National Audit Office

REPORT

Government shared services

Cabinet Office

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Report by the Comptroller and Auditor General

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Gareth Davies
Comptroller and Auditor General
National Audit Office

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Contents

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Key facts

£525mn	**5**	**2028**
approximate cost of providing corporate back-office functions, such as human resources (HR), finance, procurement, and payroll across major government departments in 2020-21 before the Shared Services refresh was launched (excluding the Foreign, Commonwealth & Development Office)	new shared service centres proposed in the Shared Services refresh	target year by which all departments should be on cloud-based systems

17	departments, grouped into five clusters covered by these new shared service centres
More than 450,000	civil servants served by these shared service centres
Up to £300 million	HM Treasury-approved funding envelope, over the 2021 Spending Review period up to 2024-25, for three clusters to deliver the Shared Services Strategy
£451 to £1,288	range of annual costs for providing back-office functions (such as HR, finance, procurement, and payroll) per full-time equivalent employee across departments in 2020-21, before the Shared Services refresh (excluding major change projects)
£1.7 billion	Cabinet Office estimate of how much it would have cost to replace shared service systems individually by department, as they reach the end of their service contracts, rather than adopting a cluster model

Summary

Introduction

1 All government departments need a range of corporate functions including human resources (HR), finance, procurement and payroll to manage their operations effectively. Collectively known as the 'back-office', these functions deliver the core business processes needed to support front-line services. More than 450,000 civil servants use these services. Since 2004, central government has sought to cut the cost of these services through the sharing of back-office functions between departments. This work has been led by the Cabinet Office, which owns and oversees the Shared Services Strategy. This includes setting the initial strategy design, overseeing departmental progress and approving departmental plans.

2 The aim of using shared services is to standardise processes and services so that they can be provided in a consistent and repeatable way, in high volumes, and therefore reduce costs. This often involves moving to a common IT system or operating platform and transferring operations to a specialist organisation that can provide a service and, through economies of scale, can offer the service at a lower cost.

3 In 2018, the Cabinet Office published a new 10-year Shared Services Strategy, which had three overarching objectives: delivering value and efficiency by moving to cloud-based technology by 2025 at the latest; standardisation of processes and data; and meeting end-user needs. The strategy delegated responsibility to government departments to deliver these objectives, with each department establishing its own programme.

4 In March 2021, the Cabinet Office refreshed its delivery model, moving away from the idea of individual departments procuring their own single software platforms known as Enterprise Resource Planning (ERP) systems. Its original approach to allow departments to procure their own shared services meant departments were competing in the market for scarce skills and paying individually for services, rather than using the weight of government in the marketplace. Instead, it proposed that departments be grouped into five shared service clusters of varying size, who are free to procure any system that suits their needs. Government now aims to have five cloud-based shared service centres by 2028 at the latest, three years later than its initial deadline of 2025. It expects that this will lead to savings of 10% to 15% in operating costs.

5 The refresh aims to make the landscape simpler and is part of wider efforts to reform and modernise the civil service. It has five work streams:

- the development of five shared service centres serving five departmental clusters: Defence, Matrix, Overseas, Synergy and Unity;
- commercial convergence: by using central frameworks as the route to procurement, supported by a national pricing model for major ERP suppliers;
- data convergence: by applying common data standards, improving data-sharing in departments through integration and between departments by ensuring their systems can exchange information (interoperability);
- process convergence: to improve services and user experiences, through policy standardisation, automation and interoperability; and
- improving user experience: by introducing a common set of key performance indicators and measuring user experience.

6 We have reported on the government's previous shared services strategies:

- In 2012, we examined five of the eight central government shared service centres. We found that the government had not achieved value for money and that services were tailored too much to individual departments, increasing costs and reducing flexibility.[1]
- In 2014, we reported on the Cabinet Office's Next Generation Shared Services 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 several significant future challenges, including maintaining clear leadership; designing a standard model for services and implementing the technology to support this; migrating departments to this model; helping departments to become intelligent customers; and ensuring clear accountability between service providers, departments and the Cabinet Office.[2]
- In 2016, we found that although the two independent shared service centres had led to some cost savings, the programme was not progressing as planned and weaknesses in its design undermined its success. The Cabinet Office had not developed an integrated programme business case to include both independent shared service centres and the customer departments; had not secured sufficient support and participation from departments at an early stage; and had not acted in a timely and effective manner as problems emerged.[3]

1 Comptroller and Auditor General, *Efficiency and reform in government corporate functions through shared service centres*, Session 2010–2012, HC 1790, National Audit Office, March 2012.
2 Comptroller and Auditor General, *Update on the Next Generation Shared Services strategy*, Session 2013-14, HC 1101, National Audit Office, March 2014.
3 Comptroller and Auditor General, *Shared service centres*, Session 2016-17, HC 16, National Audit Office, May 2016.

Scope

7 This report examines whether the government's latest Shared Services Strategy is on track to deliver. It aims to answer the following questions:

- Has the government made progress since we last reported on shared services in 2016? (Part One).
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? (Part Two).
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? (Part Three).

8 Appendix One sets out our audit approach and evidence base.

Key findings

Progress since we last reported on shared services

9 The Cabinet Office refreshed its 2018 delivery model in March 2021 after acknowledging that its initial approach would not deliver on its objectives. In 2021, it opted to consolidate existing departmental groupings into five clusters to streamline operations, minimise inter-departmental competition and maximise the buying-power of government. The Cabinet Office has estimated that it would have cost £1.7 billion to replace shared service systems individually by department as they reached the end of their service contracts, rather than adopting a cluster model. Prior to this, shared services across government consisted of 17 departmental groupings using seven different technology providers. Many of the government's systems remained slow and frustrating to use, with an over-reliance on manual input and spreadsheets. Data quality was poor, took time to collate and remained inconsistent across government departments. Differences in the way data were captured and held meant it was hard to share or make use of data across government and to track end-to-end processes. A review by Lord Maude, published in 2021, noted that: "It appears that there has been little progress in driving forward shared services since 2015." (paragraphs 1.6, 1.9 and 2.10, and Figure 1).

10 There are significant variations in the cost of providing back-office functions across departments. In 2020-21, the latest year where data are available, the approximate costs of providing back-office functions such as HR, finance, procurement and payroll across major departments (excluding the Foreign, Commonwealth & Development Office) was £525 million. This was a 16% increase on the costs for 2019-20, resulting mainly from greater spend on transformation programmes, such as new technology. In 2020-21, the average cost of providing these back-office functions per full-time equivalent employee ranged from £451 to £1,288 across departments (excluding major change projects). The Cabinet Office told us that the variations were down to the range and complexity of legacy systems in use (paragraphs 1.7 and 1.8).

11 **Since 2021, some progress in delivering the Shared Services Strategy has been made.** The Defence and Overseas clusters have begun to implement new systems. The departments in the Matrix, Synergy and Unity clusters have obtained business case approval, which will allow them to access the requisite funds for their shared services plans. Clusters described the strategy as "exceptionally ambitious" and the timeline as "challenging". Progress is also being made in developing common data standards and processes, but there is also still a long way to go to ensure data and process standardisation across government (paragraphs 1.11 and 1.12, and Figure 3).

12 **The Cabinet Office has yet to start monitoring overall progress on data and process convergence and does not know how much implementation has cost to date.** The Cabinet Office has begun monitoring progress in some individual areas such as standardising the processes for people to join, move and leave the civil service, but has not set any metrics to monitor overall progress on data and process convergence. The four key performance indicators that are currently measured by the centre are payroll accuracy, invoice accuracy, end-user satisfaction, and time taken for staff to transfer between government departments. None of these indicators allow the Cabinet Office to understand how the overall implementation of its Shared Services Strategy is progressing. This makes it difficult to identify and respond to issues in a timely manner (paragraphs 1.11 and 1.12, and Figure 3).

Putting the right conditions in place to deliver the strategy

13 **The Cabinet Office has taken steps to learn from past failings, but there is more to do to avoid repeating past mistakes.** The Cabinet Office considered what it could learn from its previous experiences with shared services and how this learning should influence its current strategy. For example it now has an end-to-end risk management framework. This included a central risk register for the strategy. However, there were several weaknesses in the practical application of this register. These included risks with no owner, risks with no control activity or response, and risks that have not been properly assessed. The Cabinet Office has since introduced a new digital risk management solution that will help to ensure this cannot happen in future. The Cabinet Office encouraged clusters to complete a 'lessons identified' assessment to show how they have addressed past recommendations. However, we have seen no evidence that clusters have completed this assessment, hindering their ability to avoid repeating past mistakes (paragraphs 1.13, 1.14, 2.13 and 2.14, and Figures 4 and 7).

14 The Cabinet Office refreshed its delivery model, grouping departments into five clusters to deliver the strategy, but the rationale for some departmental groupings is unclear, hindering departmental support and participation. The Cabinet Office considered four options when refreshing the delivery model: doing nothing; a single shared service across government; a single shared service provider with different ERPs; and a small number of centres each with their own shared service provider and ERP solution (the cluster model). Departments told us that the cluster model made sense and that a single shared service would have been overly complex. However, departments were not consulted on which cluster the Cabinet Office allocated them to and it is not clear why the Cabinet Office chose five clusters as an appropriate number. The Cabinet Office told us that it considered several factors in allocating departments to clusters, including the primary focus of each department and what operating platform they used. The departments who are less convinced by the cluster model mainly come from the Matrix cluster. This cluster faces several issues, which stem from the large number of departments (eight) expected to work together and the lack of rationale behind their grouping. However, these departments told us they remain committed to making the cluster model work (paragraphs 2.2 to 2.4).

15 Before launching its current Shared Services Strategy, the Cabinet Office developed a 'case for change' rather than a detailed business case, which lacked detail on important areas such as costs, benefits and risks. HM Treasury guidance states that all major programmes and projects should be supported by a business case. The Cabinet Office considers its strategy is not a programme or a project, and therefore it did not complete a business case and submit it to HM Treasury. Instead, it produced a 'case for change' that includes some of what we would expect to see in a business case, but lacks the requisite detail on costs, benefits, risks, alternative options and management safeguards. The 'case for change' was not subject to any external scrutiny and the lack of detailed planning led to several issues, including timetable delays and funding problems. The Cabinet Office told us that the business cases for previous central shared services strategies had highly inaccurate costs and benefits so it made a deliberate decision to not calculate programme-wide costs and benefits for the current strategy. It adopted a bottom-up approach for the current strategy, relying on clusters to estimate costs and benefits. It acknowledges that this approach brings risks but believes there is enough evidence from other industries to assume that the programme will generate savings by developing economies of scale and increasing operational efficiencies. While there is a balance to be struck between time spent planning and moving quickly, we do not consider this to be a sensible trade-off in a programme of this scale (paragraphs 2.5, 2.6 and 2.8, and Figure 5).

16 **The Cabinet Office did not obtain the independent assurance that we would have expected to see for a programme of this scale and complexity.** When planning for a new programme of work that involves significant organisational change, bodies rely on experts to assure them that their strategy is viable and will meet their needs. The Cabinet Office did not obtain such assurance over its Shared Services Strategy or the delivery model. This means that there was no external review of the strategy design, the proposed technology or the suggested procurement timeframes. There was no external assurance of the assumptions on process convergence, interoperability and data integration across government. The Cabinet Office told us that technical and design assurance will be carried out on clusters' individual shared services programmes (paragraph 2.15).

17 **The financial benefits of the strategy remain unclear.** The Cabinet Office has worked to make its benefits calculation process more reliable, including undertaking work to understand what benefits the private sector has generated from similar initiatives. It has also begun to identify and measure benefits on some individual areas such as the programme to standardise the processes for people to join, move and leave the civil service. However, its central benefits database does not contain any figures or measured savings, instead providing only a narrative description of each anticipated benefit. The Cabinet Office aims to achieve broader savings of between 10% and 15% in operating costs across the programme. However, it is unclear how these figures have been calculated or what evidence supports them. Departments told us that the Cabinet Office did not calculate the expected programme benefits as it did not understand what benefits could be generated. Clusters frequently cited the uncertainty surrounding central interoperability benefits as the biggest obstacle the strategy faces, which may be hindering support from some senior officials. To date, the three clusters (Matrix, Synergy and Unity) that have received business case approval have identified cashable benefits of between £65 million and £336 million. However, these have been calculated in different ways and over different timescales. The Cabinet Office is working with clusters to improve the quantification of the overall benefits (paragraphs 2.7, 2.9 and 2.11, and Figure 6).

18 **Governance arrangements are fragmented and cumbersome, resulting in duplicated effort and disjointed decision-making.** The Cabinet Office has established three separate boards that sit at the centre and provide governance functions for the strategy. This is in addition to governance arrangements at both a cluster and a departmental level. HM Treasury told us that these multiple layers of governance are not conducive to good decision-making or coming to a joint view on what matters. Departments told us that the governance of the strategy has not been well-thought-through, resulting in duplication of effort. The Cabinet Office has begun to streamline its governance arrangements. Each cluster has different governance arrangements. The decision taken by some clusters to use existing departmental governance routes to approve high-level strategy decisions risks undermining the work done to bring departments together, with departments acting as individual units rather than as a group. HM Treasury told us that this is a risk to both the current and future delivery of the strategy. The Matrix cluster is the only one to have a joint investment committee and its departments have signed a 'declaration of commitment' that sets out agreed ways of working and reaffirms their commitment to the Shared Services Strategy (paragraphs 1.12, 2.16, 2.17 and Figure 8).

Barriers to future delivery

19 There have been delays to the funding of clusters' shared services plans, creating risks to delivering against the original deadline. In 2021, HM Treasury rejected all three Spending Review bids received from clusters, with a combined value of £759 million, due to concerns that the Cabinet Office and clusters had not done enough work to develop robust cost estimates or to consider fundamental elements of the Shared Services Strategy, including governance arrangements and cluster design. Although the submitted bids were rejected, HM Treasury approved a funding envelope of up to £300 million to support these three clusters to deliver the Shared Services Strategy and to address the risk that departments could be left with unstable and unsupported systems in the interim. However, access to this funding was contingent on the approval of cluster business cases, which clusters only obtained in autumn 2022 (paragraphs 3.4 and 3.5, and Figure 10).

20 The Cabinet Office does not have a back-up plan for delivering shared services if clusters do not secure the level of funding required for their preferred options. Clusters' business cases forecast £382 million to £403 million to fund their preferred options up to 2024-25. However, HM Treasury only approved a funding envelope of up to £300 million for this period. Departments told us that this settlement may not be enough money to allow them to proceed with their preferred procurement options if final costs continue to exceed the funding envelope. In addition, these business cases forecast about £480 million of required investment funding for subsequent Spending Review periods. These figures are likely to change as clusters engage with the market and finalise their business cases. It is not clear what clusters plan to do if they do not get the required level of funding in future Spending Reviews or what impact this will have on the Shared Services Strategy. The Cabinet Office does not have a contingency plan in place to help minimise this risk (paragraphs 3.5 and 3.6, and Figure 10).

21 The Cabinet Office's existing Digital Procurement Framework may create unnecessary work for departments and may not optimise potential savings. The Cabinet Office expects clusters to use a central Digital Procurement Framework when procuring their new ERP systems. For this framework, five to seven years is the standard length of contract. Contracts of this length are often beneficial, facilitating technological upgrades and cheaper deals. However, clusters told us that they would welcome more flexibility to award longer contracts to maximise cashable savings. Some clusters noted that they may not reach a breakeven point on their investments within the lifetime of a five- to seven-year contract. A department noted that, given the significant number of staff and volume of spend these systems will manage, the procurement represents infrastructure spend rather than digital spend. As such, it argues that these contracts should not be bound by the Digital Procurement Framework. As of August 2022, clusters were liaising with the Cabinet Office's Digital Controls Team to better understand what options are available to them (paragraphs 3.7 to 3.9).

22 Some departments have ageing systems that will soon be unsupported, increasing the risk of system failure and additional costs. Extending these contracts would result in obsolete, cyber-vulnerable systems that would become ever more expensive to maintain. For example, the Department for Business, Energy & Industrial Strategy uses an Oracle platform which will no longer be supported after 2023. Departments with ageing systems are putting in place contingency plans in case the new shared services are not up and running in time. The Cabinet Office told us that it is being flexible with the sequencing of when departments join shared services to address this issue, noting that it made no sense for some departments to leave existing contracts early. However, the current uncertainty around when departments will move systems increases the complexity of working at a cluster level (paragraphs 3.2 and 3.3, and Figure 9).

23 Clusters are working to improve their capacity and capability, but fundamental risks remain around recruiting the right skills at the right time. Departments have been working to improve their internal technological and commercial expertise. The Cabinet Office has provided support and advice to clusters in some key areas, such as commercial considerations and cloud services, and has outlined proposals to create a resource pool that will help match clusters to relevant capability and expertise. Efforts to recruit expertise have, however, been limited by a tight labour market, funding uncertainty and a complicated approvals process. Three clusters (Matrix, Synergy and Unity) have capacity and capability as key risks to the successful delivery of their shared service and the Cabinet Office also acknowledges that is a significant risk. The problem has been compounded by the fact that when refreshing the delivery model, the Cabinet Office required all departments to stop their existing plans and procurement processes. As a result, there is a risk that these three clusters will now be going to the market at very similar times, both for technology and for expertise. The Cabinet Office is working with clusters to improve the coordination between clusters' timelines for commercial activity to ensure that this risk is managed (paragraphs 3.9 to 3.11).

Conclusion on value for money

24 The government's previous shared services strategies failed to deliver their intended cost savings and other benefits. Its new Shared Services Strategy is highly ambitious and, while most departments consider the cluster model a sensible approach, there are several fundamental elements yet to be put in place that are jeopardising the success of the strategy. For example, the Cabinet Office is still unclear on the extent of the benefits this programme can be expected to bring. It is difficult to judge what progress has been made on enablers such as process and data convergence. We are concerned that these gaps cause uncertainty for departments and mean that the Cabinet Office will repeat past failures. We, therefore, cannot conclude that this programme is on track to demonstrate value for money.

Recommendations

25 These recommendations aim to help government put the right conditions in place to deliver its Shared Services Strategy, building on the work that the Cabinet Office already has underway.

a **The Cabinet Office and clusters should first consider the feasibility of delivery, including any contingency plans should funding not be forthcoming**. They should then take account of the following recommendations.

Strategy design and governance

b **The Cabinet Office should put in place performance metrics** that allow it to understand and measure how implementation of the strategy is proceeding, and progress in achieving data and process convergence.

c **The Cabinet Office should streamline its central governance arrangements** so that they avoid duplication and unnecessary work for departments.

d **The Cabinet Office should ensure that future strategies that propose similar transformational change are supported by a full business case**. It should revisit and update the 'case for change' to make this a more comprehensive assessment of the costs and benefits of the strategy, working with departments to ensure benefits are calculated consistently.

e **Departments should establish cluster-level governance arrangements to avoid duplication in decision-making and to embed the cluster model.** It should no longer use existing departmental governance routes to approve high-level strategy decisions.

f **Departments working together as clusters should complete individual 'declarations' that set out agreed ways of working and reaffirm their commitment to the Shared Services Strategy.** This should be signed by each departmental accounting officer.

g **Departments working together as clusters should ensure that their cost and benefit figures are calculated in a consistent way** to allow for comparison across clusters and to make it easier to monitor the outcomes of the Shared Services Strategy.

Implementation

h **The Cabinet Office should revisit its decision to control cluster procurements via the Digital Procurement Framework** and consider contracts of a longer duration, or with the option to extend as standard**.**

i **The Cabinet Office should stagger when clusters go out to market** so that clusters do not all begin procurement at the same time. This should help to ensure capacity and capability across the programme. It should take into account contract end dates for ageing systems when deciding on this ordering.

j **The Cabinet Office should create a pool of expert staff which can be used by clusters** to provide additional capability or capacity.

k **Departments working together as clusters should each complete a 'lessons identified' assessment** to demonstrate how they have taken on board lessons from previous strategies and share these with the Cabinet Office.