funding for project implementation was paid for by contributions from the Councils. Payments were calculated using an allocation model to reflect the approximate level of benefits each Council expected to get from the Centre.

¹ P. Gershon, *Releasing resources to the front line: independent review of public sector efficiency*, HM Treasury, 2004, p.12.

1.8 The Council's establishment of the new centre involved a number of key elements including:

- **Establishing a project team led by a Project Director.** The team was largely staffed by seconded Council employees, but with roles requiring specific skills and experience in implementing shared services filled by external contractors. External advisers were also used to support the team.
- **A business change programme.** To prepare staff for the changed ways of working that came from setting up the Centre.
- **Installation of physical infrastructure.** The design, build and implementation of a new common system to provide back-office services to the Councils. Also the design, build and implementation of a new common grant-processing system, which is not a typical application in other shared service centres.
- **A phased migration process.** All Councils were involved in testing and signing off systems before launch.

1.9 In August 2007 the Councils established a separate company, RCUK SSC Limited, limited by shares, to manage and operate the Centre. Each Council exercises equal control through taking an ordinary 'A' share in the company. However, the company is owned by the Councils in proportion to the funding split through the allocation of non-voting 'B' shares. The company structure was put in place to give independence and offer flexibility when deciding how to develop the facility. Between its creation and project completion the company, with its own Chief Executive, operated in parallel with but was separate from the project team.

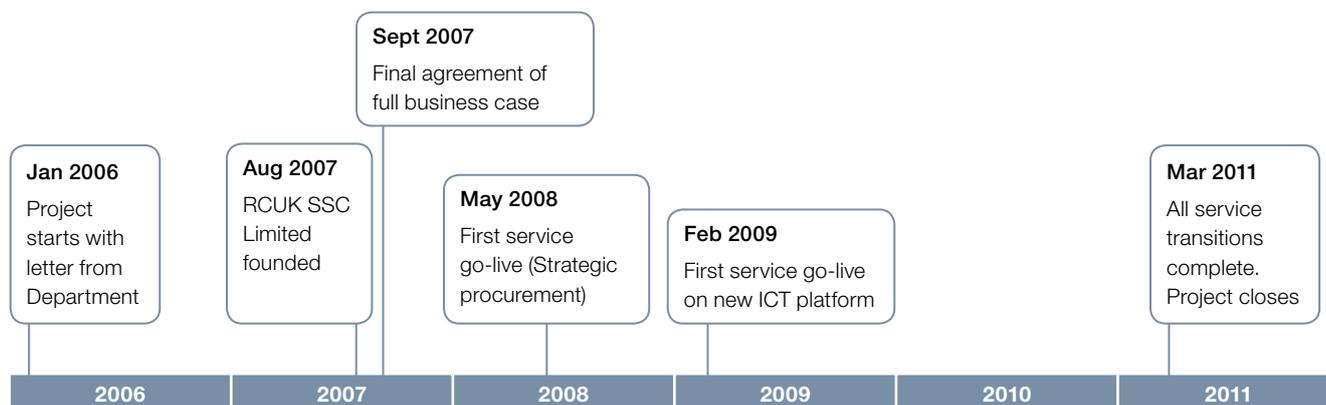
Delivery of project

1.10 The Centre began live operation in May 2008 with functions migrating over from the seven Councils in a phased transition, ending with the transfer of grants from the Medical Research Council in March 2011. This was 15 months later than the target date of the end of 2009 (**Figure 2**).

1.11 By March 2011, implementation costs totalled £130.5 million, exceeding the original budget of £78.9 million by 65 per cent, with some residual functionality still to be developed. On a best case, the project has reported gross savings to March 2011 of £27 million but is at least £73.2 million behind the business case projections and is expected to fall further in the future.

Figure 2

High-level timeline for the Councils' shared service centre project



Source: Councils' documentation

1.12 The Centre is different in two key respects from the service offering that is typical in government: it includes a grant-making process and its procurement activity goes beyond the contracting stage undertaken in other shared service centres to include the full procurement process. With 12,000 users, the Centre has a similar number of users to other small shared service centres in government, such as that managed by the Department for the Environment, Food and Rural Affairs. It is smaller than the large centres managed by the Department for Work and Pensions and the Ministry of Justice, which have 140,000 and 80,000 users respectively.

1.13 This report examines the introduction of the Centre, in particular why costs have escalated beyond initial projections and whether the expected business benefits are likely to be delivered. The report looks at:

- the decision to establish the Centre (Part Two);
- establishing the Centre (Part Three); and
- current operation and future strategy (Part Four).

Part Two

The decision to establish the Centre

2.1 This Part examines whether the decision to establish the Centre was based on a sufficiently robust business case, in particular, the estimated likely benefits and the timescale over which they would be delivered.

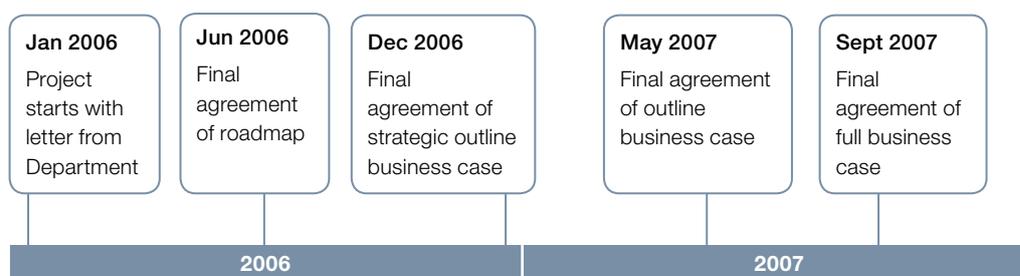
2.2 The decision to opt for the shared service centre followed a structured process. The process began with an initial roadmap and ended with the approval of a full business case by the project board, ratified by the Councils' Chief Executives. The Department commented on early project documentation but was not involved with approving the full business case as it believed this was a decision for the Councils. In all, the decision-making took place within an elapsed time of 21 months (**Figure 3**). Once approved, the Councils expected the Centre to become fully operational by the end of 2009.

Strategic rationale

2.3 The strategic outline business case, agreed in December 2006, set out a rationale for the project based on making efficiencies and bringing benefits to scientists, universities and taxpayers. It included a series of success factors for the project including expected savings (**Figure 4**). The full business case did not, however, have the same level of vision in terms of identified success factors and lacked detail about the benefits to different stakeholders and how they would be delivered.

Figure 3

Timeline of the Council's decision to establish the Centre



Source: Councils' documentation

Options appraisal

2.4 A basic options appraisal was set out in the roadmap in June 2006. Although a more detailed set of options appeared in later documents, no further analysis was carried out. The roadmap set out six options (**Figure 5**) but did not follow HM Treasury published guidance which says that proposed actions should include a do-minimum option.² Overall, the quality of options appraisal was poor reflecting common weaknesses subsequently identified in options appraisal across government including:³

- inadequate development of options against which to judge the preferred course of action;
- lack of monetisation of burdens and benefits; and
- unstructured qualitative analysis.

Figure 4

Shared service centre – identified success factors

- Harmonised administrative capability across all Councils
- Net efficiency savings from initial implementation
- Risks of implementation managed to an acceptable level
- Project should contribute to Councils' ability to deliver other strategic initiatives
- Project must manage expectations of staff and gain acceptance of new ways of working

Source: National Audit Office analysis of shared service centre business case documentation

Figure 5

Options considered

- a A shared service centre owned jointly by the Councils (the adopted option)
- b A shared service centre owned by one Council providing services to all. By 2007 the Medical Research Council had established a shared service centre for its own head office and institutes. The option would have involved extending this to the other Councils
- c Five Councils become functional centres of excellence providing, for example, human resources services to all the others
- d Services outsourced to a commercial provider
- e Services supplied by another public sector shared service centre (for example, the National Health Service)
- f Join with another public sector agency to provide joint services

Source: Councils' shared services roadmap

² *The Green Book: Appraisal and Evaluation in Central Government*, HM Treasury 2003.

³ *Option Appraisal: Making informed decisions in Government*, National Audit Office, May 2011.

2.5 The roadmap applied seven equally weighted criteria to evaluate the options (**Figure 6**). Three of these – criteria one, three and six – were, in our view, clearly linked to the initial strategic rationale for the project.

2.6 We could not determine how the scores against individual criteria were arrived at. Two identified options – e and f – were dropped without any quantified analysis of whether other public sector providers would be appropriate. The remaining four options were each given a score of one to three, against the seven criteria. The scores appear to be purely judgemental with no quantified analysis. For example, no financial analysis was presented to inform criterion six and no stakeholder analysis was presented to inform criterion one. Overall the option appraisal does not show why discarded options would not have been better or less expensive.

Business case

The overall financial business case

2.7 The overall financial case for the Centre presented in the approved business case is summarised in **Figure 7** and forecasts net savings totalling £395 million over the first ten years of operation.

2.8 The financial case in favour of the Centre relied on delivering savings from an improved procurement service, with procurement representing 85 per cent of gross savings to be generated. The combined purchasing power of the Councils and more effective sourcing techniques were expected to bring procurement savings. Without projected procurement savings, the forecast savings from the other four functions would not have covered the Centre's forecast implementation costs. Given the reliance on procurement savings the Councils should have revisited the options appraisal to test whether these savings could be achieved through a procurement only option but did not do so.

Figure 6 Evaluation criteria

- 1 Acceptability to Department, HM Treasury, research community, trade unions and staff
- 2 Risk and complexity associated with implementing chosen model
- 3 Quality of service provided by chosen model
- 4 Flexibility of chosen model to respond to change in policy or strategy
- 5 Councils will retain an acceptable level of control over their processes
- 6 Financial benefits, net of implementation costs
- 7 Governance is sufficiently independent of individual Councils

Source: Councils' shared services roadmap

Figure 7

Shared service centre, summary financial case

	£m
Baseline operating cost over 10 years	327.5
Forecast operating costs under shared service centre model	257.3
Net operational savings	70.2
Implementation costs	78.9
Total savings before procurement	(8.7)
Procurement savings	403.7
Total savings over 10 years	395.0
Net Present Value (at 3.5 per cent)	296.7
Payback	4 years 8 months
Memo: Gross savings (operational and procurement savings combined)	473.9

NOTES

- 1 In March 2009, costs that were originally part of the Company's cost were reclassified as implementation costs. This adjustment is reflected above.
- 2 The 3.5 per cent discount factor used to determine Net Present Value is set by HM Treasury.

Source: Councils' shared service centre project full business case

2.9 Savings are usually categorised in two ways:

- **Cash releasing** Savings generate actual cash which can be used to pay back the project investment, for example, a price reduction where a current price is less than that previously paid.
- **Non-cash releasing** Genuine efficiency savings that do not generate cash because they are based on increased quality, for example, a higher specification product at the price of a more basic one.

2.10 It is recognised good practice to measure separately both cash releasing and non-cash releasing savings in a project. However, HM Treasury guidance says that savings included in a financial business case should be cash releasing as the cash generated can then be used to pay back the investment in the project.⁴ Additionally, as the Councils already had a joint procurement organisation, known as the Research Councils' Procurement Organisation, in place, the Centre had to be justified as achieving greater cash releasing savings than existing arrangements.

⁴ Supplementary guidance to *The Green Book: Appraisal and Evaluation in Central Government*, HM Treasury 2003.

2.11 The £403.7 million of procurement savings included in the business case appear risky. There had been significant volatility in the estimated level of procurement savings with estimates rising from zero in the initial roadmap to £693.9 million in the first draft of the full business case. This level of savings was queried by the project board and, following a review by the Councils' internal audit service, was scaled down to the £403.7 million in the final full business case. The £403.7 million, though, still included £159.3 million of savings that internal audit had concluded were not soundly based.

2.12 The estimated level of procurement savings assumes no benefits would be delivered by a do-minimum option of continuing with the Council's joint procurement organisation. This assumption does not take account of the joint procurement organisation's estimated savings of £170 million over ten years, and there was no consideration in the full business case of whether this estimate was realistic. The Councils argue that the estimate was not reliable. A former senior official in the joint procurement organisation, however, told us that very substantial procurement savings and other benefits were delivered, both for the Councils and their research institutes, before the Centre was established. On the basis of the evidence we have seen, we cannot conclude whether the £170 million figure is realistic but to have assumed no benefits from the joint procurement organisation is unrealistic.

2.13 The Centre's procurement function covers the whole procurement life cycle unlike other government shared service centres that just cover the contracting stage. At 85 per cent of gross benefits, however, the level of procurement savings was high compared to other business cases. Procurement savings typically account for a much smaller share of gross benefits. For example, the NHS and prisons shared service centres include procurement benefits at 36 per cent and 47 per cent of gross savings, respectively.

Non-financial business case

2.14 In addition to the financial savings, the project identified a number of intangible and non-financial benefits, for example, in terms of standardisation and automation. The full business case, however, did not baseline functional performance by the Councils at the time of the business case. The Councils attempted this but told us it was not possible to provide meaningful data. Any improvement in performance under the new arrangements cannot therefore be measured.

Part Three

Establishing the Centre

3.1 This Part examines challenges from establishing the Centre and how far the implementation phase met the expectations set out in the full business case.

Performance against the planned timetable and budget

3.2 The project was completed 15 months later than the target date set out in the business plan. The project board was informed that the planned delivery date was ambitious from the start. As early as May 2007, a gateway review team had raised concern that the initial timetable for completing the project by December 2009 was unrealistic. Slippage against project milestones was evident by late 2007. Although the implementation plan was adjusted, slippage continued. In late 2009, a more realistic reassessment of the timetable and budget were made and new targets set.

3.3 By the end of March 2011 project implementation had cost £130.5 million, an overspend of 65 per cent or £51.6 million against the original budget. This outturn does not take into account elements of the project that either were not delivered at all or need significant improvements to function fully. These items, including fixed asset accounting and inventory management, will be funded by the Councils at an estimated cost of £1.9 million. The outturn also does not take account of £5.5 million spent before approving the full business case in September 2007.

3.4 Our analysis suggests that only £2.3 million of the overspend was due to scope changes. The rest was due to items that were not fully budgeted for at the outset or were the result of delays and inefficiencies, for example, because of slow decision-making (**Figure 8** overleaf). More detailed analysis (**Figure 9** on page 23) indicates significant overspends on design and build activities and the contract with Fujitsu. These elements are examined further in paragraphs 3.11 to 3.15.

Figure 8
Project overspend

	£m	£m	As a percentage of implementation cost in full business case
Implementation costs in full business case		78.9	
Scope changes	2.3		3
Items in scope not fully budgeted for	22.5		28
Overruns or inefficiencies	26.8		34
Total budget overrun		51.6	65
Actual implementation cost		130.5	

NOTES

- 1 Actual numbers have been deflated into 2007-08 terms using the GDP deflator.
- 2 Scope changes include procurement of additional budget analysis software.
- 3 Items in scope not fully budgeted for typically include instances where following agreement of the budget for aspects of work to be undertaken it later became apparent that more work was required than estimated. For example, increased costs resulting from detailed work on the ICT systems.
- 4 The overruns and inefficiencies include indirect costs, for example, project management costs, incurred as a result of delays and additional work required.

Source: National Audit Office analysis of Council data

Project governance, resourcing and assurance arrangements

3.5 The early governance structures in place were complex (**Figure 10** on page 24). A large project board was established to oversee the project, comprising up to 20 attendees and supported by a complex series of sub-groups. As a result the project board found it challenging to gain consensus on the direction and delivery of the project.

3.6 Reviews commissioned during the project identified a need to clarify responsibilities and accountabilities and governance structures evolved in response. For example, a gateway review in September 2007 emphasised the need to clarify accountability and responsibility between the Project Director and the Chief Executive of the Centre. From May 2009, the Chief Executive of the Centre was given line management responsibility for the Project Director, with the latter also responsible to the project board. In June 2010 PA Consulting identified a lack of clarity in the role and remit of the project board, its delegated authorities and its relationship with the Centre and the Research Councils UK Executive. The same review identified shortcomings in the governance structure, notably the transparency of decision-making. This review resulted in recommendations to address key governance deficiencies for the remainder of the project.

Figure 9
Project overspend

Item	Plan (£m)	Actual (£m)	Variance (£m)	Plan (% of total)	Actual (% of total)
Costs relating to the overall project management, design and build of the payroll, finance and HR system and business change programme					
Fujitsu contract	18.4	31.9	13.5	24	24
Direct design and build costs	2.6	15.8	13.2	3	12
Training and migration	5.9	11.3	5.4	7	9
Project management	2.2	11.3	9.1	3	9
Redundancy and other costs within Research Councils	11.3	8.0	(3.3)	14	6
Establishment of RCUK SSC Limited	2.0	3.7	1.7	3	3
Additional budgeting analysis software	0.0	1.4	1.4	0	1
Miscellaneous costs, including planned contingency	3.9	5.9	2.0	5	5
Subtotal	46.3	89.3	43.0	59	69
Costs relating to the design and build of the grants system	8.3	18.6	10.3	10	14
Costs relating to the operation of the Centre before service go-live	24.3	22.6	(1.7)	31	17
Total	78.9	130.5	51.6	100	100

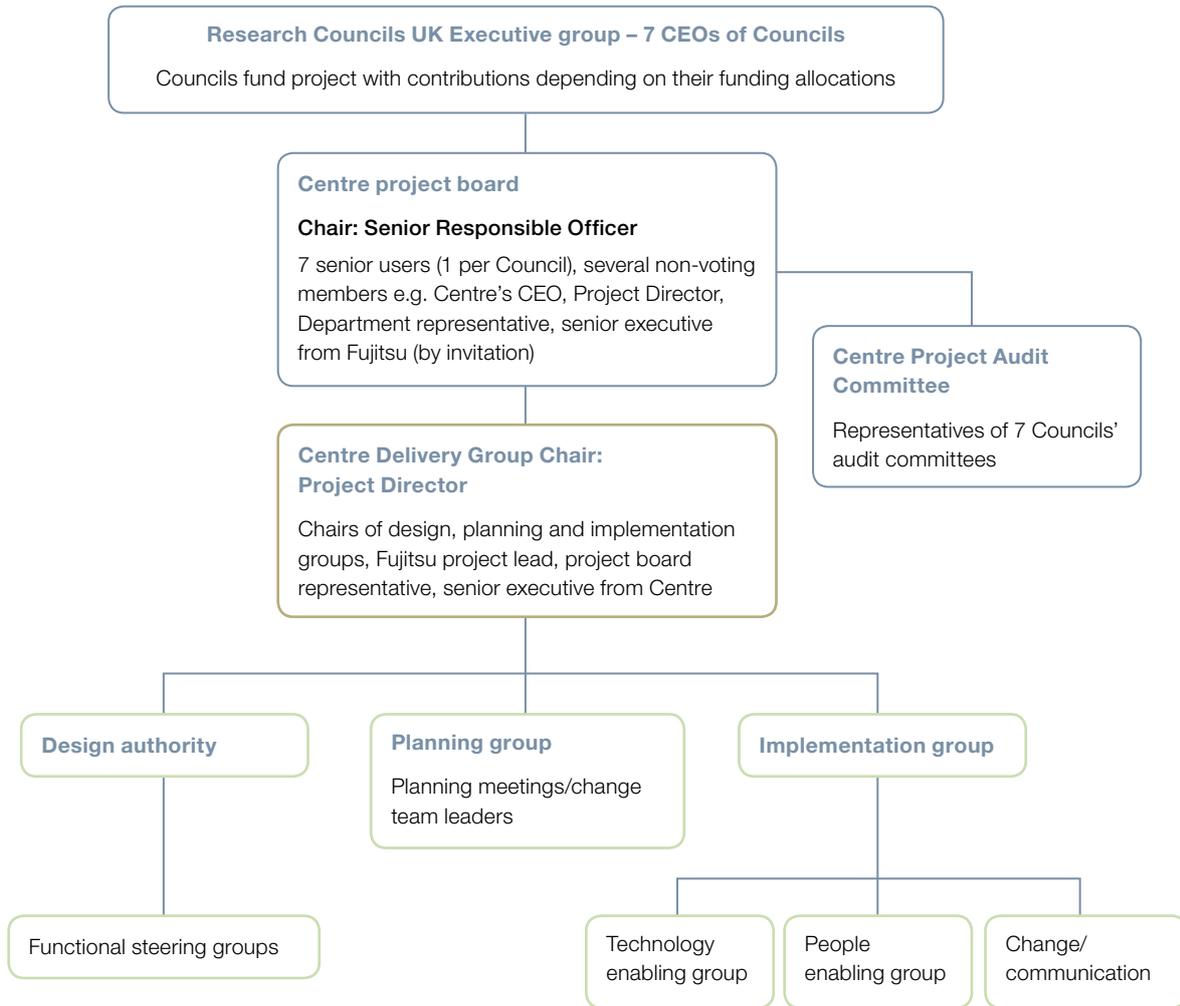
NOTES

- 1 Actual numbers have been deflated into 2007-08 terms using the GDP deflator.
- 2 In addition to the £18.4 million planned Fujitsu costs above, the total Fujitsu contract value of £46 million includes £7.3 million for grants, £15.4 million of contract support costs and £4.6 million for increased costs between full business case and contract signature.

Source: National Audit Office analysis of Research Council data

3.7 Capability and resourcing issues, with the Councils maintaining business-as-usual activities while implementing the project, also impacted on delivery. Our review of project board papers found that members did not sufficiently challenge financial forecasts or take control of cost overruns. Gateway reviews one to three identified a need for better project planning and management. Throughout the project there were also changes among the Project Director and other roles. We also found evidence that recruitment to key project posts was difficult, with the second gateway review recommending that Councils show greater commitment to releasing staff promptly to fill these.

Figure 10
Project structure at beginning of implementation phase (October 2007)



Source: National Audit Office

3.8 The project board received a range of independent reports and there was challenge from a project audit committee, whose representatives came from each of the Council audit committees (Figures 10 and 11). We found evidence that the project board did not always receive and discuss final reports and problems flagged up were often not fully followed up. Action plans were prepared and presented to the board. We could not find evidence that these were subject to regular review at subsequent meetings as a standard procedure, although the Senior Responsible Officer at the time told us all items were discussed. Some issues recur throughout the lifetime of the project, for example, project management is raised as a concern in five of the seven reports listed in **Figure 11**. Towards the end of the project there was clear evidence of improvement with implementation of recommendations more clearly evidenced.

Figure 11
Summary of key assurance reviews

Review and date	Key findings	Followed up by project board
Gateway 1 Review by Office of Government Commerce (OGC) review team January 2007	<ul style="list-style-type: none"> ● Overall Amber status – fit to proceed but action needed ● Project is aligned with government initiatives ● Significant number of decisions required ● Governance and risk management need improvement 	Not fully
Gateway 2 Review by OGC review team May 2007	<ul style="list-style-type: none"> ● Overall Red status – immediate action needed ● Culture, behaviour and track record of Councils means project is high risk ● More detailed plan required 	Not fully
Gateway 3 Review by OGC review team September 2007	<ul style="list-style-type: none"> ● Overall Amber status – fit to proceed but action needed ● Momentum has been maintained ● Greater engagement needed with stakeholders ● Project governance needs to be reformed 	Not fully
Status and Health Check Review by Research Council internal audit February 2008	<ul style="list-style-type: none"> ● Project management is under-resourced ● Planning and reporting is weak ● Greater detail on process design needed ● Time constraints risk quality of ICT systems ● Insufficient emphasis on culture change ● Governance likely to be stretched 	Not fully
Gateway 4 Review by OGC review team January 2009	<ul style="list-style-type: none"> ● Overall Amber status – successful delivery feasible but significant issues exist ● Vision for the Centre needs clarification ● Governance needs simplification ● Project has slipped and suffered from descoping and escalating costs 	Not fully
Assurance assessment by PA Consulting June 2010	<ul style="list-style-type: none"> ● Significant progress has been made since September 2009 ● Confusion between project and Centre ● Technical solution requires some reworking ● Programme controls do not conform to recognised government standards ● Insufficient detail available to conclude on time and cost estimates ● Council expectations unlikely to be met 	Mostly
Gateway 4 Review by OGC review team November 2010	<ul style="list-style-type: none"> ● Overall status of Amber/Green – successful delivery appears probable ● Significant progress made ● Some risks remain, including data migration, management information, governance and support of solution once project has closed 	Yes

NOTES

- 1 For reviews which have not been fully followed up the usual course of events was that an action plan was produced and discussed at a project board meeting but we could not find evidence that the project board subsequently followed up on the action plan, and subsequent events or reports show that issues were not adequately addressed.
- 2 Discussion of the gateway one review is not evidenced in project board minutes.

Source: National Audit Office review of Council documentation

3.9 There is limited evidence that the Department, as sponsor of the Councils, acted to assure itself that the project was progressing appropriately. The Department told us that the Councils made the decision to develop the Centre and implement the project. The Department did oversee the project through six-monthly meetings with the Councils and Senior Responsible Officer and through attendance at the project board as an observer. However, there is no evidence of intervention by the Department when it became clear the project was likely to overspend.

3.10 The problems encountered during implementation here are not unique. While the project board sought advice from individuals with experience of implementing shared services, the project exhibited many common project failings. In 2005 the then Office of Government Commerce produced best practice guidance on common causes of project failure which Accounting Officers are encouraged to consider when implementing new projects.⁵ During project implementation the NAO also published two reports on other shared service centres in Government.

Managing the contract with Fujitsu

3.11 The project board appointed Fujitsu in August 2007 to put in place the ICT systems to underpin the shared service centre in a ten-year contract worth £46 million. The choice of contractor was based on a detailed process using a tender assessment panel. The final bidding stage involved three companies. Fujitsu emerged from the final stage of the bidding process as the preferred contractor but only after the initial recommendation of the panel was revised.

3.12 The initial weightings applied by the panel had placed Fujitsu second: although the bid had scored well on quality, it was 19 per cent more expensive than the cheapest bid. An independent financial review commissioned by the project board supported the basis on which the panel had reached its initial recommendation. However, we found evidence that panel and project board members had concerns with the initial recommendation, as it did not score well on quality requirements. After these reviews, a mathematical error was identified by a member of the project team that changed the order of the preferred suppliers, leaving Fujitsu as the front runner. The panel reconvened to discuss this but, rather than re-performing in full the quantitative and qualitative analysis and submitting this to independent review, it decided to appoint Fujitsu on the basis of a vote. In September 2007 the gateway review team concluded that the incident had weakened the value of the overall process and had left the project at risk of challenge.

3.13 Full delivery was due in September 2008 but the project team and Fujitsu quickly encountered difficulties, resulting in contract termination by mutual consent in November 2009. There was miscommunication between the parties about expectations and deliverables, primarily because design requirements had not been sufficiently defined before the contract started. Fujitsu consequently missed agreed milestones. Fujitsu and the Centre told us that the fixed-rate contract awarded by the project proved to be unsuitable when the customers' requirements were still unclear.

⁵ Office of Government Commerce, *Common Causes of Project Failure*, January 2005.

3.14 Overall the project paid Fujitsu £31.9 million, of which £546,000 related to termination costs. Despite having paid a significant sum to Fujitsu, parts of the system were withdrawn and rebuilt in-house. Had the Fujitsu contract worked as planned, we estimate that the additional £13.2 million design and build costs shown in Figure 9 would not have been needed. In addition the project management overspend of £9.1 million would have been lower, as, after termination of the Fujitsu contract, a significant overhead in managing contractors was incurred by the project.

3.15 The breakdown in relations resulted in Oracle being appointed independently of Fujitsu to deliver the grants element of the project. The contract with Oracle suggested that lessons had been learnt by the project following its experience with Fujitsu, with greater effort given to specifying the design upfront.

Design and transition

3.16 A key factor contributing to escalating costs (Figure 8) was the early lack of clarity about how the service would operate. An outline design, known as a target operating model, was not agreed until August 2008. This was nearly a year after implementation had begun, but it was incomplete and lacked detail. Some elements of design were still ongoing during transition and system launch. While it is unusual for a project to be able to lock down design completely at the outset, it is usual for the design phase of a project to be well advanced in parallel with developing a business case.

3.17 We found evidence that the culture change required in the Councils, to make the Centre work following transition, was not sufficiently addressed. Our focus groups with a cross section of Council staff suggested this was not tackled sufficiently. Internal audit reviews conducted for the individual Councils on their readiness for service identified examples of inadequate change management plans.

Part Four

Current operation and future strategy

4.1 This Part of the report examines whether the Councils and the Centre are currently achieving the benefits expected in the business case.

Delivering the project

4.2 The Councils decided that by March 2011 project implementation was sufficiently complete to enable the project team to be wound-up and responsibilities transferred to the Centre.

4.3 The project has meant that the Centre and the Councils can provide services across the human resources, procurement, finance, ICT and grants functions. As part of the project the Councils have put in place two ICT systems to deliver the Councils' corporate services: the latest release of the Oracle system integrated with a separate application for delivery of grants to the research community. In October 2010, the ICT research and benchmarking advisers, Gartner, undertook a review of the ICT systems on behalf of the Centre. Gartner identified weaknesses, at the time of their review, with disaster recovery, ICT security and the capacity of the system to handle larger volumes. The review, however, concluded that the greater part of the system components are overall suitable and that the systems will continue to provide a workable ICT platform.

Capacity to deliver benefits

4.4 Establishing a single Centre, combining functions from the Councils on a single ICT platform, has the potential to offer broader benefits. These include:

- potentially better access to management information for cross-Council comparisons and therefore greater ability to identify scope for efficiencies and quality improvements;
- improved access to specialist skills, across the functions offered, by a single centre; and
- a potentially simplified and improved control environment.

4.5 The grants function and its associated ICT system developed by the project has allowed the Councils to replace older systems that were increasingly at risk of failing. This is of critical importance, given that the processing of research grant applications lies at the heart of what the Councils do. The single grants system has the potential to make it easier for the Councils to collectively modify their processes in the future. Gartner's October 2010 review raised concerns about the complexity and customisation of the ICT package to deliver the single grants system. Gartner highlighted a risk of the Centre not having the required skills and resources in place to maintain and support the system in the future. The review also recommended that the Centre look to simplify the system to save on the potential cost of future maintenance and modification. The Centre and the Councils have agreed a piece of work to reduce some of these potential costs.

4.6 The new procurement function began operation in May 2008, merging the pre-existing joint procurement organisation and staff across the Councils. The service has significant expertise, with existing and newly recruited staff. Integrating procurement and finance functions within the Centre follows Cabinet Office best practice. The integration should allow for more effective monitoring and control of procurement activity than is possible with separate functions. To maximise the benefits realised so far, the Centre needs to resolve the current management information issues discussed below.

Current operation

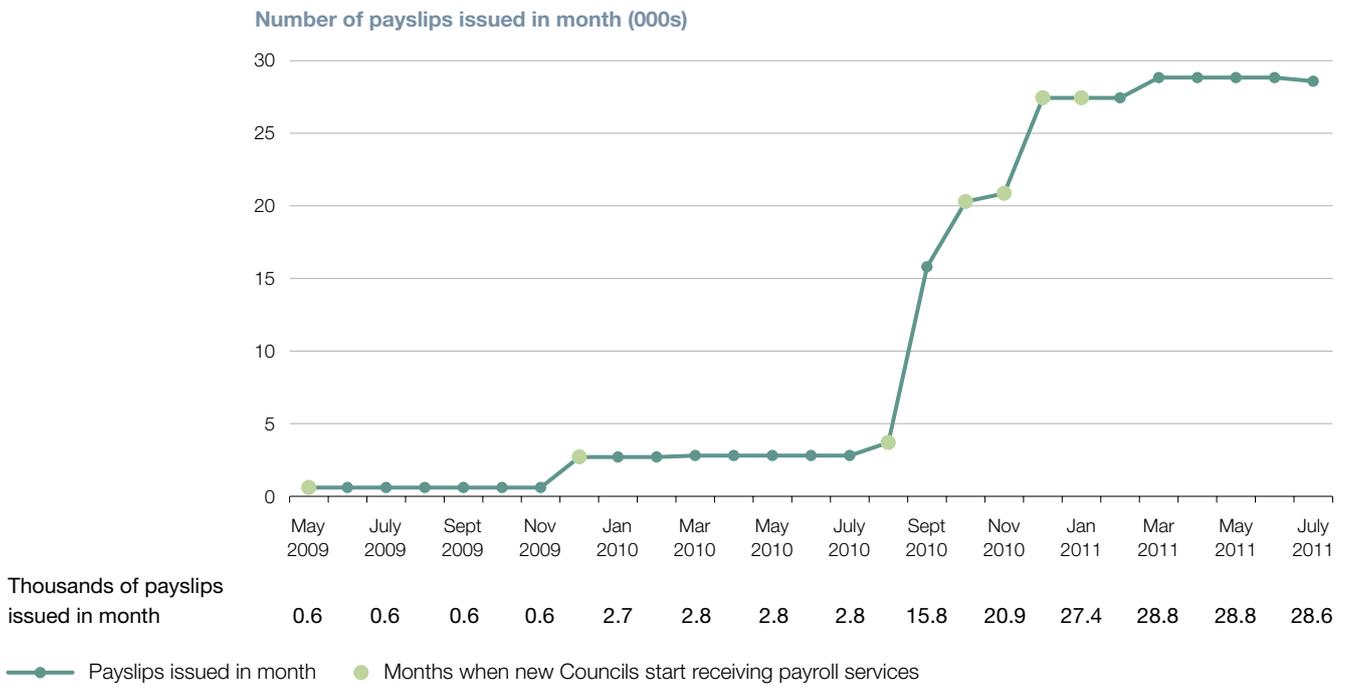
4.7 Ensuring the performance of shared service processes settles down and known problems are rectified – encompassing processes in both the client and the Centre – can take up to a year after launch. This needs to be taken into account when judging early performance. In this instance, the Centre has been taking on responsibility for providing services in a phased transition since May 2008:

- Procurement and information systems functions were transferred in 2008.
- Human resources and finance functions were transferred over a 23-month period from February 2009 to January 2011. The largest, by transaction volume, and most complex Councils were transferred towards the end of that period (**Figure 12** overleaf).
- Grant allocation was transferred to the new ICT platform between December 2010 and March 2011.

4.8 Our assessment of the current operation was made in early 2011-12, with our work to review process maturity taking place in summer 2011, when at least some functions had been only recently transferred.

Figure 12

Payslips issued by the Centre illustrating how transaction volume increased with successive migrations



NOTES

- 1 Medical Research Council transitioned to the Centre in February 2010 on a legacy ICT platform. Their payslips, 6,600 per month, appear from December 2010 in this graph – the date they went live on the Oracle platform.
- 2 A similar pattern of volumes can be seen in the phased transition for finance.
- 3 As volume of payslips issued has increased the Centre has reduced the error rate from a high of 2.5 per cent in June 2009 to 0.01 per cent by July 2011.

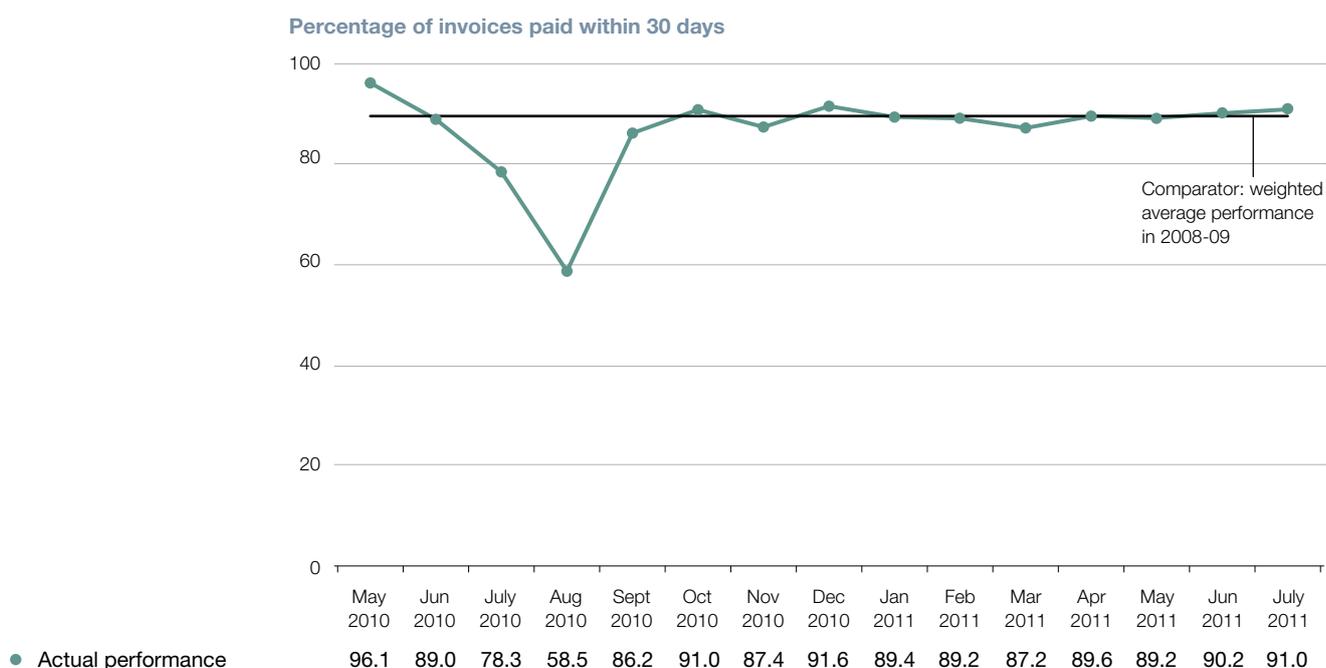
Source: The Centre

Processing transactions

4.9 The lack of historic performance data noted in paragraph 2.14 means it is not possible to compare current overall service performance with performance before the Centre was created. There is, however, historic information on the Councils’ performance in paying invoices and therefore some comparisons can be made on this. Paying invoices requires action by both the Centre and the Councils (**Figure 13**). The Centre’s figures show that the new arrangement has matched the average payment performance of the Councils in 2008-09, before the new Centre was in operation. There is, however, evidence in the Centre’s performance reports that a high number of invoices were on hold at the end of July 2011 because of problems with the end-to-end processes. At the time of reporting the reasons for delays were being investigated by the Councils and the Centre.

Figure 13

Performance in paying invoices within 30 days, comparison of current weighted performance with performance in 2008-09

**NOTES**

- 1 Across the period May 2010 to June 2011 the overall weighted average performance was 89.2 per cent. The best Council on average paid 95 per cent of invoices within 30 days while the worst paid only 80 per cent. In 2008-09, weighted average Council performance was 89.6 per cent. The best Council paid 99 per cent of invoices within 30 days while the worst paid only 84 per cent.
- 2 Performance for the first six months after a Council has transitioned to the new Oracle platform operated by the Centre is excluded.
- 3 At the time of reporting the number of invoices on hold awaiting payment has risen across the period from 400 in May 2010 (8 per cent of all invoices paid in that month) to 5,900 in July 2011 (21 per cent of all invoices paid in that month).

Source: For 2008-09, Research Council Accounts, otherwise the Centre

4.10 To process transactions reliably, the Centre and Councils need stable ICT systems and a strong control environment. By March 2011, the Councils' internal audit service had issued 11 assurances on the end-to-end processes covering the control environment in both the Centre and the Councils. In all cases internal audit gave limited assurance indicating that, although systems were satisfactory, there were a number of significant weaknesses to be addressed. Internal audit also carried out four assessments on the Centre itself, covering business planning, governance, information security and strategic procurement. Internal audit obtained substantial assurance in these areas.

Providing management information

4.11 The business case envisaged an improved quality and consistency of reporting and management information as a key benefit of the project.

4.12 Improving management information was raised as a priority in all the focus groups we held with Council and Centre staff. Senior Council staff told us that they were at times running parallel systems or managing their businesses without adequate data. The Arts and Humanities Research Council raised concerns about the impact of poor quality management information in their statement on internal control accompanying their *2010-11 Annual Report and Accounts*. The Centre has recently put forward a plan to improve the quality of management information at an estimated cost of £1.5 million.

4.13 The framework for measuring the performance of the Centre has yet to be fully developed. By July 2011, the Centre and its biggest customer, the Medical Research Council, had still to agree a master services agreement. The agreement should be underpinned by service level agreements for all functions. The agreement for finance was out of date and the Councils and the Centre were still negotiating the procurement agreement. The other four service level agreements were current but we found variations in three of these between the performance targets agreed and those contained in the performance report issued in July 2011 to Councils.

4.14 For July 2011, the Centre intended to report its performance to Councils against 53 key performance targets. Of these, the Centre was unable to measure activity against 16 of them and was therefore only measuring activity against 37 targets. The Centre achieved only 13 of these targets, 25 per cent of all the targets set.

Accounts production process

4.15 Weaknesses in some of the end-to-end processes between the Councils and the Centre during 2010 and the planned migration of further services to the Centre prompted some of the Councils to delay delivery of their 2010-11 audited accounts. The normal expectation for central government accounts is that they should be audited and published before the summer Parliamentary recess. During 2010, the Centre and the Councils, working with internal and external auditors, identified a range of potential weaknesses with the finance process. These included parts of the finance ICT system not being delivered by the project, weaknesses in the end-to-end control environment leading to some errors, a significant number of unreconciled accounting balances, and a lack of clarity in some of the evidence trails in support of transactions and financial reporting in the Councils. In addition, some Councils were struggling to implement the fixed asset module. Circumstances were different for each Council, partly depending on the complexity of their operations and when they had migrated a particular function. The Councils decided collectively to delay publishing all seven accounts before the recess. This was based on their risk assessment of the burden, on the project, the Centre and themselves, of trying to rectify the issues and produce the accounts, which could disrupt implementing the new grants system and the stability of the Centre. By the end of July 2011, two Councils had submitted audited accounts to Parliament.

Achieving financial benefits to date

Achieving procurement savings

4.16 As mentioned in paragraph 2.8, the decision to opt for a shared service centre relied heavily on procurement savings.

4.17 Since it began, the Centre has recorded procurement savings of £35.2 million against the business case. Many of these are valid benefits but not all should be counted against the business case. As explained in paragraph 2.10, savings should ideally be both cash releasing and additional to those achieved by the former joint procurement organisation. Our review of 19 high-value savings, representing 40 per cent of savings recorded to the end of 2010-11, suggested that at least 35 per cent of the benefits claimed were not cash savings and therefore should not be claimed against the project investment (**Figure 14**). The reasons that savings fall into this category include:

- The Centre has been unable to provide paperwork to substantiate the claimed saving.
- Saving was indistinguishable from normal business practice such as disputing costs claimed by a supplier.
- Clear evidence exists that the budget holder had no intention or need to pay the higher price against which the saving was calculated.

Figure 14
Procurement savings

	£m	
Procurement savings achieved by the Centre against the Councils' core business	35.2	
Of which: tested by the National Audit Office	14.0	
	Amount (£m)	Percentage of tested total
Cash releasing saving	7.0	50
Ambiguity in baseline used – unclear that saving is cash releasing	2.1	15
Benefit recorded is not cash releasing	4.9	35
Total	14.0	

NOTES

- 1 Actual numbers have been deflated into 2007-08 terms using the GDP deflator.
- 2 Savings are measured as the difference between the actual price paid and an alternative baseline. Ambiguity exists where the baseline used is not cash releasing but an alternative baseline may have been.

Source: National Audit Office

4.18 Without baseline information on what the joint procurement organisation might have achieved (paragraph 2.12), it is not possible to say what proportion of the claimed savings (cash releasing or otherwise) are due to the establishment of the Centre.

Operational savings

4.19 In May 2011, the Councils provided us with figures for achieved savings up to March 2011 consistent with their reports to the project board. In September 2011, the Councils advised that savings were £28 million higher than reported previously owing to errors in the original numbers. Further review has shown that:

- the Councils cannot fully reconcile the two sets of numbers;
- the Councils had not used a single method for calculating benefits or tracked these effectively; and
- we have identified £7 million of expenditure incurred by the Centre but not included in the Council's benefit calculations. It has not been possible to determine the impact of this on the reported benefits as assumptions in the full business case on how they should be treated are unclear.

4.20 Overall, this review has highlighted that Councils have not put in place proper processes to track benefits and forecast future operational savings. As a result our findings are presented in the context of a lack of clarity by the Councils about the accuracy of their numbers. Figures 15 and 16 use the numbers submitted to us in September, adjusted by us to take account of known errors.

Overall savings to date

4.21 The Councils are not currently achieving the savings forecast in the full business case. At the end of the 2010-11 financial year, operational savings were at least £9 million lower than in the business case. On a best case scenario, procurement savings are £12.6 million lower than projected in the full business case. Actual cash saving procurement efficiencies may be lower than this given the results of our investigations above. Factoring in the increased implementation costs mean that the Councils have underachieved benefits to date by at least £73.2 million (**Figure 15**).

Figure 15

Achieving financial benefits, 2007-08 to 2010-11

	Projected in full business case	Best case actuals	Difference (Best case actuals compared to full business case) (£m)
	(£m)	(£m)	
Operational savings	5.7	(3.3)	(9.0)
Implementation costs	78.9	130.5	(51.6)
Total savings before procurement	(73.2)	(133.8)	(60.6)
Procurement savings	42.9	30.3	(12.6)
Total savings	(30.3)	(103.5)	(73.2)
Memo: Gross savings (operational and procurement savings combined)	48.6	27.0	(21.6)

NOTES

- 1 The Councils reported £35.2 million of procurement savings to date have been adjusted by the £4.9 million non-cash releasing savings shown in Figure 14.
- 2 Actual numbers have been deflated into 2007-08 terms using the GDP deflator.

Source: National Audit Office analysis of Research Council and the Centre's data

Capacity to achieve financial benefits in the future

4.22 In late 2010 the Councils and the Centre revised the savings expected over the ten years of the business case to provide a current target taking into account project slippage. The Councils do not expect to recover the underachieved benefits to date, but expect the gap to full business case to increase. The numbers submitted by the Councils show the gap to be £195 million over the lifetime of the project (**Figure 16** overleaf).

4.23 In our view, the Councils revised target for savings to be achieved is optimistic. The Councils themselves have told us that the revised target is not necessarily an accurate forecast. For example, the Councils had a high cost of retained functions in 2010-11 as a result of stabilisation taking longer than anticipated in the full business case. For 2011-12 the revised target assumes significant additional savings will be achieved in retained functions compared to previous years, equivalent to saving over 100 per cent of the 2010-11 retained cost. In our view this is not a realistic savings assumption. Further, investments needed to deliver savings have not been included in calculations supporting the revised target. The revised target also includes, at 83 per cent, a high level of procurement savings. This procurement target includes elements of double counting and has not been adjusted to ensure it only includes cash releasing savings resulting from the establishment of the Centre. As a result, we consider that the positive net present value in Figure 16 is based on a number of unsound assumptions. Therefore, 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.

Figure 16

Councils' targeted financial benefit case, 2007-08 to 2017-18

	For full 10 years of business case		
	Projected in full business case	Best case Council target	Difference (Best case target compared to full business case) (£m)
	(£m)	(£m)	(£m)
Operational savings	70.2	54.6	(15.6)
Implementation costs	78.9	130.5	51.6
Total savings before procurement	(8.7)	(75.9)	(67.2)
Procurement savings	403.7	275.9	(127.8)
Total savings	395.0	200.0	(195.0)
Net Present Value (at 3.5%)	296.7	137.1	(159.6)
Payback	4 years 8 months	6 years 11 months	2 years 3 months longer
Memo: Gross savings (operational and procurement savings combined)	473.9	330.5	(143.4)

NOTE

1 Actual numbers have been deflated into 2007-08 terms using the GDP deflator.

Source: National Audit Office analysis of data from Councils and the Centre

Internal capacity to improve further

4.24 To mitigate the risk of failing to pay back the investment, the Centre, working with the Councils, needs to have the capacity to improve. We reviewed a sample of the current processes to determine the extent to which improvements were being identified and made.⁶ Overall, we found that while some building blocks are in place there is scope to make substantial improvements by:

- **Harmonising processes further** We saw examples of the same activity performed differently dependent on the Council it is performed for.
- **Strengthening end-to-end process management** A better understanding of how changes made in the Centre affect the work required from the Councils would allow greater targeting of service improvements.
- **Embedding continuous improvement** A structured approach to capturing and implementing process improvement would reduce the current reliance on project and ICT activity to make operational savings.

6 To do this we used our Process Management Maturity Model, further details of which can be found at http://www.nao.org.uk/publications/1011/process_management.aspx

4.25 Making these changes would be helped by improving the charging mechanism. Currently, the Centre charges the Councils on a cost recovery basis with Councils paying a share related to their historical cost, with no direct relationship between the cost of service provided and the quality and quantity received. This reduces the incentives to maximise efficiency and effectiveness. The business case envisaged changing to a volume-linked mechanism within 12 months of operation. Data for this is now being collected through a trial charging mechanism. Beyond this, more work is needed to link price to quality of service and determine the flexibility available to the Centre to under or over-recover costs.

External capacity to improve further

4.26 The Centre and Councils consider that further efficiencies could be achieved by providing services to a wider range of clients. The Centre believes that expansion would allow the fixed costs of the Centre to be shared among a greater number of clients. It has estimated that growth may mean it can reduce the cost of services to the Councils by a third, in real terms, by 2014-15 compared to 2010-11.

4.27 The Department is considering whether to require further bodies to transfer to the Centre. The Department is considering tentative plans for transferring the core-department and major partner organisations to the Centre between June 2012 and March 2014. The Department is hoping to achieve operational savings within the current spending review period. To enable this project, the Department, in October 2011, was allotted by the Councils a share in the ownership of the Centre.

4.28 If the transfer goes ahead, additional investment will be needed to configure systems and change culture. Some significant risks will need to be managed, taking account of the Centre's stage of maturity and the cultural change likely to be required among the bodies set to use its services. At present, the Centre has no capacity to adopt ICT and business processes for new customers. Work is ongoing by the Centre to scope and develop this capacity. More generally, the Department told us it is assessing the risks. It has classified its plans as a major project, putting in place a higher level of oversight and governance than normal.

4.29 The Department has commissioned two external reviews to assess the stability of the Centre and its capacity to grow. The first of these reported in April 2011 concluding that it would take 12 to 15 months to make the current operations stable and cost effective before expanding. The second of these, by PriceWaterhouseCoopers reported in September 2011 and found that the Centre is close to being stable but with some functions more stable than others, for example:

- human resources and procurement are the most stable areas;
- ICT follows but needs to reduce the backlog of incidents and improve the visibility of the root causes of incidents;
- grants has not been in operation for a full year so will take longer to fully stabilise; and
- finance faces some specific, high-profile issues to resolve affecting stability including a high number of invoices on hold, issues with period end close and gaps in management information.

4.30 PriceWaterhouseCoopers also concluded that there is substantial work required by both the Centre and the Department before it is ready for transition. Within the Centre, PriceWaterhouseCoopers found that the main issues were the ownership and governance model, and, at an operational level, developing end-to-end process management, establishing appropriate performance indicators and developing a robust target operating model.

Appendix One

Study methods

Method	Purpose
Review and modelling of financial data on the project costs, the Centre's operating costs and costs of retained functions.	To analyse forecast and actual performance against budget case.
Review of procurement benefits.	To test the validity of a sample of recorded savings.
Review of the project, the Centre's and the Department's documentation.	To assess the decision to proceed with the project, the implementation of the project and current operation and strategy of the Centre.
Semi-structured interviews with project team, project board members, Council staff, staff from the Centre and officials from the Department and their advisers.	To inform our understanding of how the Councils planned, designed and implemented the project and of the Centre's current operation and future strategy.
Four focus groups, one per function, with nominated representatives of each Council.	To gather customer perspectives on the transition to receiving services from the Centre and the current strengths and weaknesses in the operation of the Centre.
Applying process management maturity model to five processes in the Centre and their overall approach to improvement.	To assess the current performance and capacity to improve process management within the Centre.



Design and Production by
NAO Communications
DP Ref: 009704-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation which ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,

London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

£15.50

