National Audit Office

Report
by the Comptroller
and Auditor General

Cabinet Office

Shared service centres

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Shared service centres

Report by the Comptroller and Auditor General

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Comptroller and Auditor General
National Audit Office

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This study revisits the government's two independent shared service centres. It reviews their progress so far and assesses whether the programme has delivered value for money.

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Contents

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Key facts

£90m	£94m	2
estimated savings made to date by outsourcing and transforming back-office functions	estimated total investment costs of the programme to date	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

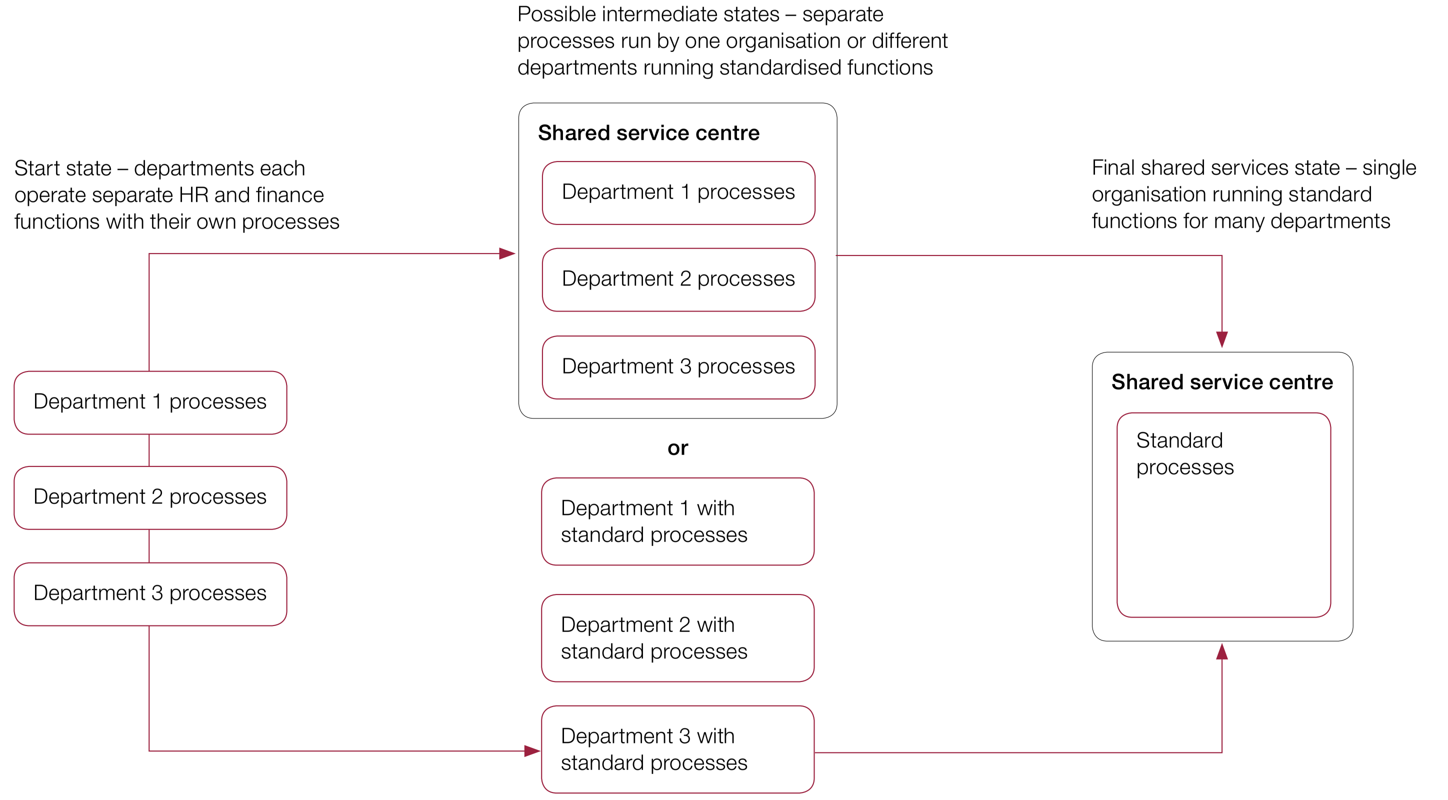
6 This report examines how the programme to create two independent shared service centres has progressed and whether it is achieving value for money. It aims to answer the following questions:

- 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



Trade-offs in choosing shared services

Individual processes can offer departments increased:

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

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.

Part One

Establishing the shared service centres

1.1 This part of the report focuses on the set up of the two independent shared service centres. It begins by introducing the recent background to shared services, including the strategy to establish two independent shared service centres. It then explains the procurement of those centres.

Recent background to shared services in government

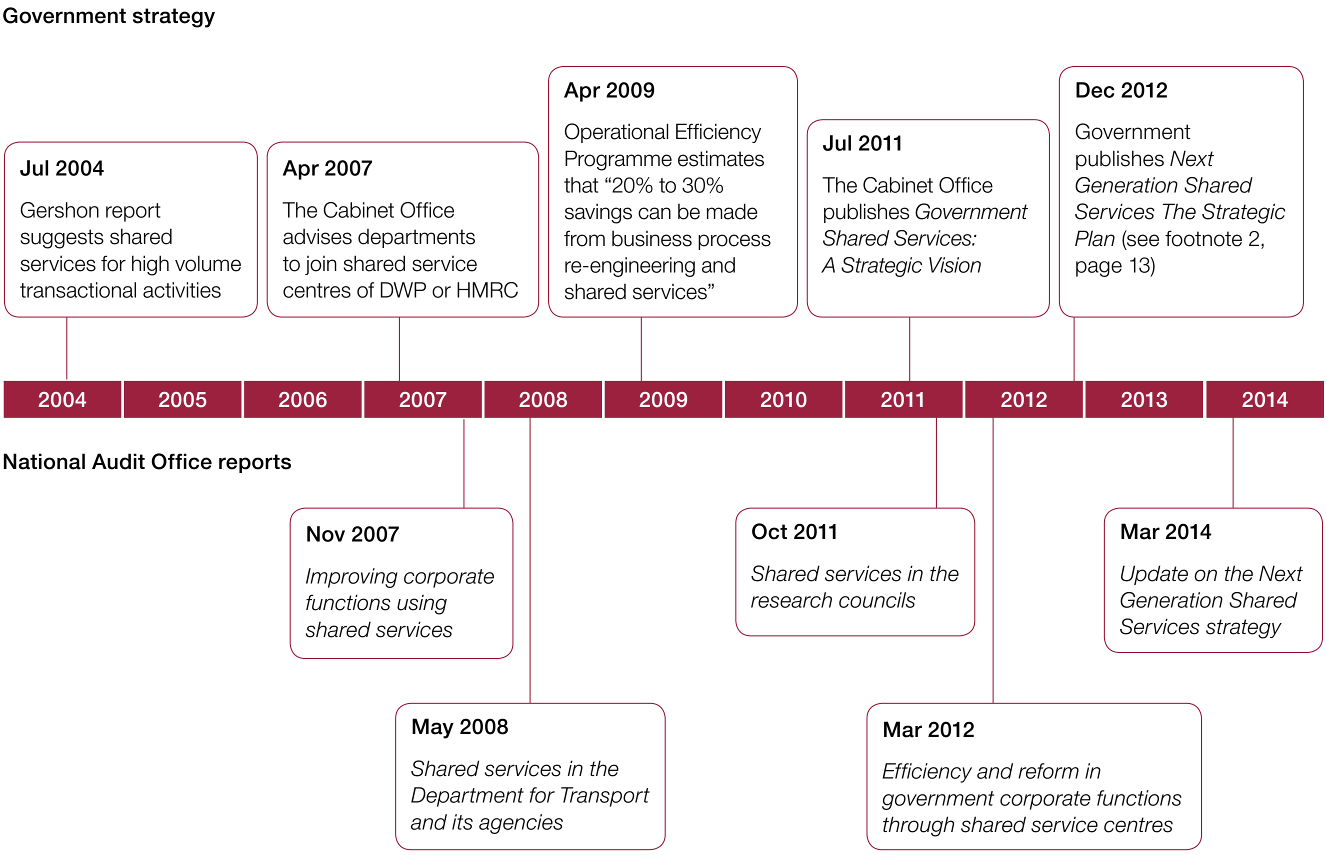
1.2 Since 2004, central government has sought to cut the cost of finance, HR and procurement services through sharing back-office functions. The private sector has typically saved more than 20% by sharing services. Many local authorities have recently expanded successful shared service projects. In contrast, we have found in our previous work that the government has not been able to realise the potential of shared services to save taxpayers' money.

1.3 In 2012, we reported on a strategy that the Cabinet Office was developing that recognised the benefits of shared service centres. We found that there were risks to achieving those benefits and that the government would have to learn the lessons from previous attempts at establishing shared service centres. Following our report, the Cabinet Office published *Next Generation Shared Services: The Strategic Plan* (the Strategy).[2] This set out how central government was going to achieve estimated savings of between £400 million and £600 million each year through shared services.

1.4 The Strategy included establishing two new independent shared service centres, with a plan to review options for private sector involvement in each. It was intended that the successful set up of the centres and the introduction of single operating platforms for their customers would achieve up to £128 million of savings a year. Efficiencies enabled from the improvements to systems and processes across both the centres and departments would allow benefits to increase to £300 million to £400 million a year for this part of the strategy. **Figure 2** overleaf shows the timeline of government's shared service strategies alongside our reports on the subject.

2 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

Figure 2
Shared services strategy timeline



Note

1 DWP = Department for Work & Pensions, HMRC = HM Revenue & Customs.

Source: National Audit Office

1.5 The estimate of the investment cost in the Strategy for implementing the independent shared service centres was between £44 million and £95 million. However, the Cabinet Office had not collated the total costs forecast in departments' individual business plans. We reviewed these plans and identified investment costs totalling £115 million. Since then, the Home Office and the Ministry of Justice have joined the programme increasing the investment costs to a total of £189 million. The latest departmental forecasts, from September 2015, suggest that investment costs will be less than business plan expectations, totalling £159 million of which £58 million relates to the Home Office and the Ministry of Justice.

Implementing the Strategy

1.6 The Strategy included establishing two independent shared service centres, which it referred to as ISSC1 and ISSC2. Each of these centres would manage the back-office functions of a group of government departments. The centres would operate their own single operating platforms. This would enable them to standardise services and reduce IT-related support costs.

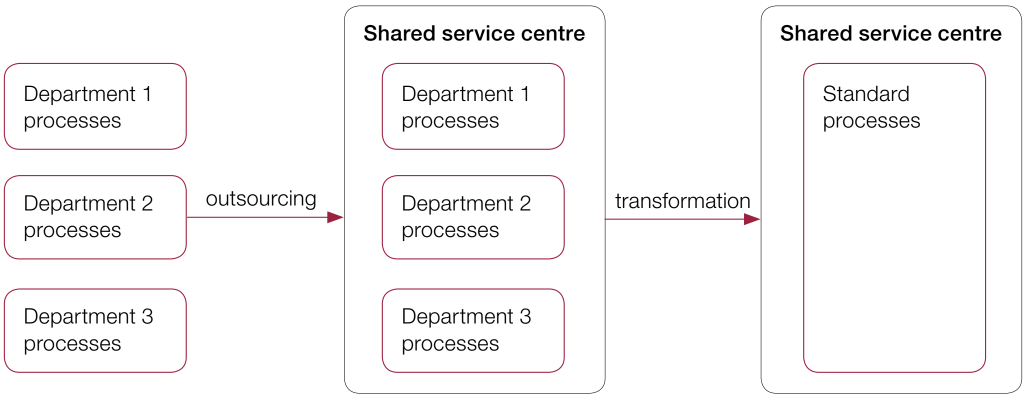
1.7 For both of the independent shared service centres, the government's strategy was to outsource back-office functions from government organisations to the private sector, and then make bigger savings by transforming within those centres (**Figure 3**).

1.8 Three stand-alone centres run by HM Revenue & Customs, the Ministry of Defence and the Department of Health would provide services to their departmental families. The government anticipated that the remaining 14 departments would join one or other of the independent centres.

1.9 When the independent shared service centres were established, the government had not agreed on the process models for back-office functions. This meant it could not confidently specify the single operating platforms that the suppliers were to design. It was therefore difficult to analyse how the departments' existing processes compared with the service they would get in the shared service centres. As a result, departments could not identify the extent of change that would be required in moving to new systems.

Figure 3

Government's plan for shared service centres



Source: National Audit Office

1.10 The government also failed to assess the degree of similarity in the different departments' processes to identify and align those with similar characteristics. There was no clear rationale as to which departments went to the respective shared service centres, although generally the larger departments went to ISSC2.

1.11 The government considered various options as to the best ownership model for each of the shared service centres. Private sector expertise was considered to offer the best option for realising benefits, and so business cases were prepared with this in mind. ISSC1 would be operated by a private company in line with previous Department for Transport plans, and ISSC2 would be created and managed as a joint venture. The costs and benefits of the independent shared service centres were set out in their respective business cases.

Setting up the shared service centres

1.12 The Department for Transport's board agreed in December 2010 to transfer its shared service centre to the private sector and buy back services for up to 10 years, and commenced procurement activity in 2011. The Department for Transport shortlisted three companies in Spring 2012. Following the launch of the Strategy in September 2012, it agreed with the Cabinet Office that the private sector provider would operate the centre as one of the independent shared service centres and accept other government customers. In March 2013, the government awarded the contract for ISSC1 to arvato Ltd. arvato's bid was judged technically better and clearly below the price offered by the only other bidder at that stage. The centre went live in June 2013.

1.13 arvato was contracted to provide services for existing Department for Transport customers on existing IT systems from day one, with an immediate 25% cut in costs. arvato contracted Unit4 to help it implement the new single operating platform, which was based on Agresso software.[3] Agresso is a simpler and cheaper system than the software most customers were running. arvato planned that new and existing customers would migrate to the new single operating platform in stages from early 2014 onwards.

1.14 An EU procurement notice was issued in March 2013 for ISSC2 and four companies were shortlisted. Before this, the Cabinet Office had commissioned a consultant to develop a single operating platform but decided not to continue with this approach. As a consequence, design of the single operating platform was added to the ISSC2 contract at a late stage. This was seen as a significant change both by customers and by the winning bidder. We have not seen evidence of a risk assessment for introducing the single operating platform into the procurement. The supplier, Shared Services Connected Limited (SSCL), told us that it was unable to undertake sufficient due diligence on this aspect of the contract.

3 Now known as Unit4 Business World.

1.15 In November 2013, a joint venture partnership, SSCL, was created to manage ISSC2. The bid by Steria UK Limited (later becoming Sopra Steria) was judged to be clearly ahead of the two other remaining bidders on both price and quality. Sopra Steria owns 75% of SSCL and the Cabinet Office owns 25%.

1.16 The SSCL centre was formed by combining the existing shared service centres of its founding customers: the Department for Work & Pensions, the Department for Environment, Food & Rural Affairs, and the Environment Agency. SSCL took over the provision of customer services with a cost reduction of 21%. SSCL contracted Fujitsu to help implement a new single operating platform. This was to be based on a version of Oracle (Oracle 12) that was newer than the version used by some customers.

1.17 Both suppliers' bids offered initial prices below departments' existing costs, fixed for two years. The suppliers planned to achieve efficiencies to bring down the average costs of providing the services, and to offer customers lower prices in the future (**Figure 4** overleaf). However, the sustainability of the model depended on:

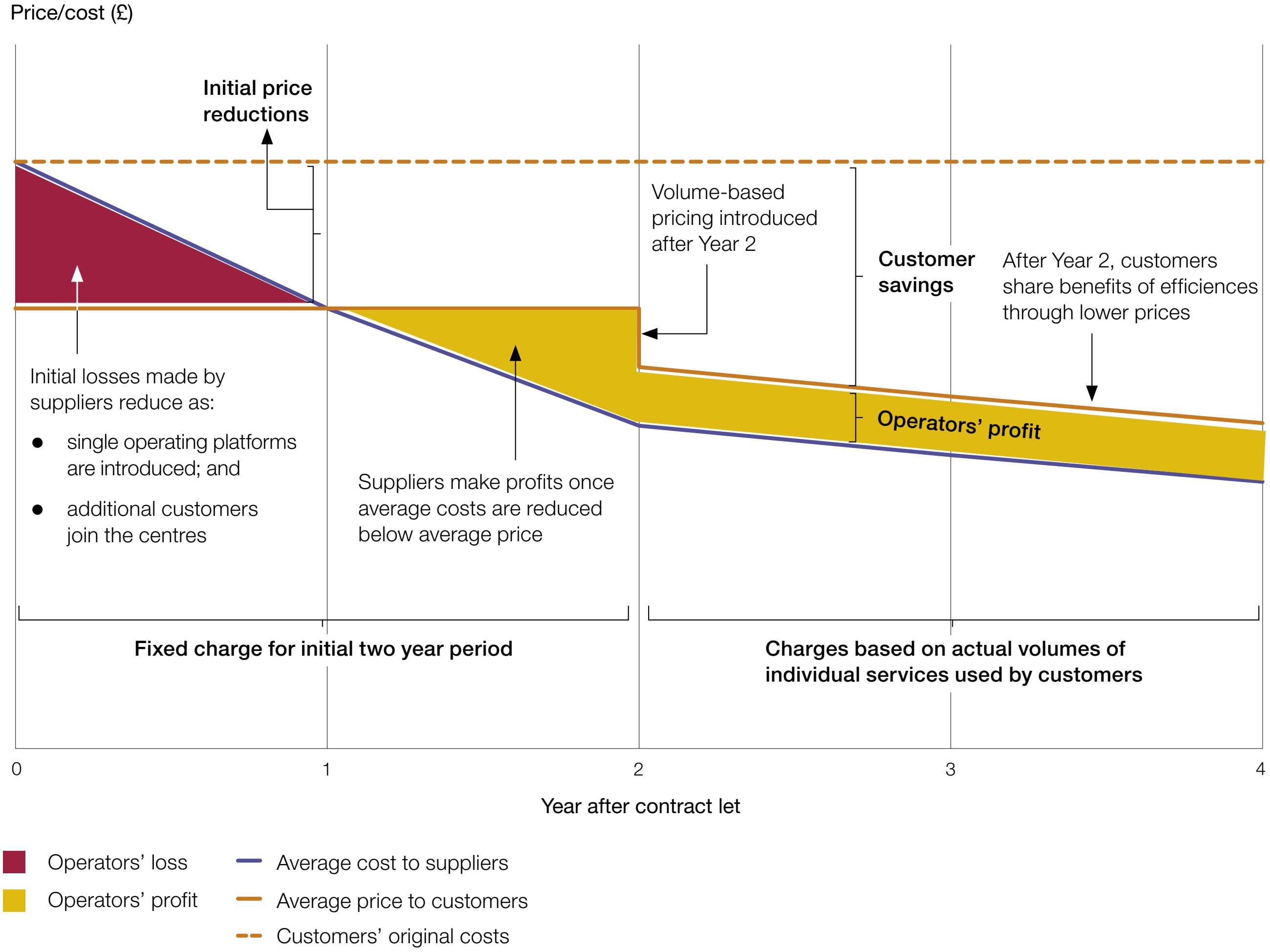
- customers migrating to one of the single operating platforms, as this would reduce the costs of running different systems and processes;
- keeping existing customers and attracting new customers from central government and the wider public sector to secure further economies of scale; and
- SSCL successfully offshoring part of its operations.

1.18 The Department for Transport passed framework responsibility for the arvato centre to the Cabinet Office and the Cabinet Office then acted as the framework authority for both the arvato and SSCL shared service centres, with individual customers having call-off contracts. The Cabinet Office created the Crown Oversight Function (a business unit within the Cabinet Office) to work with the departments and assume responsibility for the strategic management of the providers for ISSC1 and ISSC2. The Cabinet Office established other formal governance arrangements. **Figure 5** on page 19 shows the overall structure and **Figure 6** on page 20 shows the customers and user numbers for each independent centre.

Figure 4

Illustration of anticipated changes in prices and costs

Operators of both shared service centres were likely to make losses in the initial contract period and needed to deliver efficiencies in order to be sustainable in the long term



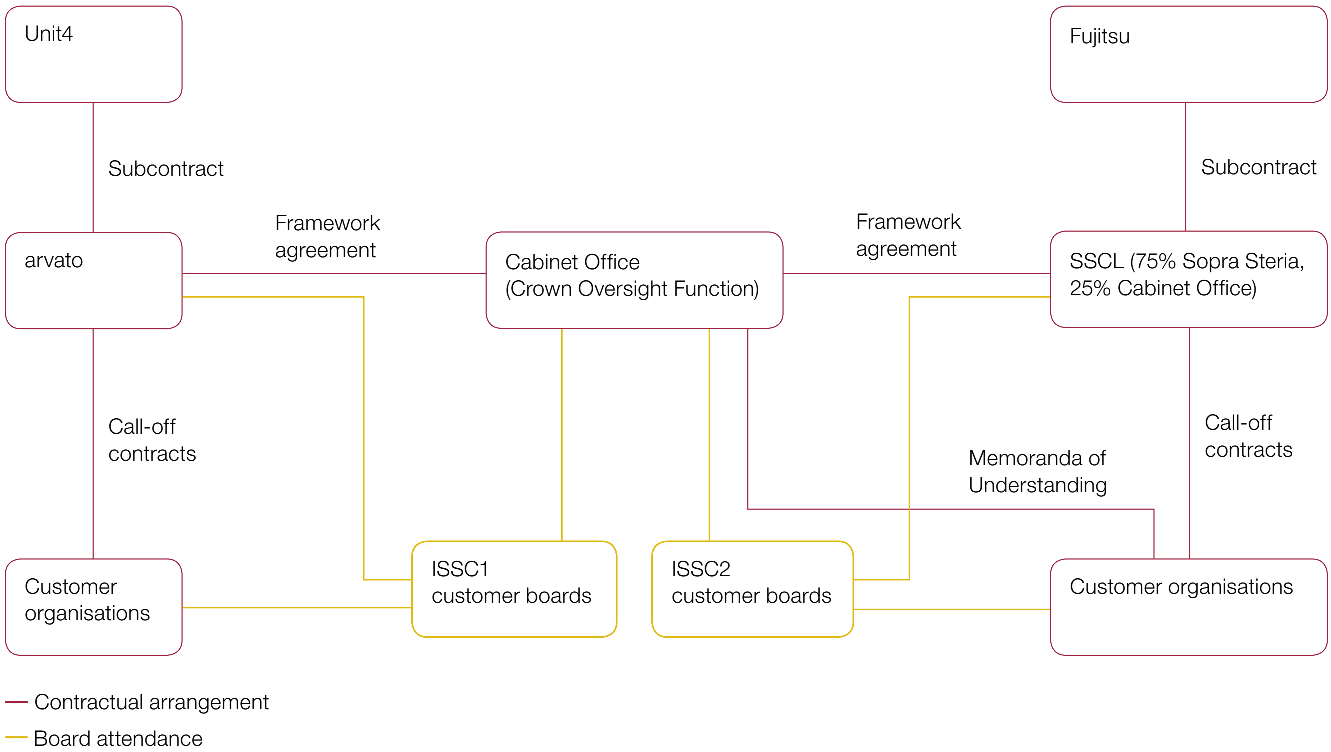
Note

1 Figure illustrates the general approach and does not represent actual business plan assumptions.

Source: National Audit Office

Figure 5

Contract and accountability structure for the independent shared service centres



Source: National Audit Office

Figure 6
Central government customers and user numbers

arvato customers	Number of users
Driver and Vehicle Licensing Agency	6,200
Driver and Vehicle Standards Agency	4,500
Highways England	3,700
Department for Transport	2,000
Maritime & Coastguard Agency	1,100
Vehicle Certification Agency	200
Planned arvato customers	
Department for Communities and Local Government	2,500
HM Treasury	1,500
Civil Nuclear Constabulary	1,500
Department for Culture, Media & Sport	500
SSCL customers	
Department for Work & Pensions	94,000
Ministry of Justice	70,000
Home Office	26,000
Environment Agency	10,000
Department for Environment, Food & Rural Affairs	10,000
Cabinet Office	3,000
Department for Education	3,000
Department of Energy & Climate Change	2,000

Notes
1 SSCL user numbers include users at associated arm's-length bodies.
2 arvato customer numbers are rounded to the nearest hundred and SSCL numbers to the nearest thousand.

Source: National Audit Office

Part Two

Current status of the shared service centres

2.1 This part of the report focuses on the achievements of the independent shared service centres to date. It looks at the benefits delivered by the centres compared with the forecasts, and the centres' operating costs. It also identifies those departments that have outsourced their operations to the centres and examines the costs and delays of the migrations to the single operating platforms.

Benefits and costs

2.2 The Cabinet Office estimated in its Next Generation Shared Services strategy (the Strategy) in 2012 that outsourcing to the shared service centres and customers migrating to single operating platforms would save up to £128 million a year. It also estimated that savings could be increased to £300 million to £400 million a year through improved performance as a result, although it did not set out these wider benefits clearly.

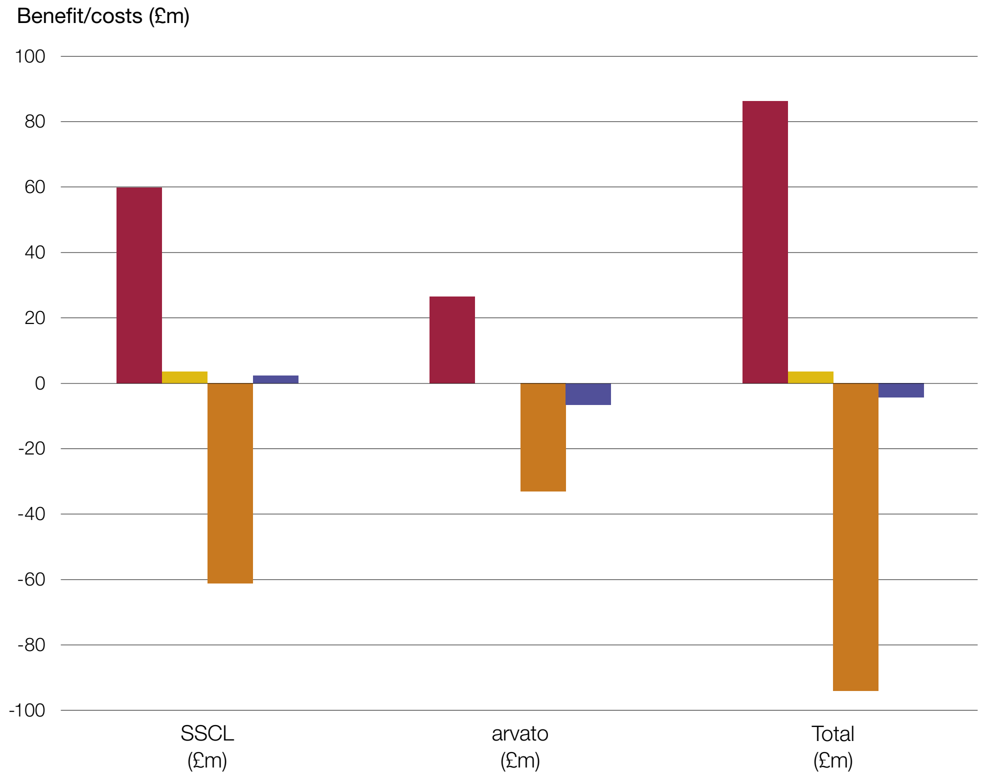
2.3 So far, departments have incurred total costs of £94 million. These costs are made up of £69 million for business change activity and £25 million that SSCL has charged customers for developing a common operating system to replace individual departmental systems. In return, the departments have saved £86 million in running costs. This includes a £20 million management fee paid to the Cabinet Office (**Figure 7** overleaf).

2.4 Departments have only reported £4 million of savings through the transformation element of the programme (Figure 7), although the Cabinet Office acknowledges that benefits may be higher but they are not all being tracked. 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. In addition, while not in the scope of this report, government estimates that savings of £110 million will be achieved by the Metropolitan Police Service as a result of joining the SSCL centre.

2.5 The government has incurred some unexpected extra costs because of ambiguity in the definition of new services and existing services. SSCL classed some activities as a 'request for change'. Departments considered these activities to be part of the basic contracted service, which should not result in additional cost. For example, SSCL considered necessary changes to the software to implement a yearly pay rise for departmental staff to be a change and expected departments to pay the associated costs. It also has to update the software regularly to deal with regulatory changes, such as to pensions and parental leave. Without clear definitions, there has been an increased opportunity for suppliers to classify actions as changes.

Figure 7
Costs and benefits achieved 2013-14 to 2015-16

To date, departments' savings from outsourcing and transforming back-office functions total £90 million, with incurred investment costs of £94 million



	SSCL (£m)	arvato (£m)	Total (£m)
Reduction in user charges	60	26	86
Other benefits	4	0	4
Investment costs	-61	-33	-94
Net benefit/cost to date	2	-7	-4

Notes

1 Figures are based on a September 2015 projection by the Cabinet Office which it agreed with SSCL customer departments and which it is currently updating.

2 The total reduction in running costs includes a £20 million management fee paid to the Cabinet Office by SSCL.

3 Figures are rounded to the nearest £1 million.

Source: National Audit Office analysis of Cabinet Office and Department for Transport savings data

Outsourcing departments' existing services to the centres

2.6 arvato acquired the Department for Transport's shared service centre. It has continued to provide existing finance and HR services to the Department for Transport and its arm's-length bodies. The Department for Transport has kept the same performance measures as before the outsourcing. These indicate that performance has continued at pre-outsourcing levels while the department has gained cost savings. However, other government customers that planned to join arvato's centre (the Department for Culture, Media & Sport, the Department for Communities and Local Government, HM Treasury and the Civil Nuclear Constabulary) did not outsource any services to arvato and have subsequently withdrawn from their arrangements.

2.7 Since the beginning of its contract, SSCL has supplied services to the Department for Environment, Food & Rural Affairs, the Environment Agency, the Department for Work & Pensions, the Department for Education, the Cabinet Office and the Department of Energy & Climate Change and some of their arm's-length bodies. The Ministry of Justice, the Home Office and some of their arm's length bodies have subsequently joined the shared service centre. SSCL has also started providing services to the Metropolitan Police Service.[4] The transfer of operations to SSCL went smoothly, helped by the fact that SSCL largely used the same staff and software systems that the government had been using before the outsourcing.

2.8 The centres currently serve around 300,000 users in 22 organisations across government (including the Metropolitan Police Service) providing a range of back-office functions. Around 7 million transactions are processed by SSCL each year accounting for approximately £50 billion in payments. In general, the services provided by both centres continue to reach the agreed service level standards.

Delays in migrating to the single operating platforms

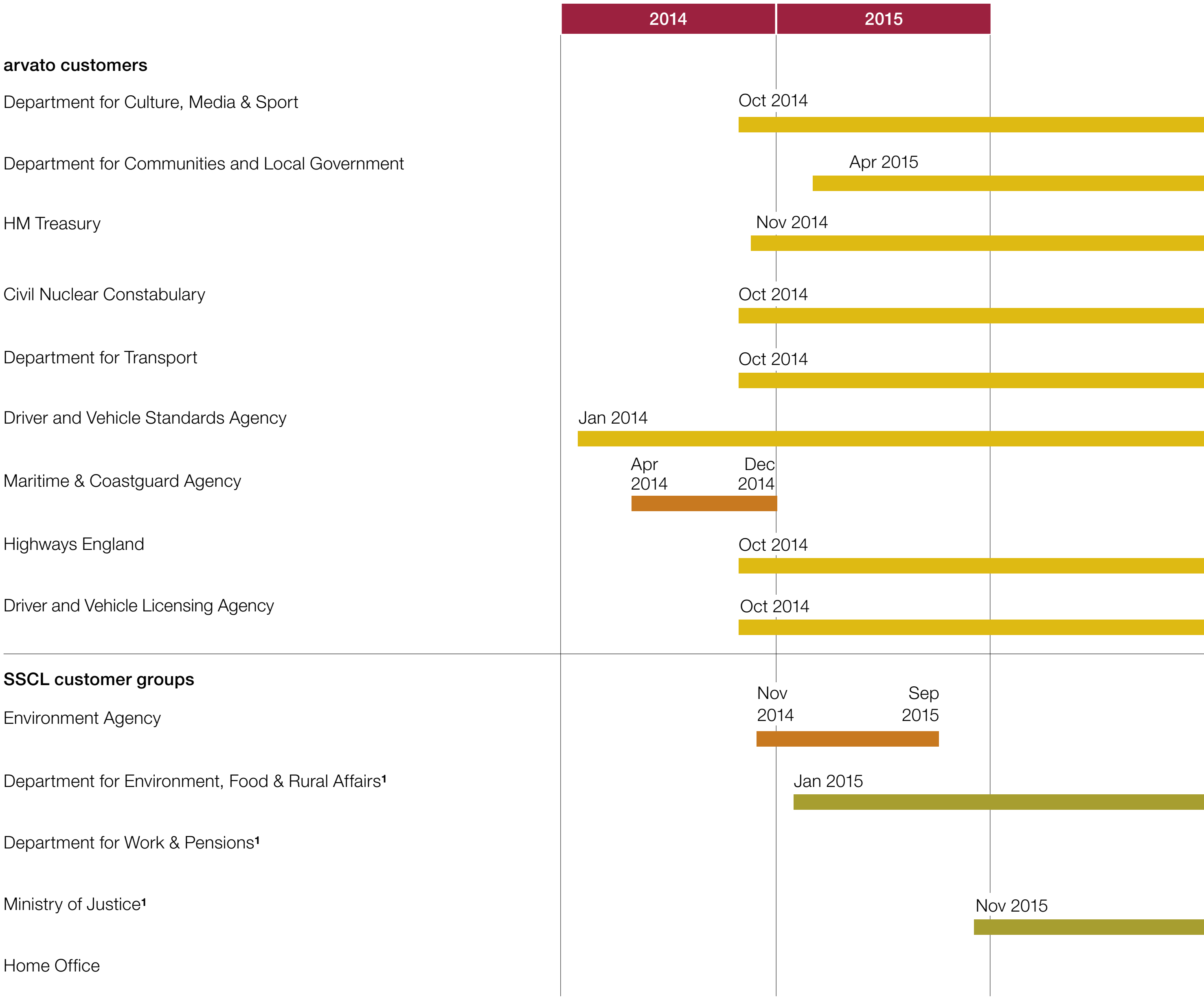
arvato migrations

2.9 Only the Maritime & Coastguard Agency has migrated to arvato's single operating platform. All other customers have not migrated on their planned migration dates (**Figure 8** on pages 24 and 25). On acquiring the Department for Transport's shared service centre, arvato planned to migrate the Department for Transport and its arm's-length bodies to its single operating platform by the end of 2014. Other departments were to migrate by the end of 2015. The first migration was due to occur in January 2014.

2.10 The timetable was considered by all to be challenging and optimistic and has slipped several times. After two delays and an extended testing process, the Maritime & Coastguard Agency migrated to the single operating platform in December 2014. arvato's most recent plan, proposed in January 2016, is to complete the Department for Transport migrations by the end of 2017, three years later than the initial plan. The Department for Transport has yet to agree to this plan because it lacks confidence in the plan's feasibility.

4 SSCL is providing services to the Metropolitan Police Service on a different platform to its other customers and plans to continue to do so.

Figure 8
The delays to migrations to single operating platforms from original plans to current estimates



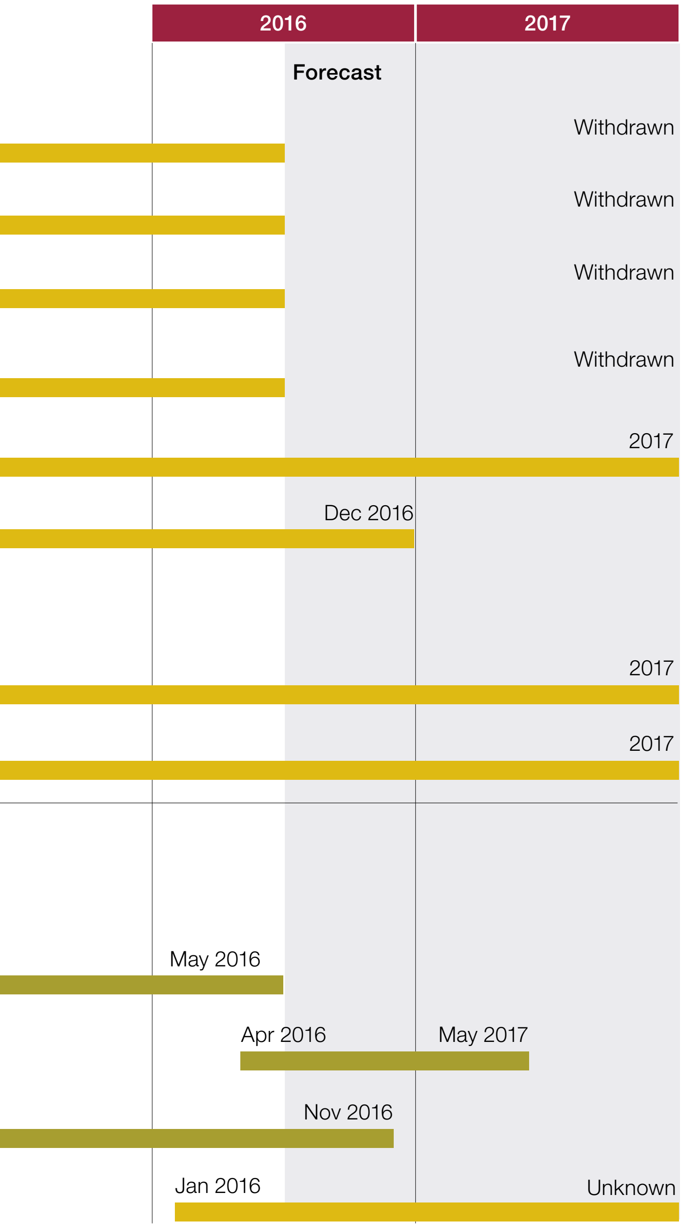
Notes

1 Indicates customer groups with additional bodies not listed separately which previously received services together and are therefore planned to migrate simultaneously. Department for Transport group bodies and the Environment Agency receive services separately and are therefore listed individually.

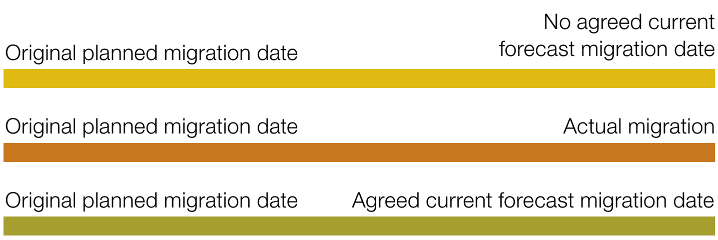
2 Additional bodies are as follows: Department for Environment, Food & Rural Affairs group migration: Department of Energy & Climate Change, Committee on Climate Change, Food Standards Agency, Joint Nature Conservation Committee, Marine Management Organisation, Natural England, Department for Work & Pensions group migration: Cabinet Office, Department for Education, Health and Safety Executive, Office of the Nuclear Regulator, Ministry of Justice group migration: National Offender Management Service, HM Courts & Tribunals Service.

3 Lines are based on an assumption that migrations occur at the month end.

Source: National Audit Office analysis of information from departments and other bodies



Status	Number of bodies	Average delay
Migration completed	2	9 months
Migration plan agreed	15	15 months
Migration plan not agreed	9	19 months to date



2.11 Both the supplier and government contributed to the significant delays in migrations. However, the migration activity to date has highlighted issues with arvato's planning and project management. For example:

- arvato's plans for the user acceptance testing phase of migrations have continued to allow only six weeks for this activity despite it taking several months in attempted migrations – which in itself is an indicator that there are residual problems with the platform design.
- arvato has encountered significant issues with data migration, citing problems with extracting data from the existing systems that it owns and manages under the contract.
- arvato has frequently failed to respond to change requests within the time specified.

2.12 No other department currently plans to migrate. During the process, following discussion with the Cabinet Office, the Civil Nuclear Constabulary decided to sign with an alternative provider having formed the view that uncertainty over migration by April 2016 posed an unacceptable operational risk. As part of the current dialogue between the government and arvato, departments other than the Department for Transport have exited from their contracts.

SSCL migrations

2.13 Only the Environment Agency has migrated to SSCL's Oracle-based single operating platform. Ongoing delays impact on when other organisations may migrate (Figure 8). Across the two centres, organisations that have not yet agreed plans to migrate are currently behind schedule by an average of 19 months. The Environment Agency migrated in September 2015, although it does not expect to resolve all migration issues until 2017. The Department for Environment, Food & Rural Affairs expects to migrate in May 2016, together with the Department of Energy & Climate Change and five arm's-length bodies across the two departments. The Department for Work & Pensions missed its most recent migration date of April 2016. During the expected rollout period, UK Shared Business Services (a partner organisation of the Department for Business, Innovation & Skills) exercised its right to terminate the contract to transfer services to SSCL. The termination used a standard convenience clause rather than performance grounds and followed efforts on both sides to reach an agreement. UK Shared Business Services and the Department for Business, Innovation & Skills have yet to finalise with SSCL any contractual costs that may remain due.

2.14 Similarly to the other centre, both the supplier and government contributed to the significant delays in migrations. However, activity to date has highlighted issues with SSCL's contribution to the project. For example:

- SSCL has struggled to produce migration plans at key moments and with sufficient detail to the approval of the customers. The plans it produced did not show clear priorities and consequences of delays across work relating to different customers.
- The government believes that SSCL failed to develop an offshoring solution in line with the accreditation requirements of the contract and that those requirements were clear, although SSCL believes that there were changes in the requirements which meant that a previously approved plan was no longer fit for purpose.

The cost of delays

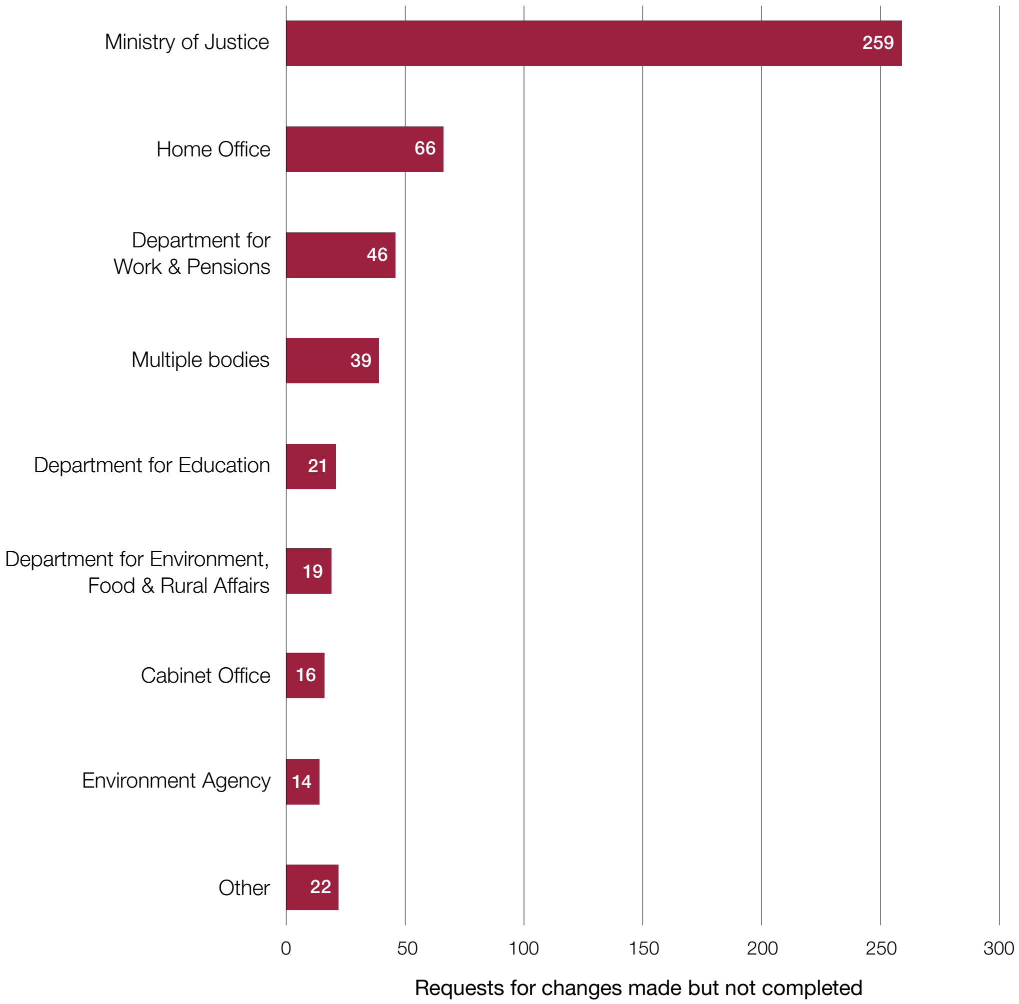
2.15 The programme has not tracked the additional costs incurred by all parties in having to extend existing contracts and the life of project teams. Many customers also reported that morale had suffered in retained back-office functions as a result. The delays in implementing standard systems have also reduced the profits of suppliers, whose business cases rely on these efficiencies to support the initial price reductions set in their contracts.

2.16 As a result of the delays in migrations, departments' existing systems need to be kept operational for longer than expected. This has contributed to a large number of change requests made by customers. There have also been change requests made to the new single operating platform. Many change requests are outstanding (see **Figure 9** overleaf).

Figure 9

Change requests to SSCL outstanding in March 2016

There were 502 change requests made by departments and other customers to SSCL which were in progress in March 2016 (compared to 471 in August 2015)



Notes

1 In addition to the 502 department requests above there are also 175 other changes requested by SSCL.

2 For arvato in March 2016, there were 211 change requests remaining open, made by the Department for Transport or its arm's-length bodies.

3 Change requests are also used as a means of requesting new or additional services and business support activity.

Source: National Audit Office analysis of change requests as at 4 March 2016

Part Three

Reasons for the failures within the programme

3.1 This part of the report looks at why the programme has failed to deliver the planned benefits and has not met the planned timetable for migrations to the single operating platforms. It examines the problems with the programme's design and with the way the programme has been managed by government. Government and supplier performance has contributed to many of the problems that the programme has faced. In such instances, we have focused on the role and performance of government specifically to identify lessons for the future.

Problems with the programme design

Lack of an integrated and agreed programme business case

3.2 The government produced business cases for each of the shared service centres, though the case for the arvato centre was based solely on the Department for Transport business case and did not include other customers which subsequently joined. Some departments produced their own business cases for migrating their back-office functions. However, the government did not develop an overall programme business case. It did not, for example, reconcile the departments' individual savings cases to its overall savings figure.

3.3 The absence of an overarching business case, which could have covered aspects such as how funding would be shared and benefits monitored, contributed to the programme being treated as several separate projects. Some departments were left to fund much of the programme themselves, despite benefits not accruing equally between customers.

Creating standardised processes

3.4 The Cabinet Office introduced the requirement to design a single operating platform into the ISSC2 contract when the bidders had been reduced to the final three. This meant that it was no longer certain that the remaining bidders were best placed to deliver the contract. Furthermore, although the single operating platform would be owned by government and agreed with the supplier, it had not been fully specified. On ISSC1, the single operating platform was instead to be owned and designed by arvato, and customised where necessary for customers.

3.5 There was clearly a risk that suppliers might encounter problems in meeting their contractual obligations, particularly for arvato given that it had little experience of working with central government on transformation. arvato and SSCL told us they believed that the Cabinet Office would play a greater role in ensuring that customers acted in agreement, for example when requesting changes to the design of the new single operating platforms. The Cabinet Office did not identify the need for such a role, as it was not a contractual requirement, and therefore did not fulfil such a role.

3.6 Customers of both shared service centres continue to lack clear understanding of the cost and nature of changes that they can request for existing processes and in the design of the single operating platforms. The intention was that each customer would move to a system that was 80% based on standard processes and 20% on their individual requirements. However, this split is not further defined and the government failed to carry out sufficient work at an early stage to identify and agree common requirements. For example, the Ministry of Justice and the Home Office, which contracted to join the SSCL centre soon after it was set up, lacked a detailed analysis of the differences between their own processes and those of the shared service centre. Consequently, both departments were provided services that did not match their requirements and made a number of requests for change.

3.7 It is natural for customers to want bespoke elements to their services, but cost efficiencies primarily rely on standardisation. An effective design authority would take decisions that balance these interests. Government did not have a design authority in place at the beginning of the arvato contract to manage customer requests regarding changes to the design of the single operating platform. arvato considered that the framework authority should have undertaken this role. arvato and the Department for Transport have now set up a design authority. While the SSCL centre does have a design authority, customer feedback and the level of changes suggest that it has not worked effectively.

3.8 With no design authority in place, arvato customers have found it difficult to agree design changes. Proposed changes to the design of the single operating platform had to be agreed by all customers, including the other government departments outside of the Department for Transport. Changes, for example to the number of fields for storing particular items of data, had to wait for agreement from the Department for Culture, Media & Sport, the Department for Communities and Local Government, and HM Treasury. Because other departments were not receiving services from arvato, the impact of the delays were felt most by the Department for Transport. Although SSCL has a design authority, customers have had problems with the pricing of changes to the single operating platform and to existing systems.

Insufficient buy-in from departments

3.9 There were concerns at an early stage within departments that departments had not been properly consulted during development of the programme. This was especially true for the SSCL centre. Despite a gateway review in 2013 which said that "this procurement might well become an exemplar", a Major Projects Authority report published in January 2016 stated that the "subsequent approach to achieve a commercial deal and sign a contract, potentially at the expense of the customer requirements and programme deliverability, has then added significant challenges to long-term success".

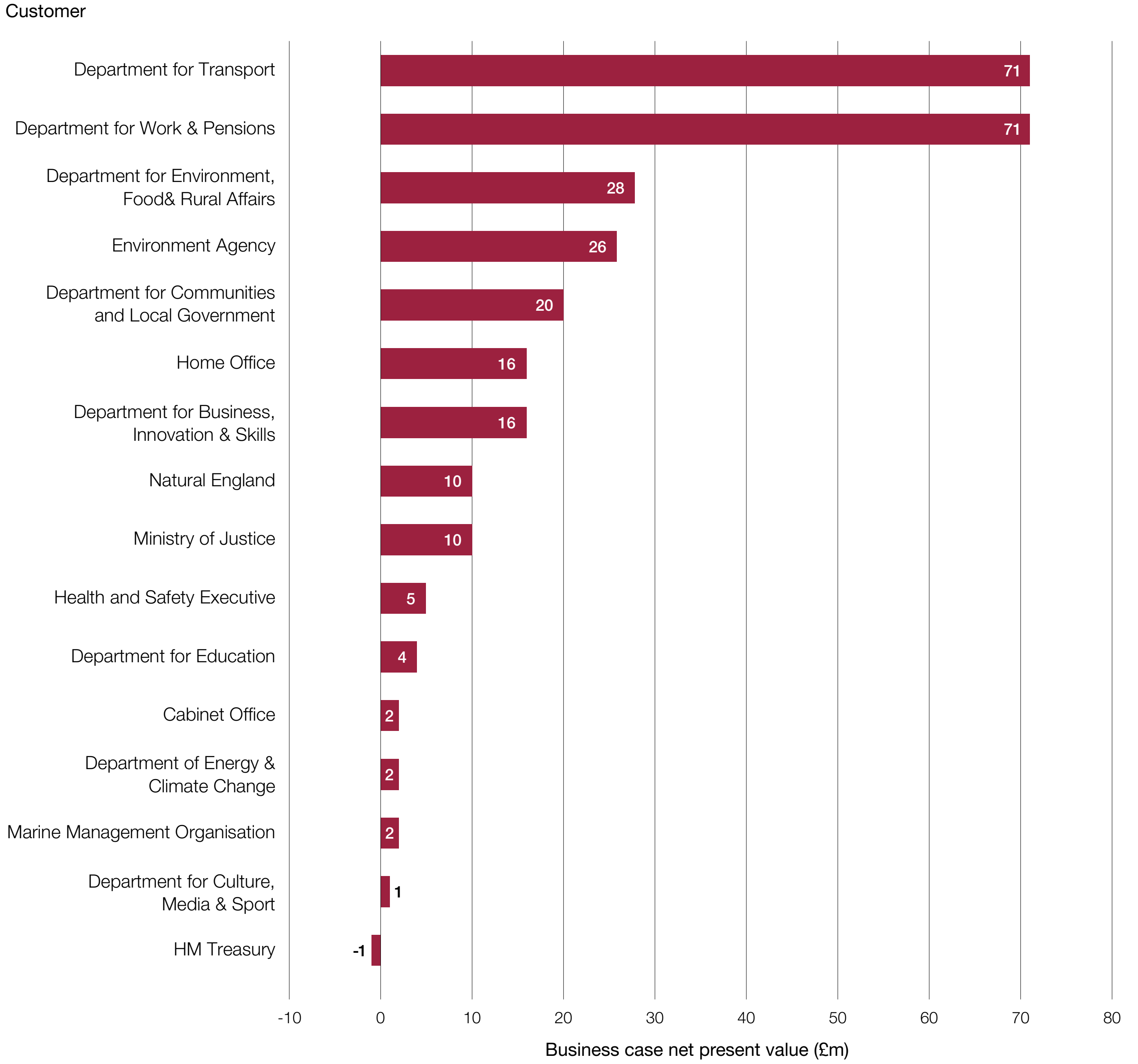
3.10 The 2012 Committee of Public Accounts report, *Efficiency and reform in government corporate functions through shared service centres*, reported that the government had not wanted to mandate departments to join the independent shared service centres.[5] Instead, the Cabinet Office hoped that if departments were able to decide whether to move to shared services they would have more of an interest in making the programme a success. However, not all departments could see the benefits. Many had marginal business cases, or no clear individual case at all, and some reported feeling pressurised to join (**Figure 10** overleaf). No department sought ministerial directions. There was a risk that any issues with implementation could leave some departments in a position where continuing no longer offered benefits. Departments also retained the option to opt out at a later stage regardless of the impact on the wider business case.

5 HC Committee of Public Accounts, *Efficiency and reform in government corporate functions through shared service centres*, Third Report of Session 2012-13, HC 463, July 2012.

Figure 10

Net present values in business cases for departments to join shared service centres 2013-14 to 2022-23

Business cases covering departments and other large customers predicted a range of net present values



Notes

1 Department for Transport's ISSC1 business case: Department for Transport.

2 The Cabinet Office's ISSC2 business case: Department for Work & Pensions, Department for Environment, Food & Rural Affairs, Environment Agency, Natural England, Health & Safety Executive, Department for Education, Cabinet Office, Department of Energy & Climate Change, Marine Management Organisation.

3 Individual department-specific cases: Department for Communities and Local Government, Home Office, Ministry of Justice, Department for Culture, Media & Sport and HM Treasury.

Source: National Audit Office analysis of departmental and project business cases

Problems with the programme management

Programme risks were not adequately dealt with as they arose

3.11 The Cabinet Office has argued that it had transferred the financial risk of delays to the programme through its contracts with arvato and SSCL. However, this risk management strategy has drawbacks:

- Suppliers may try to extract themselves if contracts become financially unviable.
- The Cabinet Office is not able to force departments to take crucial decisions quickly so as to minimise delays in programme delivery.
- Delays may undermine the case for remaining in the programme for customers whose business cases were based on low levels of benefit.
- Delays could also undermine the suppliers' business plans which rely on migrations to new platforms.

3.12 Departments who were to be customers of SSCL had signed memoranda of agreement with the Cabinet Office saying that they would adhere to the timetable but only if they were satisfied with the outcome of the work on the new platform. Individual departments could also request changes to the designs. In effect, departments were able to delay their moves as long as they could maintain their existing legacy systems. SSCL was responsible for bearing the costs of maintaining their customers' legacy systems. While a decision to delay may help an individual department to manage its risk, it can impact on the timing of the migration of other departments which is unlikely to benefit the programme as a whole.

3.13 SSCL also suffered further issues because its business plan relied on moving some of its customers' processes to centres abroad, where it expected to make savings through reducing staff costs on transferred activity by around 60%. However, due to SSCL's failure to develop an offshoring solution agreed by government, there have been delays to its ability to operate offshore.

3.14 The government's wider savings depended on migrations but customers are able to make savings for themselves while remaining on existing systems. Contractual arrangements for compensating either party for the consequences of delays have not always provided the correct incentives and have given both customers and suppliers reasons to be unwilling to state that they do not expect to meet migration dates. Each can perceive a risk that stating that migration will not be achieved on time will result in their being held responsible for the delay and having to make payments.

There was a failure in leadership, governance and accountability

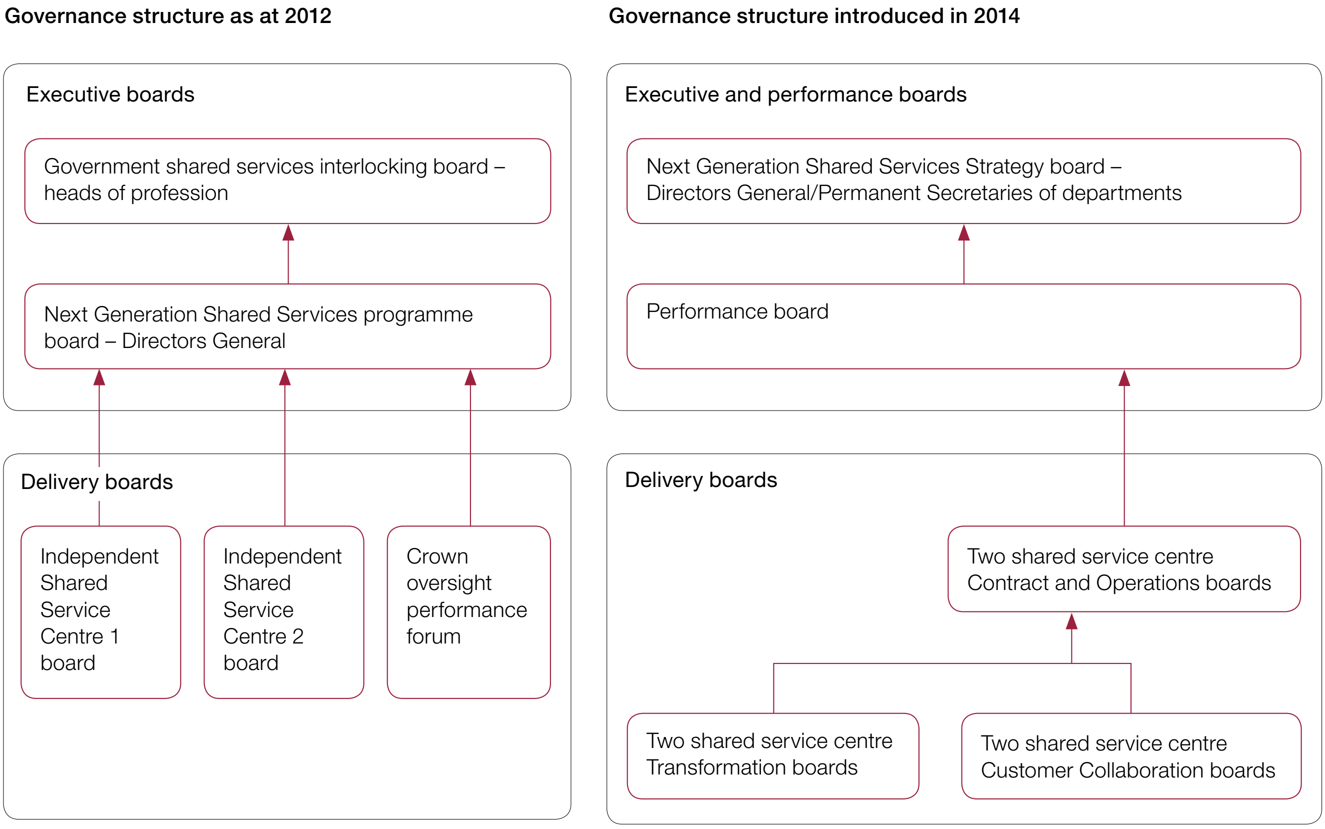
3.15 Suppliers and several customers described a lack of clear leadership from the Cabinet Office earlier in the programme, and relationships have suffered as a result. The Cabinet Office is the framework authority in overall control of each framework contract but it does not have budgetary authority. The Cabinet Office has tried to create consensus among departments to ensure a single voice for government, but this has generally not been successful and is a time-consuming approach. For the arvato centre, the Cabinet Office has some formal decision-making authority under the framework contract, but more recently it was agreed that the Department for Transport would take on all contract management activity in practice as the sole recipient of services.

3.16 Governance and accountability arrangements for the programme were criticised by a government internal audit as "unclear" in 2013. Departments did not feel that there were sufficient opportunities to express their concerns with the programme. The Cabinet Office took steps to address these concerns, for example, to increase opportunities to give feedback directly to the suppliers. It restructured the governance arrangements in 2014 (**Figure 11**) and more recently made further changes by introducing an executive board and clarifying roles.

3.17 Having the right person with the right skills in charge of the programme is critical to its success. Five different senior responsible officers have overseen the programme so far. They and others in key programme roles have often not held relevant experience in shared services.

3.18 Some customers raised concerns with us about the role of the Cabinet Office both as a strategic manager in charge of the contracts and as one of the parties in the joint venture. The Cabinet Office is also a direct customer of SSCL. The Major Projects Authority has highlighted a lack of clarity on the arrangement. However, it also reported that there was no evidence that the Cabinet Office was incorrectly acting for SSCL.

Figure 11
The 2014 change in governance structures



Source: National Audit Office analysis of Cabinet Office documents

3.19 Where governance structures have been put in place, they have not been used effectively, and programme discipline has been weak. For example, departments have reported that key board minutes have not been satisfactorily agreed. Boards have not made decisions on a sufficiently timely basis, sometimes because those present have lacked the authority to do so. Internal audit reported duplication of content between boards and patchy attendance at governance boards for the arvato centre.

3.20 There are problems with the key performance indicators (KPIs) for both shared service centres which has meant that the KPIs have not always helped the government to hold suppliers to account and provide incentives for the right behaviours. At the arvato centre:

- the request for change KPI is based on the time to arvato's first response rather than how long it takes to make a change; and
- Government Internal Audit Agency found that data used for one KPI, on meeting the government's prompt payment target, included transactions not processed by the centre.

The government has revised the KPIs used for SSCL and is looking to review those for arvato.

Part Four

The future of the programme

4.1 This part of the report looks at the future prospects of the shared service centres. It considers the actions the Cabinet Office has taken to address some of the programme's problems and what else it needs to do to ensure the shared service centres deliver savings and benefits.

Important recent activity

4.2 The earlier parts of this report have given an overview of the problems in the programme. While our view is that the government has been slow to respond to the risks that have arisen, the Cabinet Office has now led some important changes to the programme.

4.3 The Cabinet Office has acknowledged that there is a justified lack of confidence in the ability of its Crown Oversight Function to lead a programme of this nature across government. In particular, departments and suppliers have commented that the Crown Oversight Function lacks the relevant expertise and experience in how to implement shared services. The previous senior responsible owner who is still involved in the programme, brings experience in implementing shared services and has increased the urgency of the programme in addressing long-standing issues. The Cabinet Office has now appointed a new senior responsible officer with customer experience of implementing shared services in local government.

4.4 The government has recently appointed senior individuals from the finance and HR professions to identify and map out standard processes within their professions. However, this work is at an early stage and previous efforts in this area have not produced results. If the work is effective, it has the potential to validate and shape the design of shared service centres' single operating platforms, and to offer further benefits. Mapping processes will enable customers and suppliers to discuss simplifying and standardising common processes. It will also enable them to consider how assurance activity is delivered. Introducing standard processes may also make it easier for finance and HR professionals to move between government organisations.

Commercial dialogue

4.5 Delays on both of the shared service centres have required government and suppliers to engage in a constructive dialogue to ensure an agreed way forward. Discussions are still under way, but the following elements have been agreed in principle:

- Department for Transport bodies will continue to receive shared services from arvato. The other contracted government departments have exited their contracts. Under the existing Department for Transport contract, arvato will maintain its Agresso solution platform for the Maritime & Coastguard Agency with other Department for Transport bodies receiving services on an upgraded SAP software platform.
- SSCL will continue to provide back-office functions and expects to deliver future migrations onto the Oracle based single operating platform.

Future challenges

4.6 This report identifies many of the lessons that the government needs to learn to ensure that this programme, and other programmes across government with similar characteristics, are delivered well. Government has repeatedly failed to learn the lessons from its experiences of shared services. Appendix Three identifies the previous recommendations that we and the Committee of Public Accounts have made in relation to shared services and the progress the government has made to meet those recommendations. This is summarised in **Figure 12**. The figure shows that the Cabinet Office has only recently taken a more active approach to dealing with the issues that have been raised.

4.7 Transparency is important for managing risks effectively. As the programme started to encounter problems, all parties became aware of their exposure to commercial risks, which influenced their decisions on issues such as whether to challenge unlikely migration timetables. While their reactions were clearly based on good intentions to maintain momentum in the programme, the ultimate impact, as deadlines were missed, was to erode confidence among the stakeholders that the programme could be delivered.

4.8 Confidence in the programme is now low. Its success will require all stakeholders to adopt the right behaviours, be open about the state of the programme, be realistic about timetables and benefits and understand each others' concerns. The Cabinet Office can play a key role in providing clear leadership, driving collaborative behaviours, and monitoring and responding to risks as they arise. To address these issues, the Cabinet Office has made recent changes to the governance arrangements, for example the introduction of an executive board and refocusing the assurance committee.

Figure 12

Government response to recommendations made by the Committee of Public Accounts and the National Audit Office

Recommendation by the Committee of Public Accounts in 2012[1]	National Audit Office rating	Explanation
Prepare an implementation plan which identifies key milestones and target savings.	🟡	Delays have affected implementation and savings.
Ensure that lessons from 'intelligent customers' are captured and shared.	🟡	A forum to share best practice has existed since July 2014 but it is too early to assess its effectiveness.
Establish a baseline and set benchmarks to measure the success of the strategy.	🟢	Benchmarks are being used but this needs to be maintained and built on.
Develop a long-term strategy to extend the principle of shared services beyond the present functions.	🔴	No significant progress has been made.
Review funding arrangements to be more conducive to effective long-term investment and long-term savings.	🔴	No significant progress has been made.

Recommendation by the National Audit Office in 2014[2]	National Audit Office rating	Explanation
Ensure that departments sign up to the standard operating model and do not implement unnecessary variations to services. Show continued leadership to resist unnecessary changes to the standard model.	🟡	The Cabinet Office has not taken a strong, clear leadership role. Departments are not comfortable with the single operating platforms and have not fully accepted the benefits of standardisation.
Manage the competing priorities presented by the programme.	🟢	While migrations to single operating platforms are delayed, departments are broadly happy with the performance of existing services.
Implement measures to provide customers with assurance that the activities of the service centres are appropriately controlled.	🟢	Both shared service centres have an audit and assurance framework based on industry standard practice.
Work with local government to explore ways to make joint savings and share lessons learned.	🔴	This work is in its early stages and has not yet produced any outcomes.

Notes

1 This excludes two recommendations by the Committee of Public Accounts which had been implemented by our 2014 report.

2 This excludes three recommendations which are similar to outstanding Committee of Public Accounts recommendations.

Source: National Audit Office analysis

4.9 The outcome of the commercially focused negotiations with suppliers will dictate what the programme will look like. Given the delays and issues with the programme, any settlement with suppliers will come at some cost to both government and suppliers. The government will need to ensure that such costs do not unduly impact on decisions related to the programme, particularly if there are concerns regarding the capability of the suppliers to deliver.

4.10 The commercial negotiations, along with delays to the programme and higher than anticipated numbers of requests for change, mean that future costs to departments are likely to be different from their plans. The government will need to carefully consider how funding is distributed to ensure that affordability issues within some departments do not compromise the programme as a whole. Current funding mechanisms also do not always align with the accountability and governance arrangements. The government will need to consider the extent of alignment to improve timely decision-making, particularly on changes to the single operating platforms.

4.11 The significant delays to the programme have meant that legacy IT systems due to be replaced by the shared service centres' single operating platforms remain operational. Support arrangements for some legacy systems can be extended, but this may not always be an option, may be costly, or may involve a lengthy commitment that could affect future programmes. It will be important to consider these factors when taking decisions to address short-term risks.

4.12 Shared services, and back-office functions more generally, are evolving and offer potential new benefits. Software solutions continue to evolve, introducing new opportunities with increased capabilities. For example, many organisations now use remote software offered through the cloud, which can increase flexibility and allow for easier and more frequent upgrades. There are also possibilities for efficiencies and improvement through automating more processes, particularly in generating management information. The government may have opportunities to introduce new capabilities as it takes the programme forward. It needs to be confident that such changes to design can be delivered by suppliers and do not encounter the same delays and issues experienced in designing the current single operating platforms.

Appendix One

Our audit approach

1 This study revisited the government's two independent shared service centres. It reviewed their progress so far and assessed whether the programme has delivered 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)

2 We did not examine the performance of the three large departments which run their own shared service centres: HM Revenue & Customs, the Department of Health and the Ministry of Defence.

3 Our audit approach is summarised in **Figure 13** overleaf. Our evidence base is described in Appendix Two.

Figure 13
Our audit approach

The objective of government

The Cabinet Office established two new independent shared service centres (ISSC1 and ISSC2) with private sector involvement, under its programme to make significant back-office savings. The centres were each expected to develop a single operating platform and provide benefits through standardising back-office functions.

Our study

This study revisited the Cabinet Office's Next Generation Shared Services strategy and government's two independent shared service centres to determine how they have progressed.

Our evaluative criteria

Was there a clear strategic vision for outsourcing back-office functions?

Are ISSC1 and ISSC2 on course to deliver against programme objectives?

Will the programme deliver against the strategic intent?

Our evidence

(see Appendix Two for details)

We identified whether a clear strategy was in place by:

- **reviewing business cases** for each department involved in the Strategy;
- **reviewing previous NAO reports** on the topic; and
- **interviewing senior personnel** from customer departments, the Cabinet Office and suppliers.

We reviewed the progress towards the programme's objectives by:

- **analysing performance management data;**
- **analysing logs of requests for change;** and
- **interviewing senior personnel** from customer departments, the Cabinet Office and suppliers.

We assessed the government's management of critical success factors by:

- **interviewing senior personnel** from customer departments, the Cabinet Office and suppliers; and
- **reviewing board minutes.**

Our conclusions

The government has saved £90 million to date from transferring 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.

Appendix Two

Our evidence base

1 We assessed the progress of the Cabinet Office's Next Generation Shared Services strategy by analysing evidence between December 2015 and March 2016. Our audit approach is outlined in Appendix One:

- **Document review**

  We reviewed documents including departmental business cases, strategy documents, gateway reviews, framework agreements, contract terms and board minutes.

- **Interviews**

  We undertook semi-structured interviews with senior personnel from departments and arm's-length bodies (21 entities), the Cabinet Office, and both suppliers responsible for managing the independent shared service centres.

  Interview questions covered topics ranging from due diligence and communications, the implementation process, and satisfaction with strategy as a whole as well as thoughts on where the strategy could be improved.

- **Quantitative analysis**

  We analysed data from the business cases, board meetings, performance management data and logs of requests for change for the two independent shared service centres.

- **Review of previous National Audit Office and Committee of Public Accounts recommendations**

  We reviewed recommendations in past Committee of Public Accounts and National Audit Office reports against the evidence collated to conclude on progress made.

Appendix Three

Progress against past recommendations

1 The Committee of Public Accounts made seven recommendations to the government in 2012.[6] In 2014, we reported on progress against these, at which point two had been fully implemented and five were in progress.[7] The following table sets out our opinion on the progress that the government has made against the five outstanding recommendations.

2 The second table sets out progress against some additional recommendations that we made in 2014.

Progress against recommendations made by the Committee of Public Accounts in 2012

Recommendation	What the National Audit Office said in 2014
The Cabinet Office should prepare an implementation plan for the new shared services strategy which identifies key milestones and target savings, and explicitly addresses the recommendations in both this and our previous report.	The Cabinet Office had prepared an implementation plan that identified many key milestones but it was not clear how the wider savings from departments redesigning their operations to work with shared service centres will be achieved.
The Cabinet Office should ensure that lessons from 'intelligent customers' are captured and shared, in particular on standardising processes, and that they are always applied when departments join the new independent shared service centres.	The Cabinet Office's primary focus had been on establishing the shared service centres but had started to consider the needs of intelligent customers.
The Cabinet Office should build on the National Audit Office analysis to establish a baseline and set benchmarks to measure the success of its new strategy.	The Cabinet Office had established a baseline and initial benchmarks but departments had some concerns about consistency and comparability of the data.
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.	Some progress had been made but the Cabinet Office had not published its plans.
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 issue remained for shared services in general and we were unaware of any improvements that had been implemented in this area.

6 HC Committee of Public Accounts, *Efficiency and reform in government functions through shared service centres*, Third Report 2012-13, HC 463, July 2012.

7 Comptroller and Auditor General, *Update on the Next Generation Shared Services Strategy*, Session 2013-14, HC 1101, National Audit Office, March 2014.

National Audit Office comment on progress	Progress on implementation
The Cabinet Office prepared an implementation plan, however, many of the milestones have not been met. Only two customers have migrated to the new operating platforms and the timetable for other customers has slipped repeatedly. The Cabinet Office has not put in place a plan to monitor the wider benefits.	In progress
The Cabinet Office established a customer user group in July 2014 to bring together customers of the independent and stand-alone shared service centres to share best practice and develop customer insight. It is too early to assess how effective this will be in developing the government as an intelligent customer.	In progress
The Cabinet Office has established benchmarks for key indicators such as the cost of payroll transactions per employee. The Cabinet Office is analysing costs against these at department and programme level.	Implemented but needs to be maintained and built on
There have not been any significant further developments since our last report.	In progress
There have not been any significant further developments since our last report.	In progress

Progress against additional recommendations by the National Audit Office in 2014

Recommendation
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.
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.
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.
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.

National Audit Office comment on progress	Progress on implementation
The Cabinet Office has not taken a strong, clear leadership role, on the basis that it did not see its mandate as sufficient to do so. The single operating platforms were not sufficiently specified when the contracts were signed. This has lead to differences between departments' expectations and the services provided. The high number of change requests demonstrates that departments are not comfortable with the single operating platforms and have not fully accepted the benefits of standardisation. The Cabinet Office has set up a design authority for SSCL but this has not taken a leadership role in designing the single operating platform. The arvato service centre did not have a design authority until recently.	In progress
While migrations to single operating platforms are delayed, in general the services received by both centres continue to reach the agreed service level standards. There is, however, a backlog of requests for changes that needs to be addressed.	In progress
Both shared service centres have an audit and assurance framework based on industry standard practice. These involve a programme of work examining known areas of risk and the reports are shared with customers. However, some departments lack confidence in the Cabinet Office's ability to provide assurance of controls.	Implemented but further work is needed to ensure departments have confidence in the process
The Cabinet Office has told us that it is reviewing lessons learned from experiences outside central government and seeking to engage with local government. The Cabinet Office plans to develop this further but it has not yet led to any outcomes.	In progress

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