



National Audit Office

Report

by the Comptroller
and Auditor General

Cabinet Office

Update on the Next Generation Shared Services strategy

Our vision is to help the nation spend wisely.

Our public audit perspective helps Parliament hold government to account and improve public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of almost £1.2 billion in 2012.



National Audit Office

Cabinet Office

Update on the Next Generation Shared Services strategy

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 31 March 2014

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

28 March 2014

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.

© National Audit Office 2014

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.

Links to external websites were valid at the time of publication of this report. The National Audit Office is not responsible for the future validity of the links.

10386 03/14 NAO

Contents

Key facts 4

Summary 5

Part One

Progress since the last report 12

Appendix One

The Committee's recommendations 20

Appendix Two

The changing landscape of government
shared services 24

Appendix Three

The current plan 26

The National Audit Office study team consisted of:
Elizabeth Livingstone and
Mark Wynniatt, under the direction
of Steven Williams.

This report can be found on the
National Audit Office website at
www.nao.org.uk

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

Enquiries: www.nao.org.uk/contact-us

Website: www.nao.org.uk

Twitter: @NAOorguk

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.

Part One

Progress since the last report

1.1 Sharing services can make significant efficiency savings and improvements in the quality of administrative functions. By sharing these functions the private sector has typically saved in excess of 20 per cent, with a less than five-year return on investment.¹ In the public sector shared services have also delivered some benefits, including financial savings in some programmes, better management information and faster, more robust transaction processing.² With any such major change programmes, especially those involving technology, there are also substantial risks to be managed.

1.2 Since 2004, central government has sought to reduce its costs 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.³

1.3 The Cabinet Office published its Next Generation Shared Services strategy in December 2012.⁴ This strategy set out how central government would implement, operate and manage back-office shared services across departments and arm's-length bodies. The strategy outlined the following objectives to be achieved between 2012 and 2015:

- **Independent shared service centres.** To create two independent shared service centres and transfer the back-office services of target departments to these service centres.
- **Single operating model.** To ensure that a lower cost IT system is available as part of the new service centres.
- **Crown Oversight Function.** To create and operate a Crown Oversight Function to work with departments to improve the quality of services and reduce the operating costs of shared services.

1 Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012.

2 Comptroller and Auditor General, *Improving corporate functions using shared services*, Session 2007–08, HC 9, National Audit Office, November 2007.

3 Comptroller and Auditor General reports: *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012; *Shared services in the Research Councils*, Session 2010–2012, HC 1489, National Audit Office, October 2011; *Shared services in the Department for Transport*, Session 2007–08, HC 481, National Audit Office, May 2008; *Improving corporate functions using shared services*, Session 2007–08, HC 9, National Audit Office, November 2007.

4 HM Government, *Next Generation Shared Services: The Strategic Plan*, December 2012, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/83717/19284_Next_Generation_3rd_Online.pdf and Cabinet Office, *Government Shared Services: A Strategic Vision*, July 2011, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/61166/government-shared-services-july2011.pdf

- **Benchmarking.** To provide oversight, share best practice and offer benchmarking facilities. This will mean that those organisations that are not transferring to the independent shared service centres will be able compare the cost of their operations and the quality of service.

1.4 The plan was scheduled to continue through 2014 and 2015. There is a significant amount of organisational change required to move to a shared service centre. It was originally assumed that the majority of this change would be complete by the end of 2014.

1.5 The strategy anticipated that many government bodies would transfer to one of the two independent shared service centres. Three of the larger shared service centres run by HM Revenue & Customs, the Ministry of Defence and the Ministry of Justice would likely remain as stand-alone centres, providing services to their departmental families.⁵

1.6 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. This will be a change in role for the Cabinet Office with a need for new skills that will be required throughout the length of the contract. Departments will also have to adapt to the new role of being a customer of shared services rather than a service provider.

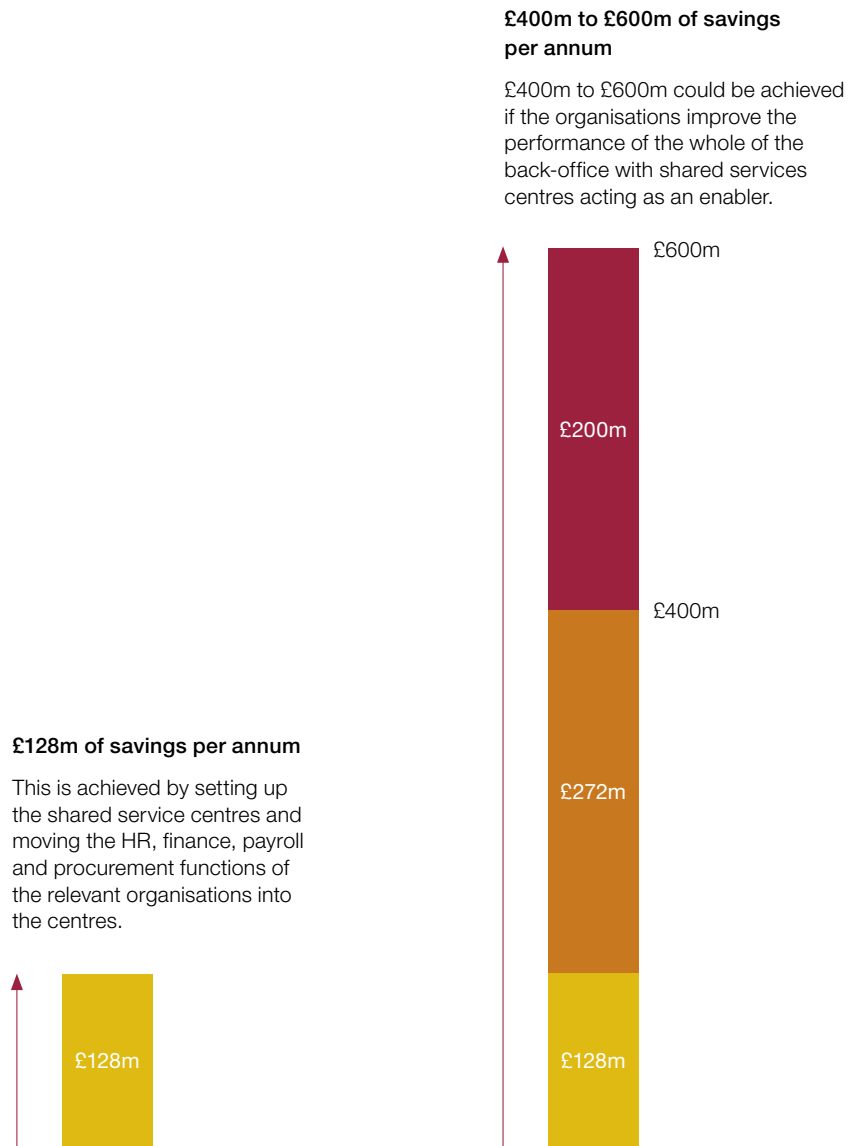
1.7 The Cabinet Office estimated that the savings from this initiative would be between £400 million and £600 million per annum (**Figure 2** overleaf). The Cabinet Office has ownership for these savings. The Next Generation Shared Services programme has a draft plan to realise the £128 million attributable to setting up the independent shared service centres and consolidating IT systems. It does not have a plan to address the wider savings. These wider savings will only be achieved if all departments were to attain upper quartile performance for the whole back-office function, including the retained capability as assessed against independent benchmarks (compared with all organisations including the private sector). Attaining upper quartile performance would require the Cabinet Office and departments to work together to improve the efficiency of the function retained within departments. This would rely on the availability of timely benchmark information to target areas for improvement. Therefore it will require departments using the shared service centres to reorganise themselves to get the most out of shared services.

1.8 The original estimated implementation cost for the initiative was between £44 million and £95 million. As at the end of January 2014, the Cabinet Office had spent £9.8 million on the Next Generation Shared Services strategy. The costs incurred by participating departments formed part of each department's business case prepared as part of departmental approvals. The total cost has not been collated. The Cabinet Office was collecting this information at the time of our fieldwork.

⁵ The Ministry of Justice also provides services to the Home Office but on a separate system. The Home Office was expected to join either the Ministry of Justice system or one of the new independent shared service centres.

Figure 2

The Cabinet Office’s expected savings from the Next Generation Shared Services strategy



£128m of savings per annum

This is achieved by setting up the shared service centres and moving the HR, finance, payroll and procurement functions of the relevant organisations into the centres.

Note

1 The savings are based on an estimate of back-office costs totalling £1.5 billion.

Source: National Audit Office analysis of shared service business cases

Independent shared service centres

1.9 The two independent shared service centres were established during 2013. They are expected to provide services to between 290,000 and 360,000 users over a ten-year period.

1.10 The first centre was outsourced from the Department for Transport and is now owned by arvato Ltd.⁶ The contract was awarded in March 2013 in line with the original timetable and the service went live in June 2013. arvato Ltd currently has 224 staff and is based in Swansea. The contract was transferred to the Cabinet Office in October 2013.

1.11 In November 2013, a joint venture partnership, Shared Services Connected Limited (SSCL), was created to operate the second centre. The original timetable envisaged a joint venture partner in place before March 2014. The centre was established immediately after the creation of the joint venture in November 2013. It includes the back-office functions of the Department for Work & Pensions, the Department for Environment, Food & Rural Affairs and the Environment Agency and is scheduled to include the core back-office elements of UK Shared Business Services Ltd in 2015.

1.12 Steria UK Limited owns 75 per cent of SSCL with the Cabinet Office owning the rest. SSCL currently employs 1,200 staff who are based in eight locations in the UK.⁷ This is expected to reduce. SSCL is also investigating options to establish an offshore location for some of the services provided by the shared service centre.

1.13 The existing customers of the two shared service centres are listed in **Figure 3** overleaf. The current shared services landscape compared to that illustrated in our 2012 report is included in Appendix Two.⁸

1.14 The Cabinet Office has appointed the Chief Operating Officer for Government as senior responsible owner. He has worked with accounting officers to get bodies to agree to join the shared service centres. The plan for departments to transfer to one of the two independent shared service centres is included in Appendix Three.

1.15 The Cabinet Office is now responsible for the strategic management of the performance of the outsourced providers in the two shared service centres. 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.

⁶ arvato Ltd is part of the Bertelsmann Group. Bertelsmann's headquarters are in Germany; it is an unlisted partnership limited by shares.

⁷ Steria's headquarters are in Paris. It is listed on the Euronext Paris market.

⁸ Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012.

Figure 3

The current customers of the independent shared service centres

Customers of the first independent shared service centre	Customers of the second independent shared service centre
Department for Transport	Department for Work & Pensions
Driving Standards Agency	Cabinet Office
Driver & Vehicle Licensing Agency	Department for Education
Highways Agency	Health and Safety Executive
Vehicle Certification Agency	Department for Environment, Food & Rural Affairs
	Department of Energy & Climate Change
	Marine Management Organisation
	Natural England
	Food Standards Agency
	Joint Nature Conservation Committee
	Committee on Climate Change
	Environment Agency

Note

1 Not all customers use all the current services, for example the Highways Agency only uses the shared service centre for HR and payroll services.

Source: National Audit Office analysis of shared service business cases

1.16 Our review identified no major issues with the services offered by the two new shared service centres immediately following their implementation. Although the Cabinet Office has set up the shared service centres the most challenging part of the programme remains. The ambitious timetable will require the service providers, the Cabinet Office and departments to continue to work together to:

- transfer departments and arm’s-length bodies to one of the two service centres while maintaining the quality of service; and
- merge the services offered to existing customers to a standard, consistent operating approach.

1.17 We found that some stakeholders were concerned about the capacity and capability of both the independent shared service centres and the Cabinet Office to address these challenges. The Cabinet Office and shared service centres have taken some steps to address the capacity and capability issues by increasing the number of skilled resources. These issues will become even more challenging, particularly as new bodies start joining the shared service centres and implement the new operating platform.

1.18 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. Poorly implemented transitions to the shared service centres or serious disruption to the operations' business would undermine confidence in the strategy. We have already seen minor delays in transferring some of the smaller agencies' services to the arvato Ltd shared service centre. It is right to delay the programme if there is a risk to service delivery.

1.19 The Cabinet Office has a role to play in managing expectations and also in changing the programme to ensure that those bodies with compelling reasons to join the shared service centre are given priority. These reasons may include value for money or risk mitigation, for example where critical dates are approaching after which existing services are no longer supported. This may be because support arrangements for software or existing support contracts are ending as in the case of the Environment Agency and the Department for Environment, Food & Rural Affairs. The Cabinet Office is aware of this challenge and will need to make what could be difficult decisions in reprioritising the programme.

Single operating models

1.20 Each independent centre is developing its own standard operating model.⁹ Both of these will offer a standard method for delivering the services offered by the two centres, and will combine new IT systems with standardised business processes and operations. New and existing user departments will be expected to transfer to these standard operating models from 2014–2016.

1.21 Implementing standard operating models is necessary for the programme to realise the expected benefits. The Cabinet Office's Strategic Plan had provisionally timetabled the development of the two standard operating models by the end of December 2013. This date was not met and both shared service providers are still developing their solutions. The arvato Ltd implementation was delayed due to the time taken to configure systems to meet UK central government requirements and achieving the necessary security accreditation for their systems. In the case of SSCL the original plan was to complete the model before the procurement of the joint venture partner. The Cabinet Office decided to include the design in the procurement instead.

1.22 The challenge of implementing two new systems and ensuring departments use them effectively should not be underestimated. The first departments will have to quickly agree on the functionality of the systems. Departments joining later will have to adopt this agreed standard model and adapt their processes accordingly. We have seen in our other work how public bodies have struggled to gain agreement with its stakeholders in technology change programmes.¹⁰

⁹ arvato Ltd is using Agresso ERP software which is designed for smaller organisations and SSCL is using Oracle ERP software which is suited to larger organisations.

¹⁰ Comptroller and Auditor General, *Memorandum on the BBC's Digital Media Initiative*, National Audit Office, January 2014 and Comptroller and Auditor General, *National programme for IT in the NHS: an update on the delivery of detailed care records systems*, Session 2010–2012, HC 888, National Audit Office, May 2011.

Crown Oversight Function

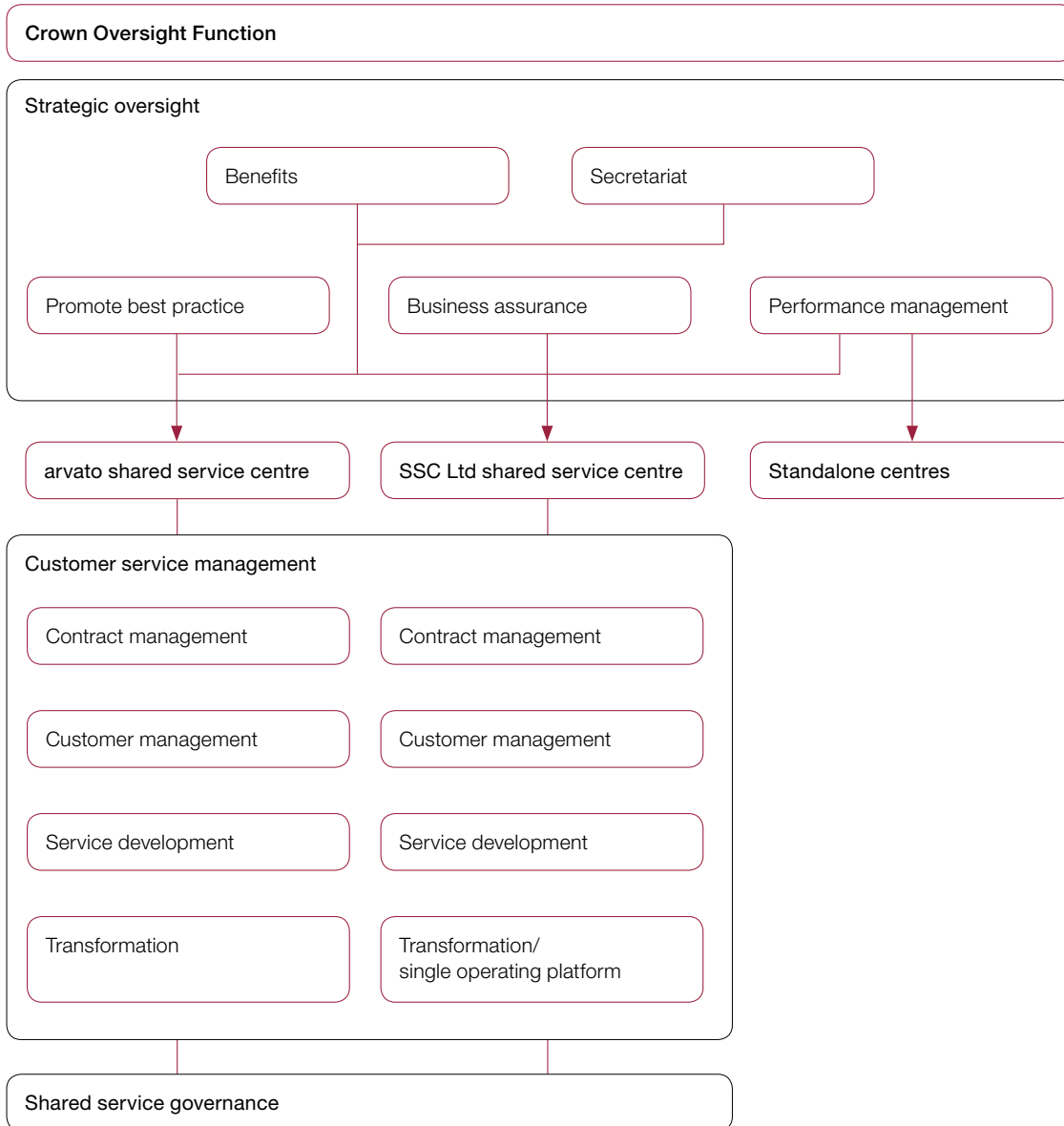
1.23 The Cabinet Office has established a Crown Oversight Function to oversee the contractual arrangements with service providers and act as a point of contact for customer departments. The role of the Crown Oversight Function is outlined in **Figure 4**. The Crown Oversight Function had 43 posts as at January 2014. The function has made extensive use of contractors and consultants through the procurement phase and was replacing these with permanent staff at the time of our fieldwork. The Cabinet Office needs to ensure there is sufficient transfer of knowledge and maintenance of skills. The staff in the Crown Oversight Function are starting to work collaboratively with departments and the first major test of the function and its supporting governance will be when departments adopt the standard operating model.

Benchmarking

1.24 It will be important to ensure that the programme can demonstrate that it has achieved value for money. The Cabinet Office has built on the work of the NAO to develop benchmarks to measure the cost and savings achieved. The benchmarks will need to differentiate between what could have been achieved simply by departments resizing their own back-office due to reduced government spending and what was achieved from sharing services.

1.25 The Cabinet Office has defined benchmarks to help measure the performance of the service centres and to track the savings offered by transferring to one of the independent shared service centres. The 2012-13 benchmarks have been shared with departments. Complete data for the first six months of 2013-14 has not yet been agreed. The Cabinet Office and departments will need to be clear in their reporting as to those benefits that have been achieved through sharing services and those that have been achieved by reduced spending.

Figure 4
The role of the Crown Oversight Function



Source: National Audit Office review of shared service business cases

Appendix One

The Committee of Public Accounts recommendations

Figure 5

Progress made by the Cabinet Office on the seven recommendations made by the Committee

Recommendation in 2012

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.

Committee comment in 2012

Most departmental customers have not streamlined or standardised their back-office processes, leading to overly tailored services and complex systems being implemented at the shared service centres. Lessons from those departments that are acting more intelligently have not been widely shared.

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.

Under the new strategy, the Cabinet Office will still not be mandating the use of shared services by departments.

The Committee concluded that if the senior responsible owner does not have the authority outlined in its recommendation, the strategy would fail to deliver the expected savings.

Management information

The Cabinet Office should build on the analysis included in our 2012 report to establish a set of performance benchmarks to measure the success of its new strategy.²

Without good data, the Cabinet Office cannot compare performance between the centres, with no baseline for current performance or relevant benchmarks against which to assess performance. The lack of data undermines the Cabinet Office's ability to have a stronger role in managing and challenging performance of shared service centres.

Implementation

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

The Committee saw scope to better manage the transition to the new shared service structure by promptly closing smaller, uneconomic centres and simplifying roll-out to the rest of government.

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.

The Committee noted that shared service centres could neither retain any savings they generate nor offset the cost of investment against future savings. For example, this could include investing in the systems to increase the level of automation. The Committee understood the limited scope for 'invest to save' proposals under the current cash constraints. Nevertheless it considered there to be scope to reconsider whether centres should be able to retain savings generated for future investment, and to think more holistically about investment across government and over longer timeframes.

Cabinet Office timescale ¹	NAO comment on progress since 2012	Progress on implementation
From April 2013	The Cabinet Office's primary focus to date has been on establishing the independent shared service centres rather than developing the 'intelligent customers' of those centres. Many departments are sharing their early experiences as customers of shared services independently of the Cabinet Office. In 2013, the Cabinet Office started to consider the needs of intelligent customers, for example through the design of the standard operating platform and as a part of the procurement process for a partner to create SSCL.	Progress on implementation
Autumn 2012	The Cabinet Office met its deadline. It has appointed the Chief Operating Officer for Government as senior responsible owner. He has worked with accounting officers to get bodies to agree to join the shared service centres. However, the Cabinet Office has not made the transfer to shared services compulsory.	Implemented
Already implemented	The Cabinet Office has established a baseline and set benchmarks for 2012-13. However, we found that departments had concerns about the consistency and comparability of the data. Complete data for the first six months of 2013-14 have not yet been agreed.	In progress
No implementation date set	The Cabinet Office explicitly considered the risks that relate to a one-step implementation strategy in June 2012.	Implemented
March 2013	The involvement of the private sector will provide funding for the independent shared service centres and should address this funding issue. The issue remains for shared services in general and we are unaware of any improvements that have been implemented in this area.	In progress

Figure 5 *continued*

Progress made by the Cabinet Office on the seven recommendations made by the Committee

Recommendation in 2012

Committee comment in 2012

Wider shared services

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

The Cabinet Office's new strategy maintains the past focus on the back-office functions. In local government mid and front office services are also shared. In central government there are other common functions that could be shared such as contact centres and ICT support.

Project plan and milestones

The Cabinet Office should prepare an implementation plan for 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.

The Cabinet Office had failed to implement fully the recommendations from the Committee's 2008 report on improving corporate functions using shared services.⁴

The Committee found in its 2012 Inquiry that the five centres examined had cost more to set up and operate than initially planned and they had not delivered the expected savings.

The Committee found it frustrating that the government had not learned lessons from the past. It thought there was a risk that the Cabinet Office's new strategy would repeat similar mistakes with, for instance, over-optimistic timescales and a lack of performance data. The timescale for the new strategy seemed particularly ambitious.

Notes

- 1 HM Treasury, *Treasury Minutes: Government response on the Eighty Second Report from the Committee of Public Accounts: Session 2010-12 and Government responses on the First to the Fourth and on the Sixth to the Tenth Reports from the Committee of Public Accounts: Session 2012-13*, Cm 8467, November 2012.
- 2 Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010-2012, HC 1790, National Audit Office, March 2012.
- 3 HM Government, *Civil Service Reform Plan: One Year On Report*, July 2013, available at: www.gov.uk/government/uploads/system/uploads/attachment_data/file/211506/CSR_OYO_LOW_RES_PDF.pdf
- 4 HC Committee of Public Accounts, *Improving corporate functions using shared services*, Eighteenth Report of Session 2007-08, HC 190, March 2008.

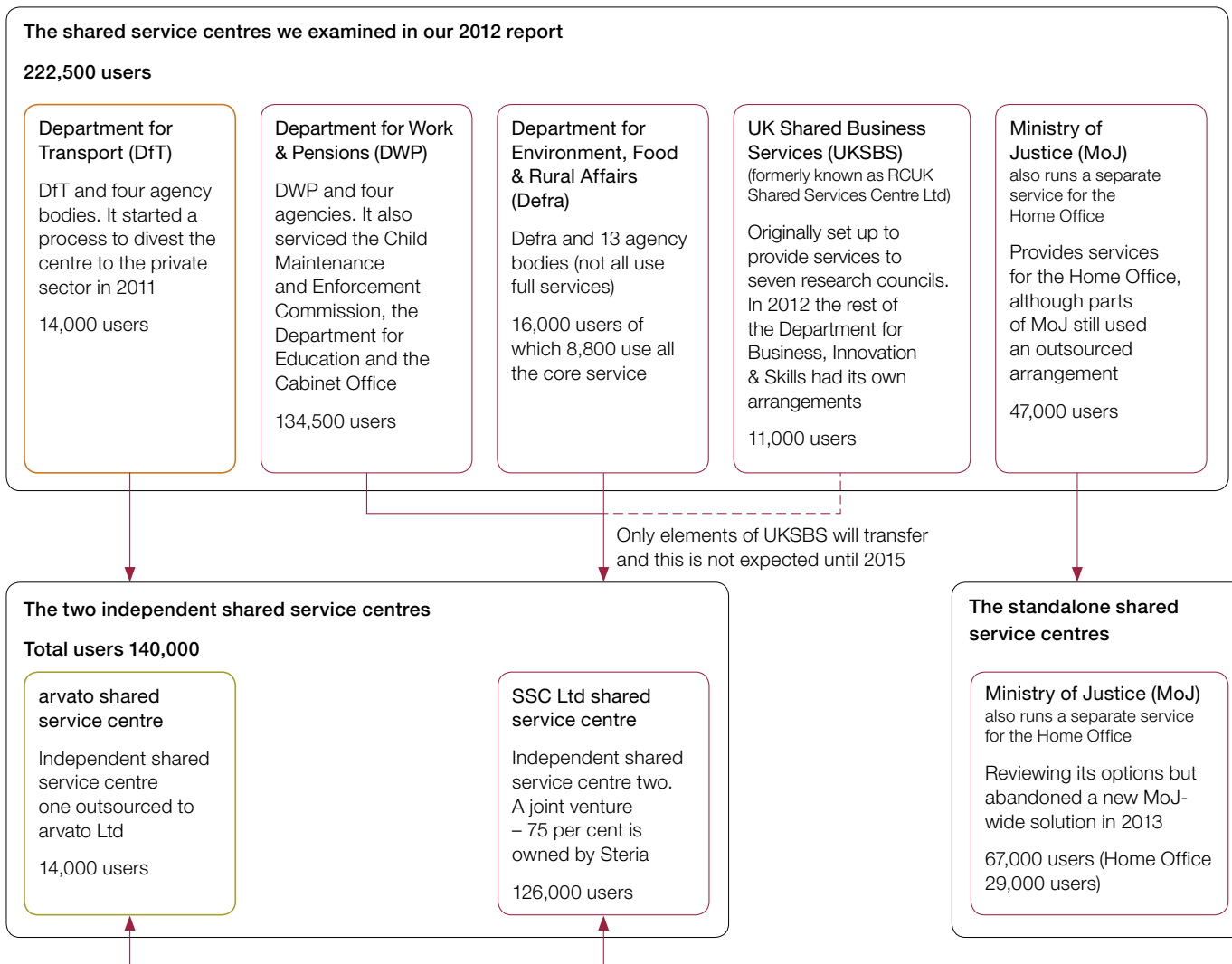
Source: National Audit Office analysis

Cabinet Office timescale ¹	NAO comment on progress since 2012	Progress on implementation
<p>November 2012</p> <p>In addition, the Civil Service Reform Plan committed to publishing plans for extended shared services in October 2012.</p>	<p>As stated in its report, the Cabinet Office recognised that it had not published its plans to share a wider range of services and expertise.³ Some progress has been made, for example, in legal services with HM Treasury Solicitor's Department now delivering the vast majority of the government's litigation and employment law work. Plans to share services are also likely to expand to include functions such as grants, estates, facilities management and security vetting. It is unclear how the various projects connect with the Next Generation Shared Service strategy.</p> <p>Central government could also share experiences with local government. Better collaboration between local and central government could also be a way of expanding the use of shared services. It could also allow the limited shared service expertise within government to be shared more widely.</p>	In progress
December 2012	<p>The Cabinet Office has prepared a plan for implementing the new shared services strategy that identifies many of the key milestones. It gave the Committee an update on progress against the milestones by the end of December 2012. However, it is unclear to us how the wider savings from departments redesigning their operations to work with shared service centres will be achieved and what steps will be taken to ensure that departments get the most out of their shared services.</p>	In progress

Appendix Two

The changing landscape of government shared services

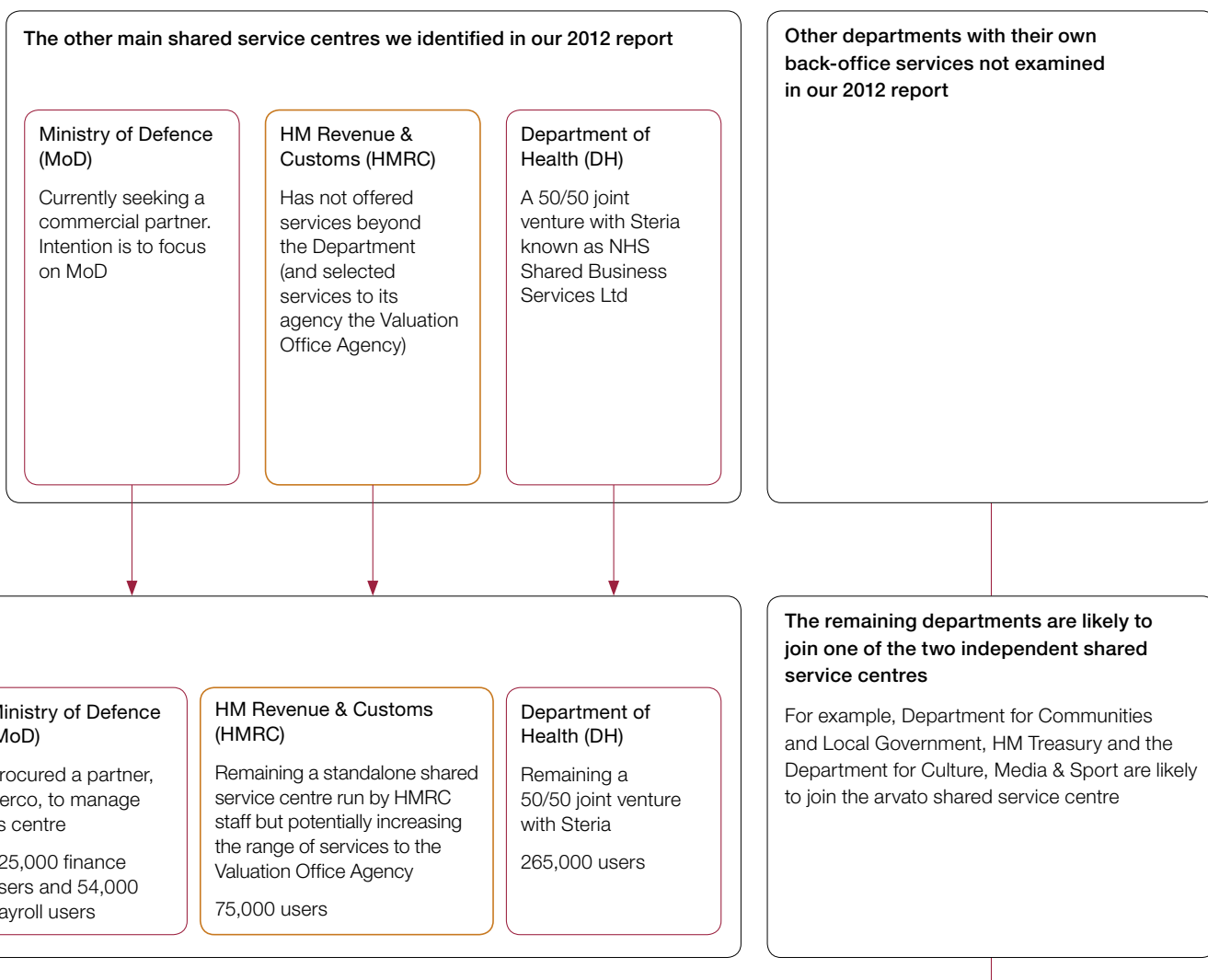
Figure 6
The changing landscape of government shared services



Note

1 Users are based on approximate full-time equivalents with the exception of HMRC which are based on head count.

Source: National Audit Office analysis of shared service business cases



Underlying software currently used by each shared service centre: - Oracle ERP system - SAP ERP system - Agresso ERP system

Appendix Three

The current plan

Figure 7

The current plan for departments to move to the two independent shared service centres and their standard operating models

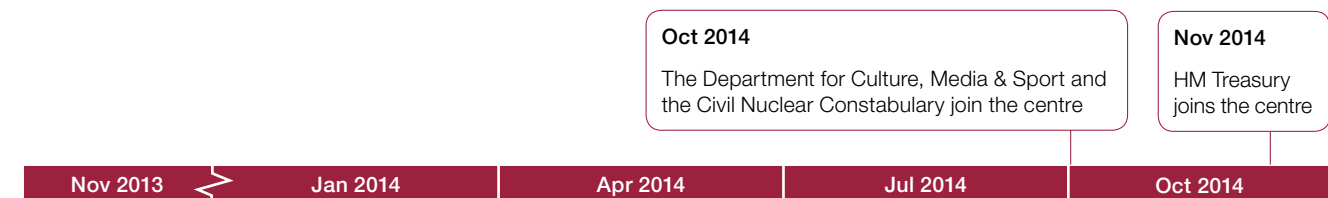
Plan for departments to use the new SSC Ltd Standard Operating Oracle Platform (SOP)



Plan for organisations within the Department for Transport (DfT) to join the arvato shared service centre and use the new Agresso operating platform



Plan for organisations outside the Department for Transport to join the arvato shared service centre and use the new Agresso operating platform



Notes

- 1 Plan as at 6 January 2014.
- 2 VOSA – Vehicle and Operator Services Agency; DSA – Driving Standards Agency; MCA – Maritime and Coastguard Agency; DVLA – Driver and Vehicle Licensing Agency; HA – Highways Agency.

Source: National Audit Office analysis of shared service project plans



Apr 2015
Department for Communities and Local Government joins the centre



This report has been printed on Evolution Digital Satin and contains material sourced from responsibly managed and sustainable forests certified in accordance with the 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.



National Audit Office

Design and Production by NAO Communications
DP Ref: 10386-001

£10.00

ISBN 978-1-904219-15-6



9 781904 219156
