National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Shared service centres

HC 16 SESSION 2016-17 20 MAY 2016

Key facts

£90m

estimated savings made to date by outsourcing and transforming back-office functions

£94m

estimated total investment costs of the programme to date

2

of 26 organisations that planned to adopt single operating platforms by April 2016 had done so

0	organisations met their target date for adopting single operating platforms for their shared services
11	government departments now receive services from a shared service centre under the government's Next Generation Shared Services strategy
888	requests for change are currently outstanding across the two independent centres
14 months	is the average delay to completed and agreed migrations to single operating platforms

Summary

Introduction

1 The government's 2015 spending review reinforced the need for departments to reduce costs and free up resources from back-office functions to provide better front-line services. Central government has long pursued shared service centres as one way of providing such savings and transforming the delivery of back-office functions. The private sector and local authorities typically claim over 20% savings on annual running costs from using shared service centres. They break even on their investment costs in less than five years.

2 In 2012, we reported on five central government shared service centres. We found that the government had not achieved value for money and that complex services were tailored too much to individual departments, increasing costs and reducing flexibility. In 2014, we reported on the Cabinet Office's Next Generation Shared Services strategy (the Strategy). This involved creating two independent shared service centres to provide back-office functions for up to 14 departments and their arm's-length bodies. We highlighted that the challenging timetable, combined with the change in role of the Cabinet Office and the need to implement a standard way of working, left a number of significant challenges ahead including:[1]

- maintaining **clear leadership** as the Cabinet Office assumed its new role in delivering and prioritising the programme for the benefit of government as a whole;
- **designing the standard model** for services provided by the shared service centres and implementing the technology to support this;
- **migrating existing and new customers** of the shared services to this standard model;
- helping departments to become **intelligent customers** of the shared services; and
- ensuring that **accountability is clear** between the service providers, the Cabinet Office and the customer departments.

1 Comptroller and Auditor General, *Update on the Next Generation Shared Services strategy*, Session 2013-14, HC 1101, National Audit Office, March 2014; and *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012.

3 The principles of reducing costs through using shared services are straightforward and widely understood. They combine two key elements. One element is to standardise processes and services so that they can be provided in a consistent and repeatable way, in high volumes, by a single provider. This often involves moving to a common IT system (operating platform). The other element is to outsource operations to an organisation that can specialise in providing a service and, through economies of scale, can offer the service at a lower cost. There are some trade-offs to the advantages. While standardised and simple models offer benefits, individual organisations will generally have to accept services that are less tailored. **Figure 1** shows the principles of moving to shared services and the trade-offs involved.

4 It is essential that a shared services programme is well designed when multiple customers and suppliers are involved. An overarching business case brings together the individual business cases for the customers and explains how governance and accountability processes will work. Risks within one element of the programme (such as a failing supplier or a non-compliant customer) can then be understood in terms of their impact on the programme as a whole and mitigated accordingly.

5 Benefits of sharing services derive from the cost efficiencies that arise as customers join up to a standard service. To maximise these benefits:

- multiple customers are required to generate economies of scale;
- those customers must be willing to migrate their back-office functions to the new supplier;
- the supplier must have sufficient incentives to provide the service; and
- all customers must agree on a standard service.

Scope

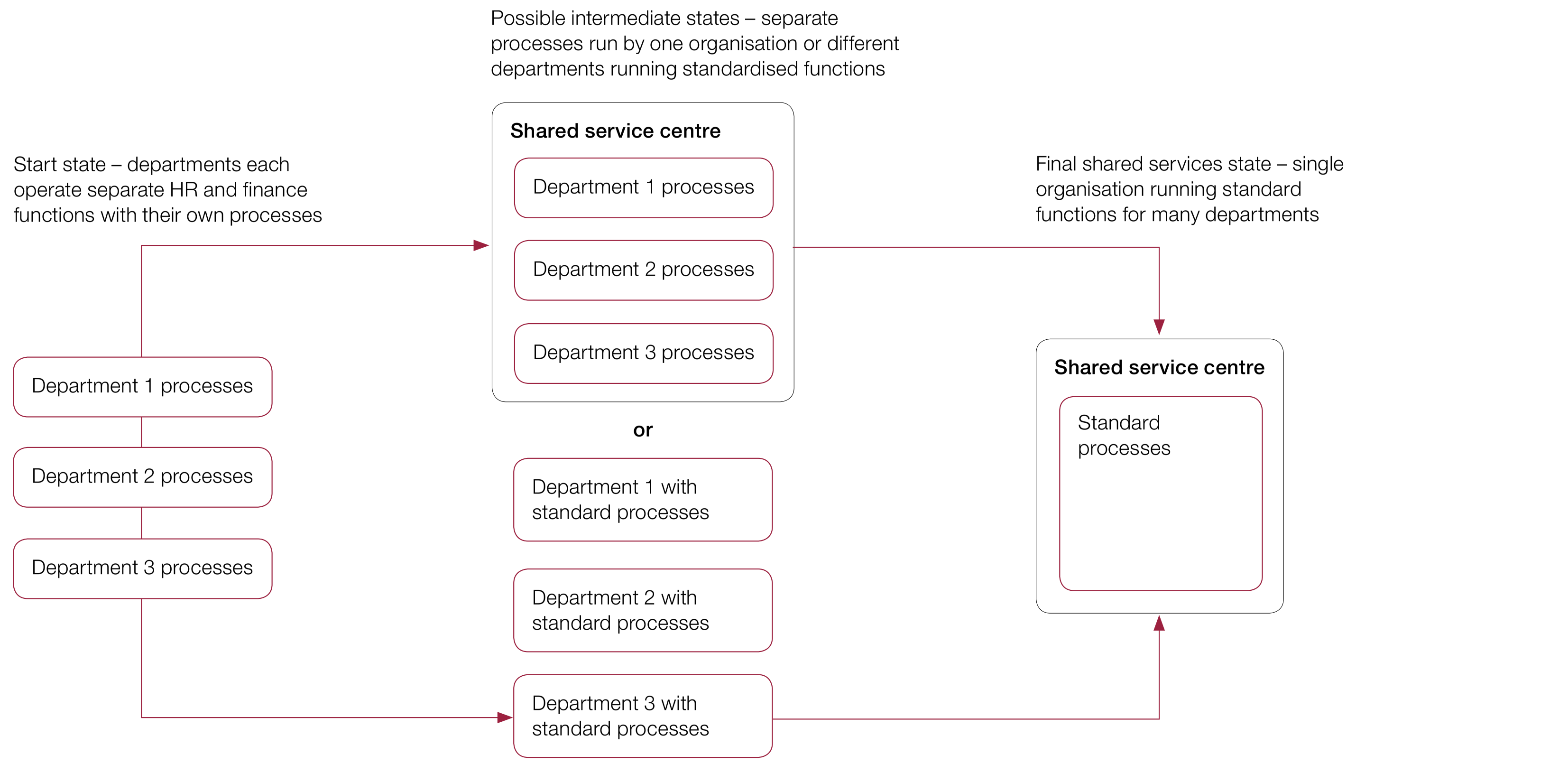
6 This report examines how the programme to create two independent shared service centres has progressed and whether it is achieving value for money. It aims to answer the following questions:

- Were the shared service centres established in line with the Strategy? (Part One)
- Have the shared service centres delivered their intended benefits? (Part Two)
- What were the reasons for the failures within the programme? (Part Three)
- What will the government need to do differently to make such a programme a success in the future? (Part Four)

7 Both government and supplier performance issues have contributed to many of the problems that the programme has faced. It is not always possible to identify the exact cause of issues because they are complex. In such instances, we have focused on the role and performance of government specifically to identify lessons for the future.

Figure 1

Shared services principles and trade-offs



Individual processes can offer departments increased:

- **Choice** – flexibility to choose solutions
- **Customisation** – processes tailored to work for individual organisations

Trade-offs in choosing shared services

A shared service centre can offer government increased:

- **Cost efficiency** – based on increased volumes of standard transactions
- **Professionalism** – through bringing in private sector expertise
- **Level of analytics** – through bringing together data in a common format

Source: National Audit Office

8 Our audit approach and evidence base are in Appendices One and Two. This report focuses on the government's two independent shared service centres. It does not examine three large departments that run their own shared service centres: HM Revenue & Customs, the Department of Health and the Ministry of Defence.

Key findings

The programme has achieved some benefits but these are below what was expected

9 The government set up the two independent shared service centres as planned. It signed contracts with two private sector companies (arvato UK Ltd and Steria Ltd) to operate the centres, initially known as ISSC1 and ISSC2. These began providing outsourced services to participating departments and arm's-length bodies in 2013. Staff working in the Department for Transport's existing shared service centre were transferred to arvato. Staff in other departments joined Shared Services Connected Limited (SSCL): a new joint venture company (75% owned by Steria and 25% owned by the Cabinet Office) (paragraphs 1.12 to 1.16).

10 Departments have reported savings to date of £90 million and investment costs of £94 million. The two independent centres have allowed customers to make overall savings of £90 million in the first 2½ years of operation. However, these savings are less than those originally forecast in the Strategy of around £128 million per year. This is because some departments have not outsourced and transformed their back-office functions as planned. Departments have incurred total costs of £94 million so far. This is made up of £69 million for business change activity and £25 million paid by SSCL customers to develop a single operating platform to replace individual departmental systems. The Cabinet Office currently estimates that the two contracts will generate savings of £484 million in total by 2023-24 at a cost of £159 million (paragraphs 2.2 to 2.4).

11 Delays in migrating to new systems have reduced the opportunity to make significant further planned savings. The Strategy estimated that, in addition to the £128 million, further savings of between £172 million and £272 million a year would arise as a result of improved performance enabled by outsourcing and transforming their back-office functions. To date, only 2 of the 26 customers have moved to a single operating platform (paragraphs 2.2, 2.9 and 2.13).

12 Delays have also come at an increased cost to customers and suppliers. Costs have increased significantly for both the customer departments and the suppliers of the shared service centres. Customers' costs have increased because they have had to maintain project teams and, in the case of the arvato centre, maintain and extend the life of existing and ageing systems. Suppliers' costs have increased because they had to take more time than they had originally envisaged developing their single operating platforms, extend migration timetables and carry out commercial negotiations that have arisen as a result of delays. SSCL has also had to bear the costs of maintaining its customers' legacy systems and has not achieved the efficiencies it expected because it has not been able to offshore work to the extent it had planned. While remaining committed to the programme, customers' confidence in it has deteriorated. Some customers have incurred costs in considering contingency arrangements. The Cabinet Office has not collected full information on the extent of all of these costs (paragraphs 2.15, 2.16 and 3.13).

Weaknesses in the programme design have undermined its success

13 The lack of an integrated and agreed business case for the programme has made it difficult for the Cabinet Office to take decisions. The Cabinet Office did not develop an integrated business case for the Strategy that consolidated the business cases for each independent shared service centre and those for each of the potential customer departments for arvato's shared service centre. This meant it has been difficult to demonstrate to customers the impact of their decisions on the programme and the importance of making decisions with the programme's objectives in mind (paragraphs 3.2 and 3.3).

14 The approach to creating standardised processes was not well managed. The development of single operating platforms and standardised processes was essential to achieving planned savings. However, the Cabinet Office introduced the requirement to design the single operating platform into the ISSC2 contract at a late stage. As a result, the appointed contractor believes it did not have enough time to undertake due diligence on this element of the programme. Furthermore, contractors for both centres did not have the capability in-house to design and implement the single operating platforms. They also had varying degrees of experience in managing transformation projects. Each appointed a key subcontractor to design its operating platform (paragraphs 1.13 to 1.16).

15 The Cabinet Office did not secure sufficient support from departments at an early stage of the programme. Departments varied in the extent to which they believed in the merits of the shared service centres. Some said that they felt pressurised into joining the programme. Several departments were unhappy not to have been sufficiently consulted on key elements, such as the appointment of Steria, which they consider to have been undertaken too quickly (paragraphs 3.9 and 3.10).

The Cabinet Office has not managed the programme effectively

16 **The Cabinet Office has not responded adequately to programme risks as they have arisen.** The Cabinet Office, which is responsible for the programme, did not act in a timely and effective manner when problems with the programme emerged. This is in part because it had no clear mandate to act on behalf of customers. For example, it was clear that the business models of both arvato and SSCL were only sustainable if the agreed migration timetables were adhered to. As the programme slipped, suppliers looked to the Cabinet Office to take the lead. The Cabinet Office did not see this as its role and some customers lacked incentives to get the migration timetable back on track (paragraphs 3.11 to 3.14).

17 **The Cabinet Office has struggled to clarify its role in managing and leading the programme.** The programme is not achieving the anticipated benefits because of the failure to migrate customers to single operating platforms. This is due to delays in the delivery of the IT solutions and some departments' failure to agree designs for the new single operating platforms in a timely fashion. Both issues required the Cabinet Office to show strong leadership to hold others to account and to manage the tensions between the needs of customers, the programme and suppliers. However, the Cabinet Office does not have a mandate to act on behalf of departments. Prior to December 2014, the Cabinet Office had not set out how it sees its role and who is accountable for what in the programme (paragraphs 3.15 to 3.19).

The Cabinet Office must take a more proactive role if such programmes are to be a success in the future

18 **The Cabinet Office is addressing some of the problems but its changes to the programme will take time to have an effect.** The Cabinet Office introduced new governance and leadership arrangements in 2014 and 2015. Customers and suppliers have responded positively to these. More recently, it has ensured that the programme has a senior responsible owner with experience of implementing shared services. In 2015, late in the programme, it appointed leads in the finance and HR professions to be responsible for developing standard operating models. However, this is at an early stage and previous efforts in this area have not produced results (paragraphs 4.2 to 4.4)

19 **Delays in the programme have lasted so long that the current programme plan and system designs may be out of date.** The Cabinet Office has recognised that delays in the programme mean the current operating platform designs may already have been superseded by better solutions. The Cabinet Office is exploring options within current arrangements to ensure that, if customers migrate to a new single operating platform, this will deliver financial savings and improved functionality and user experience (paragraphs 4.11 and 4.12).

20 **The government is currently in dialogue with both arvato and SSCL on the future of their respective independent shared service centres.** For arvato, government department customers other than the Department for Transport have withdrawn from their shared service centre contracts and will seek other arrangements. For SSCL, delays and changes in scope have led to significant costs for the government and SSCL and while committed to the future of shared service centres, both parties are discussing how the plans need to evolve (paragraph 4.5).

Conclusion on value for money

21 The government has saved £90 million to date from outsourcing its back-office functions to two independent shared service centres and some further related efficiencies. However, the Cabinet Office's failure to manage risks has resulted in the programme failing to achieve the significant savings and other benefits set out in the 2012 strategy. Therefore, the programme has not achieved value for money to date. The Cabinet Office has begun to find its role in leading the programme. However, the delays have meant that technology has moved on significantly, and new options should now be considered and evaluated as part of revising the programme plan. The future shared service programme will only achieve value for money if the Cabinet Office shows clear leadership, sets realistic expectations and manages risks, and government accepts that change requires collaborative and flexible behaviours from all departments involved.

Recommendations

22 We recommend that:

a The Cabinet Office should provide clear leadership to encourage collaboration and ensure that all parties are open about the state of the programme, are realistic about timetables and benefits, and understand each others' concerns.

b The Cabinet Office needs to take a more proactive approach to risk management by monitoring and responding to risks as they arise. It needs to be aware of the limitations in the contractual transfer of financial risk to suppliers.

c The government needs to consider the role of the centre in delivering cross-government programmes, given the devolved nature of departmental accountability and funding.

d HM Treasury should reiterate existing guidance that any large-scale transformation project should have a programme business case with clear buy-in from all stakeholders. This should include clear governance and management arrangements, clear plans for realising benefits and funding models.

e The Cabinet Office and HM Treasury need to carefully consider how funding is distributed to ensure that affordability issues within some departments, caused by delays and commercial negotiations, do not compromise the programme as a whole.

f The government needs to ensure that its initiative to identify common finance and HR processes leads to these being simplified and standardised to realise planned benefits.

g The government should ensure that short-term risks caused by departments nearing the end of support arrangements for existing IT systems do not dictate decisions about new long-term solutions.

h The government needs to be confident that any future change programmes (for example to make savings through cloud-based solutions or increasing automation) can be delivered by suppliers and are not subject to the same delays and issues we have seen in developing the single operating platforms.