



National Audit Office

Report

by the Comptroller
and Auditor General

Cabinet Office

Update on the Next Generation Shared Services strategy

Key facts

5

is the expected total number of shared service centres for government

2

independent centres for government that have been created

3

is the expected number of standalone centres

**£400 million –
£600 million
per annum**

is the expected total annual savings across government from the implementation of the Next Generation Shared Services strategy

**£128 million
per annum**

is the expected annual savings, included above, achieved from the full implementation of the two independent shared service centres

£9.8 million

is the Cabinet Office spend to date on the Next Generation Shared Services strategy

Summary

Introduction

1 Experience from the private sector and parts of the public sector show that, when implemented effectively, sharing services can make significant efficiency savings and improvements in the quality of administrative functions. With any such major change programmes, especially those involving technology, there are also substantial risks to be managed.

2 Since 2004, central government has sought to reduce the cost of administering finance, human resources and procurement services through sharing back-office functions. In previous National Audit Office (NAO) studies, we found that the government as a whole had not been able to demonstrate value for money from these initiatives.

3 Shared service initiatives have been an area of interest to the Committee of Public Accounts (the Committee). In July 2012 the Committee issued a report commenting on the emerging strategy that the Cabinet Office was developing. In the report, the Committee welcomed the Cabinet Office's renewed focus on improving shared services but noted that the emerging strategy contained risks, and had a particularly challenging timetable. The recommendations made in the report were designed to help the Cabinet Office succeed with its new strategy and to learn from previous initiatives. The recommendations are outlined in **Figure 1** overleaf. Appendix One outlines the progress the Cabinet Office has made against each of these recommendations.

4 The Cabinet Office published its Next Generation Shared Services strategy in December 2012. This strategy set out how central government would implement, operate and manage back-office shared services across departments and arm's-length bodies. The Cabinet Office estimated that the savings from this initiative would be between £400 million and £600 million per annum.

5 The estimated implementation cost was between £44 million and £95 million. As at the end of January 2014 the Cabinet Office spent £9.8 million on the Next Generation Shared Services strategy. The Cabinet Office did not have the total implementation costs for the programme across the participating departments. It was collecting this information at the time of our fieldwork.

Figure 1

The Committee's recommendations from 2012

Recommendation

Intelligent customer

The Cabinet Office should ensure that lessons from 'intelligent customers' are captured and shared, in particular on standardising processes. These lessons should be applied when departments join the new independent shared service centres.

Leadership

The Cabinet Office should appoint a suitably empowered senior responsible owner and seek the authority to ensure that all departments and their arm's-length bodies use shared services and stop providing their own back-office functions.

Management information

The Cabinet Office should build on NAO analysis to establish a set of performance benchmarks to measure the success of its new strategy.

Implementation

The Cabinet Office should expressly consider whether a simpler one-step implementation plan would provide better value for money.

Funding

The Cabinet Office and HM Treasury should review funding arrangements to consider how they could be more conducive to effective long-term investment and long-term savings.

Wider shared services

The Cabinet Office should develop a long-term strategy identifying how it planned to extend the principle of shared services beyond the present back-office functions.

Project plan and milestones

The Cabinet Office should prepare a plan for implementing the new shared services strategy that sets out key milestones and target savings, and explicitly addresses the recommendations in both of its reports. It also requested an update on progress against the milestones by the end of December 2012.

Source: National Audit Office analysis of Committee of Public Accounts recommendations

6 This memorandum is part of the ongoing work that the NAO is doing to look at the reform of the civil service and the role of the centre of government. It updates the Committee on the progress the Cabinet Office has made in implementing recommendations from the Committee's 2012 report. Although government attempts at developing shared services have been ongoing since 2004 this most recent Cabinet Office strategy is not due to complete until 2016. We have therefore not sought to conclude on the value for money of this new strategy. Part One of this report summarises the progress the Cabinet Office has made in implementing its strategy.

Main findings

7 The Cabinet Office has not fully addressed the Committee's recommendations within the timescales it set itself. We consider that of the seven recommendations only two have been implemented in full. The remaining five are being progressed.

8 The Cabinet Office has concentrated on establishing two new independent shared service centres:

- the first independent shared service centre has been created and is now run and owned by a private sector company, arvato Ltd;
- the second shared service centre, Shared Services Connected Limited (SSCL) was set up as a joint venture with Steria Ltd and began operations in November 2013;
- the Cabinet Office has taken ownership of the contractual relationship between government and the shared service providers; and
- the Cabinet Office has established a Crown Oversight Function to manage these service centres on behalf of the government.

9 These measures mean a significant change in the role of the Cabinet Office. The Cabinet Office is now responsible for the strategic management of the performance of the outsourced providers in the two shared service centres that provide services to 140,000 customers. For example, the Cabinet Office Accounting Officer will need to assure the customers of shared services that their risks are being adequately controlled by the shared service centres. Methods to assess and convey this assurance had not been finalised at the time of our review. These measures, therefore, represent a major change to the service delivery and commercial landscape for the provision of government back-office services.

10 Our review identified no major issues with the services offered by the two new centres immediately following their implementation. The overall programme is broadly on track with the first shared service centre being outsourced by its target date of March 2013 and the second having a joint venture partner in place before its target date of March 2014.

11 To meet the timescales for establishing the second shared service centre, an ambitious timetable for procurement was set. This timescale was met. However, as a result some stakeholders considered they did not have enough time to fully consider the impact of the programme.

12 In addition, a number of activities have been deferred. For example:

- The Cabinet Office had planned to develop two standard models for delivering services to the customers of the shared service centres. In the case of the second shared service centre this was originally envisaged to have been completed before the procurement of a joint venture partner. This part of the plan was deferred and both shared service providers are now developing the standard service models. In the case of SSCL, the Cabinet Office estimates that the standard model will be fully implemented for existing customers by 2018.
- The majority of migrations were originally scheduled to complete by the end of 2014. This activity will now continue into 2015, with new customers joining the centres through to 2016.

13 The ambitious procurement timeline, combined with the change in role of the Cabinet Office and the need to implement a standard way of working leave a number of significant challenges still to be addressed. These challenges include:

- **Maintaining clear leadership, as the Cabinet Office assumes its new role for delivering and prioritising the programme for the benefit of government as a whole.** The Cabinet Office has clear ownership of the £400 million to £600 million per annum savings, and needs to work closely with departments to realise these.
- **Designing the 'standard' model for services provided by the shared service centres and implementing the technology to support this.** This will involve two new systems and ensuring departments use them effectively. In the course of our review, the initial design for the technology to support the standard models in both shared service centres was agreed. For SSCL, the first departments will now have to quickly agree on the detailed functionality of the systems. Departments joining later will have to adapt their processes according to this model. We have seen in our other work how public bodies have struggled to gain agreement with its stakeholders in technology change programmes.

- **Migrating existing and new customers of the shared services to this standard model.** As the programme gains momentum, the Cabinet Office will need to sustain the balance between ensuring that services are maintained and enhanced for founder customers and the migration of new customers to the shared service centres. We have already seen minor delays in transferring some of the smaller agencies' services to the arvato Ltd shared service centre. Some bodies have compelling reasons to join the shared service centre and will need to be given priority. This may be because support arrangements for software or existing support contracts are ending. The Cabinet Office is aware of this challenge and will need to make what could be difficult decisions in reprioritising the programme.
 - **Helping departments to become 'intelligent customers' of the shared services.** This includes changing departments' ways of working to get the most out of the centres and to realise the value of the initiative. From our review we found that the Cabinet Office was beginning to engage with departments. There was however, confusion among the users of shared services as to the level of support that would be offered by the Cabinet Office to help them become intelligent customers.
 - **Ensuring that accountability is clear between the service providers, the Crown Oversight Function and the customer department.** The Crown Oversight Function is new and its first major test will be when departments adopt the standard operating model.
- 14** The Civil Service Reform Plan of June 2012 outlined initiatives to share a wider range of services and expertise. This is likely to include functions such as grants, estates, facilities management and security vetting. It is unclear how the various projects will connect with the Next Generation Shared Services strategy.
- 15** The Cabinet Office has also not sought to learn from the experiences of local government. Although it acknowledges that better collaboration between local and central government could expand the use of shared services, the Cabinet Office has not looked at this as a way of increasing the limited shared service expertise within central government.

Conclusion

16 To achieve value for money the Cabinet Office needs to have management information that is robust, more timely and comparable. It also needs to make sure the full benefits of the entire programme are properly realised and tracked. The Cabinet Office and departments will need to be clear in their reporting of the savings that have been achieved through sharing services and those savings that would have been achieved by reduced activity as a result of government spending constraints.

17 Our previous reports on shared services have found that the government has not been able to realise the potential of shared services to save taxpayers' money. In 2012, the Committee was disappointed in how the Cabinet Office had previously engaged with its recommendations. This time progress has been made, and the programme is broadly on track. However, as the Next Generation Shared Services strategy enters its most challenging phase it will be crucial that the Cabinet Office completes its work to address the Committee's recommendations. It will also have to work with departments to ensure that the challenges of the programme are addressed, the full benefits are realised and that service is maintained.

Recommendations

18 The Cabinet Office should complete its work to address the recommendations made by the Committee in its 2012 report. In addition:

- a** **The Cabinet Office needs to work with departments to help them become intelligent customers of shared services.** Departments need to educate users on how to get the most value from shared services. The Cabinet Office and departments should work together to establish a programme to implement a government-wide intelligent client initiative.
- b** **The Cabinet Office should ensure that departments sign up to the standard operating model and do not implement unnecessary variations to services.** There will be a tension between getting departments to join the centres and sticking to the programme's timetable and maintaining a standard operating model that is acceptable to all users. The Cabinet Office will need to show continued leadership to resist unnecessary changes to the standard model.
- c** **The Cabinet Office should build on its existing work and ensure that benchmarks to measure performance and cost of services are robust, consistent and produced on a more timely basis.** The Cabinet Office has made progress in establishing benchmarks but needs to continue to work with departments to refine them further so that they can improve the quality of their services and demonstrate value for money.

- d The Cabinet Office should work with the shared service centres to clearly manage the competing priorities presented by the programme.** The Cabinet Office must balance an ambitious target of transferring new customers to the shared service centres with running the existing services.
- e The Cabinet Office should agree and implement measures to provide the customers of shared services with assurance that the activities of the service centres are appropriately controlled.** The Cabinet Office, having assumed the responsibility for overseeing the independent shared service offering, is responsible for ensuring the centres have appropriate control measures in place to maintain the integrity of the service and the underlying data. The Accounting Officers of customer departments will need robust assurance from the Cabinet Office that this responsibility is being discharged.
- f The Cabinet Office needs to coordinate the various initiatives for shared services set out in the Civil Service Reform Plan and the Next Generation Shared Services strategy.** Many of the shared service initiatives set out in the Civil Service Reform Plan will affect back-office services. The Cabinet Office should ensure that the impact is fully understood on both the shared services and the departmental retained functions.
- g Central government should work with local government to explore ways to make joint savings and share lessons learned.** As stated in the Committee's 2012 report, central government could learn from local government shared services initiatives. Wider collaboration between local and central government could also be a way of expanding the use of shared services. It would also allow the limited expertise in shared services to be shared more widely across government.