National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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Cross government

Efficiency and reform in government corporate functions through shared service centres

Key facts

£1.4bn	£159m	£255m
spent to date on five shared service centres	of planned savings by end 2010-11	is the actual net cost of those shared service centres tracking benefits

Seven	years evolving shared services
£1.4 billion	spent to deliver the core back-office functions of human resources, finance, procurement and payroll
£159 million	of savings expected from these Centres to the end of 2010-11
£255 million	is the net cost of the two Centres that are tracking their cumulative benefits
One	Centre broke-even within five years

Summary

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

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

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

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

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

Key findings

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

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

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

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

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

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

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

The future

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

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

Conclusion on value for money

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

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

Recommendations

Recommendations for the Cabinet Office

a **The Cabinet Office strategy and business case, if managed, resourced and supported appropriately, will address most of the issues in this report.** The Cabinet Office should consider all of its options and assess whether a lower risk solution would provide better value for money, for example by extending the overall timescale of the project or by establishing additional procurement frameworks for back-office services. It should also ensure that its projections from the business analysis adequately reflect the identified risks of the project and have sufficient allowance for optimism bias.

b **The Cabinet Office did not have the powers to mandate shared services.** Without a mandate, we do not think that coherent shared services are likely to be achieved. If there is an overall value-for-money case for the taxpayer, the Cabinet Office should seek appropriate authority to mandate the shared services strategy and its implementation. The Cabinet Office should also make sure that there is clear accountability for implementing its new shared services strategy. This should be managed as part of a wider change programme, ensuring sufficient capability exists in the shared service centre and customer. The Cabinet Office should also ensure that the strategy aligns with other reforms across government such as Civil Service HR and the Clear Line of Sight project.

c **The planned benefits from the implementation of shared services have not been realised.** Costs and benefits will need to be measured in both shared service centres and customers and the Cabinet Office should use these to establish a clear baseline and incentivise continuous improvement. Performance information should be used to inform current and future strategy.

d **There have been barriers to departments joining shared services.** The Cabinet Office has recognised these barriers and should issue guidance to departments on overcoming them.

e **The Cabinet Office could have done more to challenge the performance of customers and providers by establishing reliable cost and performance benchmarks.** The new strategy helpfully includes proposals to develop reliable cost and performance benchmarks. The Cabinet Office should publish its measurement system and establish at an early stage benchmarks that can be used to assess the success of its strategy. These benchmarks should cover the performance of both customers and providers.

Recommendations for customers

f **Most shared service customers do not have adequate information on costs, performance and benefits to make informed decisions.** Customers, or those commissioning shared services, must set out clear accountability for managing all costs and benefits associated with shared services (not just those incurred in the shared service centre). They should make sure that these are recorded, independently scrutinised and then benchmarked with appropriate external comparators to assess performance.

g **Most customers of shared service centres have not acted as intelligent customers.** Customers should implement a professional management function to ensure shared services comply with service level agreements and reduce costs, by for example, standardising services, managing demand and improving service delivery.

Recommendations for shared service centres

h **There are other options to reduce costs in addition to increasing the number of customers or implementing a new ERP system.** Centres need to investigate ways of becoming more efficient in delivering their service to customers. They should explore all opportunities to reduce costs including accommodation, staffing, process and technology.

i **Shared service centres and their customers have not worked together to increase benefits.** Centres need to operate as independent business units but must also collaborate with their customers to achieve benefits and to monitor performance.

j **The benefits of shared service centres are not clearly demonstrated.** Bodies commissioning shared services and the centres themselves should ensure that the case for shared services is clearly evidenced. They need to clearly define the benefits and costs from shared services and separate these from the benefits and costs associated with implementing ERP systems.