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Shared Services in central government

This Briefing Paper presents a short history of the international trend towards public bodies sharing back office services. It also details the services shared by Northern Ireland Civil Service departments. It concludes by drawing together some lessons learned, and suggests points for future scrutiny by the Committee for Finance and Personnel.

Key points

- Survey evidence suggests that shared services have the potential to deliver savings in operating costs of around 11-15%;

- There is a continuing international trend for public sector organisations to share 'back office' functions;

- A Northern Ireland Audit Office study published in 2008 reported a number of good practices in Northern Ireland Civil Service shared services;

- There remain, however, some areas in which the Northern Ireland Civil Service shared services need to progress, and these could form useful focal points for future scrutiny by the Committee for Finance and Personnel.

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Introduction

The idea of public bodies sharing back office services such as Human Resources (HR) or payroll is not new. It is done to save money by reducing duplication of functions across the public sector. There have been a number of evaluations of shared services in recent years. The purpose of this paper is to present an overview of the evidence provided in the evaluations. The paper:

- Presents some of the difficulties that have been encountered;
- Highlights identified weaknesses in previous projects and lessons learned; and,
- Is intended to support the Committee for Finance and Personnel (CFP) in its scrutiny of the shared services that fall under the remit of the Department of Finance and Personnel (DFP).

The following section briefly surveys the history of the international development of shared services, explains the purpose and describes some common features. It addresses the potential for savings and describes the international trend of public authorities participating in such arrangements, and also highlights some of the arguments against the use of shared services. This provides background to section 2 which presents information about the shared services for which DFP is responsible. Section 3 looks at evidence on lessons learned; this draws attention to specific areas which CFP might want to focus on in its ongoing scrutiny of DFP's performance.

1. The development of shared services

The majority of shared service developments across the globe have been about combining corporate service activities across different parts of an organisation, or across a number of organisations. These activities are often referred to as 'back office' functions and include services such as payroll provision, recruitment or attendance management, for example.

The National Audit Office (NAO) identifies five attributes that define shared services. These are set out in Table 1:

Table 1: the attributes of shared services

Five attributes of shared services	
Distinct governance	A distinct organisational structure with a dedicated management team delivers the operational aspects of corporate services for one or more organisations
Standard processes	Processes are standardised and streamlined
Economies of scale	Scale is achieved through combining processes previously executed independently
Customer driven	A culture of service delivery is ingrained within the shared services centre. Resources are committed to key account management, monitoring key performance indicators and the achievement of service-level agreements.
Continuous process improvement	Dedicated project teams manage process change to drive improvements to both efficiency and levels of service.

According to the NAO, modern shared services emphasise a focus on customers and re-engineering processes to achieve maximum operational efficiency:

> *Shared corporate services have the potential to create a better working environment for staff and a better service for customers. Modern shared service centres have sophisticated customer relationship management applications as part of their systems, with telephony and call monitoring software to ensure customer queries are handled efficiently.*[1]

The main drivers for sharing services are generally, therefore:

- **To improve service provision**. By removing the need for organisational effort and resources to be committed to back office functions the rest of the business is freed to focus on its core activities and delivery of services to its customers; and/or,
- **To improve efficiency and achieve financial savings**. Through the automation and standardisation of processes, and also centralisation (so that larger volumes of processes are performed), the unit cost of each transaction falls. The savings released by lower transaction costs on back office functions can then be redirected to the 'front office'.

In the private sector, shared services have become widespread over a long period. The Banking Automated Clearing System (BACS) is a joint venture owned by a number of banks. Since 1968 BACS has been processing financial transactions such as payment of salaries, expenses, and direct debits on behalf of those banks. From the late 1980s onwards, many FTSE 100[2] companies began transferring their corporate services to shared service models.

[1] NAO (2007) 'Improving corporate functions using shared services' available online at: http://www.nao.org.uk//idoc.ashx?docId=5d760578-1b46-4586-a548-87d3697c1524&version=-1 (accessed 18 May 2012) (see page 13)

[2] The FTSE 100 Index measures the performance of the 100 largest companies traded on the London Stock Exchenage

In the public sector in the United States, federal bodies have provided payroll and financial services to other public bodies since the early 1980s. The United States Department of Defense consolidated 338 offices providing financial services to the military into a single Defense Finance and Accounting Service in the early 1990s.[3]

1.2. Sharing frontline services

In addition to the sharing of back office functions, there has been a more recent move to the development and delivery of frontline services along shared service lines.

The Local Government Association (LGA) in England has produced a compendium and map of services shared by councils. Overall, the LGA claims that '*219 councils are engaged in 143 shared service arrangements resulting in £156.5m of efficiency savings.*'[4]

These arrangements range from shared corporate services to collaborations in waste management and procurement. In Northern Ireland, waste management represents a form of shared frontline service whereby three sub-regional waste management partnerships jointly procure infrastructure.[5]

1.3. The potential for savings

Having established what shared services are, this subsection explains the motivation behind such initiatives.

The NAO reports that the level of savings that are achievable through shared services depends on how efficient an organisation is **before** it embarks on a project. In 2006, a survey of FTSE 250 companies found that savings in operational costs were in the order of 12%, on average. The same survey found that the average payback on initial investment was 3.5 years. [6]

An earlier international survey (conducted 2003) found a wide range of reported savings, with the most commonly reported savings being in the range 11 to 15%.[7]

The Northern Ireland Civil Service (NICS) embarked on a major programme of reform from 2004. Part of this programme focussed on rationalising support services in HR and accounting services. (The NICS shared services that resulted from this programme are detailed in section 2 below.) The NICS acknowledged the potential for savings, but set out its aspirations primarily in terms of staffing reductions:

[3] NAO (2007) 'Improving corporate functions using shared services' available online at: http://www.nao.org.uk/publications/0708/improving_corporate_functions.aspx (accessed 18 May 2012)
[4] See http://www.local.gov.uk/web/guest/productivity/-/journal_content/56/10171/3511353/ARTICLE-TEMPLATE
[5] These are: arc21, SWaMP2008 and NWRWMG
[6] PA Consulting Group (2007) 'Shared service centres: delivering the promise' available online at: http://www.corporate-leaders.com/sitescene/custom/userfiles/file/PA%20Consulting%20Shared%20Services%20Survey%20Report%202007.pdf (accessed 18 May 2012) (see figures 5 and 6, page 15)
[7] Accenture (2003) 'Shared services: the evolution of higher performance'

> *The [NICS'] ratio of personnel practitioners to other members of staff is higher than many other employers […]. The opportunity is being taken to overhaul, rationalise and modernise all human resource processes, hence improving efficiency and releasing staff and other resources from support functions.*[8]

When the UK Civil Service began on a programme of efficiency reforms at around the same time as the NICS, the Cabinet Office estimated a potential saving of £1.4bn in annual expenditure on finance and HR functions. This represented a savings target of 20% from the annual baseline. The NAO commented that this target was '*in line with what other organisations, mainly in the private sector, have already achieved*.'[9]

1.4. Continued progress towards shared services

Around the world, there is a noticeable trend towards shared service arrangements for public sector 'back office' functions. Public expenditure reductions are likely to continue to add impetus to the attempts by governments to find more cost effective ways of delivering public services. This sub-section demonstrates that this is not only occurring in the UK and Ireland but also further afield.

Scotland

The Scottish Government has reported savings from shared services across a number of portfolios. In 2010-11, a total of £71.3m was saved through shared services.[10]

For example, in 2007, the Scottish Police Services Authority (SPSA) was established to centralise a number of support services to the police, including IT support and forensics, which were previously managed separately by the eight police boards.

In October 2010, Audit Scotland reported that the SPSA had improved the quality, productivity and efficiency of its forensics, criminal justice and training services since it was established. Also, the SPSA had '*achieved its efficiency targets and made £5.3 million of savings in the three years since it was set up*.'[11]

Wales

The Welsh Assembly Government has a Public Sector Broadband Aggregation (PSBA) strategy (rather similar to the NICS Network NI project). This has delivered the capability for a single holistic broadband infrastructure for the whole of the public sector

[8] NICS (2004) 'Fit for Purpose: the reform agenda in the Northern Ireland Civil Service' (see paragraphs 7.15-7.16)
[9] NAO (2007) 'Improving corporate functions using shared services' available online at: http://www.nao.org.uk//idoc.ashx?docId=5d760578-1b46-4586-a548-87d3697c1524&version=-1 (accessed 18 May 2012) (see page 4)
[10] Scottish Government (2011) 'Efficient government: efficiency outturn report for 2010-11' available online at: http://www.scotland.gov.uk/Resource/Doc/82980/0121005.pdf (accessed 22 May 2012) (see table 2, page 7)
[11] Audit Scotland (2010) 'The Scottish Police Services Authority' available online at: http://www.audit-scotland.gov.uk/docs/central/2010/nr_101028_spsa.pdf (accessed 22 May 2012) (see page 4)

in Wales, rather than each public body designing, developing, installing and maintaining its own. The Welsh Assembly Government argues that such decentralised approaches have historically led to fragmented, unreliable and expensive service delivery.[12]

Republic of Ireland

Minister of State with Special Responsibility for Public Service Reform, Mr. Brian Hayes, T.D recently stated that:

> *This Government is committed to a wide ranging reform agenda. A key area we are focused on achieving substantial reform is in the area of shared services where we [have] to ensure reform is driven and that we deliver public services in a more efficient, cost effective way. Work on a shared service approach to Human Resources is already well advanced.*[13]

In addition to the priorities identified for the Civil Service, the sectors of Health, Education, Justice, Defence and Local Authorities have also been asked to prepare shared services plans during the first half of 2012.

New Zealand

A recent report by the New Zealand Government's Better Public Services Advisory Group made a number of recommendations in relation to reducing duplication in the public sector:

- *Over time, by consolidating and disestablishing some public service and state sector entities, reduce their overall number to: better support a results focus; reduce fragmentation, duplication, and transaction costs; capture economies of scale.*
- *Consolidate and improve policy capability through a combination of more flexible deployment of resources, common human resources arrangements and policy hubs.*
- *Require chief executives to implement shared back-office services and real estate wherever this makes sense.*[14]

[12] WAG (2011) 'ICT Strategy for the Public Sector in Wales' available online at: http://wales.gov.uk/docs/dpsp/publications/110812compacten.pdf (accessed 22 May 2012) (see page 12)
[13] http://www.publicaffairsireland.com/system/downloads/684/original/Shared%20Services%20brochure.pdf?1331638377
[14] New Zealand Government (2011) 'Better Public Services Advisory Group Report' available online at: http://www.dpmc.govt.nz/sites/all/files/bps/bps-report-nov11.pdf (accessed 22 May 2012) (see page 11)

Canada

In Canada, a new organisation – Shared Services Canada – was formed in the summer of 2011 to progress shared service models to IT provision. The Canadian Government stated:

> *The Government has over 100 different email systems, over 300 data centres, and over 3,000 network services within the Federal Public Service. This is inefficient and wasteful. The Government will move to one email system, reduce the overall number of data centres from 300 to less than 20, and streamline electronic networks within and between government departments. This will improve services to Canadians, make IT more secure and reliable, and save taxpayers' dollars in line with the Government of Canada's plan to return to balanced budgets.*[15]

All IT resources associated with the delivery of email, data centre and network services will be transferred from 44 of the more IT-intensive departments and agencies to Shared Services Canada, which will provide all those services.

1.5. Criticisms of the shared service concept

Despite the international trend towards increased sharing of services, there are some critical voices – not just of problems in relation to project management or implementation, but of the shared services concept itself.

Shared services will not realise economies of scale

A particularly vocal critic for a number of years has been John Seddon, managing director of the Vanguard consultancy, and visiting professor until 2011 at Cardiff University's Lean Enterprise Research Centre. For a number of years Seddon has argued that economy from scale in services is a myth.[16]

The economies of scale concept is key to the shared service model because the idea is that centralising and standardising processes aggregates work volumes. Increased volumes of transactions are supposed to drive down long-run costs, but, according to another commentator:

> *…if you think that volume does drive your costs down you have to ruthlessly go for volume, like Michael O'Leary at Ryanair. But, unlike airlines which are high fixed cost outfits, the most expensive bits of local government are mainly made up of people-services which have a preponderance of variable costs. The practical result is that the scope for*

[15] Press release 4 August 2011, available online at: http://news.gc.ca/web/article-eng.do?nid=614499 (accessed 22 May 2012)
[16] Seddon, J (2012) 'Shared Illusions' in Public Finance, available online at: http://opinion.publicfinance.co.uk/2012/07/shared-illusions/ (accessed 13 September 2012)

> *exploiting any economies of scale before diseconomies kick in are far more limited in services.*[17]

It is argued that an additional problem is that shared service contracts are frequently based on payment for the volume of work. For example:

> *Birmingham [City Council] is paying Capita more as services fail because the contract is based on transaction volumes, and the same phenomenon is a ubiquitous feature of shared services deals.*[18]

Potentially, then, the cost of a shared service could go up, as the quality of the service it provides goes down – because if customers have to make repeated contacts to get, for instance, their wages correctly paid, the number of transactions in the centre will increase.

Arguably, it is too late in the process for CFP to make any impact by inquiring into the underpinning logic of the shared service model in the NICS – the shared services already exist and contracts are in place. There may, however, be some potential for CFP to investigate the nature of those contracts and whether DFP perceives a risk that the NICS shared services' costs could increase as a result of poor delivery. To some degree this links in with the points made in section 3.3. on costs, below.

Points for scrutiny: are the NICS shared service contracts based on transaction volumes? Do they cost more if services are not delivered correctly first time?

Fragmentation of employee relations

A recent paper published by Acas (the Advisory, Conciliation and Arbitration Service) explores the growth in outsourcing in the public sector, in business services and in the HR function itself. It argues that outsourcing moves:

> *…are cumulatively bringing about radical changes to the structure of employment in the UK, in particular in the form of a sectoral shift from traditional sectors (including manufacturing and the public sector) to business services sectors as service activities are disembedded from their original settings and transferred to companies in other parts of the economy.*[19]

The paper explores the impact of outsourcing (including to shared service centres) on job security; contractual terms and conditions; equality, fairness and social cohesion;

[17] McCarron, B (2009) 'In the valley of the blind' available online at: http://cipfapin.blogspot.co.uk/search?q=valley (accessed 13 September 2012)
[18] Seddon, J (2012) 'Shared Illusions' in Public Finance, available online at: http://opinion.publicfinance.co.uk/2012/07/shared-illusions/ (accessed 13 September 2012)
[19] Huws, U and Podro, P (2012) 'Outsourcing and the fragmentation of employment relations: the challenges ahead' available online at: http://www.acas.org.uk/CHttpHandler.ashx?id=3474&p=0 (accessed 13 September 2012) (see page 10)

the experience of work; managing HR across organisational boundaries (and arms-length HR); employee voice; and, trade unions.

The paper finds a:

> *…growing disconnect between decision-making and control by 'de facto' employers on the one hand and responsibility and accountability for employees on the other. Furthermore, the fluidity that allows businesses to seek the most cost effective means of production is, in many cases, impacting on job security, terms and conditions, autonomy and job satisfaction, levels of engagement and employee voice amongst the workforce.*[20]

This leads the authors to assert that as organisations fragment through outsourcing, there are a number of questions raised, and the following key issues to be addressed:

- How can expertise in good employee relations be built in?; and,
- How can 'employee voice' be channelled to pick up concerns before they become the basis for conflict, resulting in grievances, tribunal claims, higher stress, long-term absence or collective disputes?

Having said this, it should be noted that there is some evidence of shared services leading to improved employee satisfaction levels:

> *Very impressive staff satisfaction results have also been achieved at Devon and Somerset [Fire and Rescue Authority]. Staff survey results between 2008 and 2010 show a near doubling in satisfaction of the authority as an employer of choice from 33 per cent to 64 per cent.*[21]

Point for scrutiny: how does DFP assess the potential impact of the NICS shared services on employee relations?

[20] Huws, U and Podro, P (2012) 'Outsourcing and the fragmentation of employment relations: the challenges ahead' available online at: http://www.acas.org.uk/CHttpHandler.ashx?id=3474&p=0 (accessed 13 September 2012) (see page 19)
[21] Local Government Association (2012) 'Services shared: costs spared?' available online at: http://www.local.gov.uk/c/document_library/get_file?uuid=105edabf-9072-49f5-94d9-f6065cf69842&groupId=10171 (accessed 13 September 2012) (see page 17)

2. Shared services in the Northern Ireland Civil Service

This section of the paper sets out the NICS shared services for which DFP is responsible. This background information is provided to support CFP's scrutiny of departmental performance and provides a basis for the identification of scrutiny themes in section 3 below.

Enterprise Shared Services (ESS) is the part of DFP with responsibility for shared services. Its objective is to improve co-operation and co-ordination between common corporate services such as HR, finance, IT and training. ESS brings together responsibility for Account NI, The Centre for Applied Learning, HRConnect, IT Assist, Network NI and Records NI into a single Group level command within DFP.[22] Box 1 provides descriptions of the service delivered for NICS departments. Further detail on ESS itself is provided in sub-section 2.2 of this paper.

Box 1: NICS shared services

HRConnect
HR Connect provides seven HR services for the NICS Departments, the NIO and other participating organisations. These are:
- External Recruitment;
- Internal Vacancy Management;
- Employee Relations;
- Non-Industrial and Industrial Payroll;
- Learning and Development; and,
- Performance Management.

Centre for Applied Learning (CAL)
CAL is the key provider of training to NICS staff – offering training programmes at all levels including administrative, management and leadership training.

Account NI
Account NI is the financial processing centre for the NICS. It provides a shared service from purchasing through to payment of invoices.

IT Assist
IT Assist provides common IT systems and services to support the business objectives of the NICS. It provides Records NI, a common electronic document storage facility for all of the NICS, and Network NI, a single, dedicated, high-speed, network service connecting all NICS locations to deliver voice, video and data communication.

2.1. Northern Ireland Audit Office progress report

In 2008, the Northern Ireland Audit Office (NIAO) published a progress report on the NICS programme of establishing shared services. At that time, the NIAO believed it was too early to reach a firm conclusion about delivery of the envisaged efficiencies and benefits. It did, however, assess the processes of procurement, business case

[22] For further information on ESS' aims and objectives, see http://www.dfpni.gov.uk/index/about-dfp/enterprise-shared-services.htm

development and initial implementation. This sub-section highlights the findings that may be relevant to CFP's future scrutiny of NICS shared services.

At the time of the NIAO report, the Workplace 2010 project (to sell and lease back managed properties for NICS use) was still in procurement. In February 2009, however, DFP announced the termination of the programme because:

> *…exceptional market conditions have made it difficult to obtain debt finance for this type of property-related contract, and because of the fall in the value of commercial property.*[23]

Workplace 2010 was the only project to be terminated; the remaining projects which the NIAO examined completed the procurement and continued through to implementation.

The NIAO reported a number of findings,[24] including:

- Outline Business Cases had set out clear reasons for defining each of the shared service projects as priority projects;
- The developing nature of the projects had led to significant changes in the cash costs – the HRConnect project was extended to a longer contract period, for example, and the scope of Account NI was enlarged. In contrast, the Network NI project had costs reduced because of changed scope and a cheaper than anticipated successful bid;
- All the projects took longer to reach contract signature than had been expected, due to: optimistic assumptions in original timescales; changes at preferred bidder stage; and, unforeseen complexity. The NIAO noted that '*these types of delays are not unusual in projects of this nature*';[25]
- Several of the projects reached contract signature stage before the benefits realisation strategies were fully completed (although the NIAO did note that DFP had undertaken additional work on baselines for benefits realisation);
- In a number of projects, stakeholder support was effectively secured, but in several projects there was reluctance from departments to provide funding. Changes in funding commitments for Network NI after the approval of the Outline Business Case created uncertainty over the sufficiency of funding during initial the implementation period;

[23] DFP Press release 20 February 2009, available online at: http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-dfp-february-2009/news-dfp-200209-termination-of-workplace2010.htm (accessed 18 May 2012)

[24] For the full findings, see NIAO (2008) 'Shared services for efficiency – a progress report' available online at: http://www.niauditoffice.gov.uk/index/publications/report_archive_home/reports_archive_2008/shared_services_for_efficiency.pdf (accessed 18 May 2012)

[25] NIAO (2008) 'Shared services for efficiency – a progress report' available online at: http://www.niauditoffice.gov.uk/index/publications/report_archive_home/reports_archive_2008/shared_services_for_efficiency.pdf (accessed 18 May 2012) (see page 4)

- Managing the delivery of the projects was a major challenge for DFP and the department had to rely on private-sector capacity. This resulted in increased procurement and implementation costs;
- There were examples of good approaches to some of the main challenges in delivering the projects. For example, the Records NI contract reflected good practice in relation to open book accounting and 'gain sharing'. Also, the HRConnect contract allows government departments in Great Britain – in certain circumstances – to reuse the process and software solutions developed by the provider; and,
- All projects except the Centre for Applied Learning undertook Gateway reviews and some had been through post-procurement evaluations. In addition, 'lessons learned' reports were made available.[26]

For the most part, the NIAO's findings were positive. At the time of its report, however, the NIAO noted that no Gate 5 (benefits realisation) reviews had been conducted.

DFP defines the purpose of benefits management as follows:

> *Benefits Management is a structured approach for maximising good business outcomes for an organisation as a result of change.* ***It is fundamental to effective Programme and Project Management (PPM) and successful delivery.*** *It involves identifying, planning, measuring and tracking benefits from the start of the Programme/Project investment until realisation of the last projected benefit. It aims to make sure that the desired benefits are SMART (specific, measurable, agreed, realistic and time bounded). The term 'benefits management' is often used interchangeably with the term 'benefits realisation'.*[27] *[emphasis added]*

UK Office of Government Commerce (OGC) guidance on the Gateway process suggests that Gate 5 reviews should be conducted:

> *…throughout the life of the service, with the first Review typically 6-12 months after handover to the new owner and a final Review shortly before the end of a service contract. The Review can also be used on a one-off basis, to check that a project has delivered its intended outputs.*[28]

Point for scrutiny: has DFP now conducted Gate 5 reviews on each of the NICS shared services?

[26] To inform future projects and to improve knowledge sharing, the 'lessons learned' are published on DFP's website at: http://www.dfpni.gov.uk/index/procurement-2/successful-delivery/lessons-learned/content_-_successful_delivery-lessons_learned_gateway.htm

[27] http://www.dfpni.gov.uk/index/procurement-2/successful-delivery/programme-management/benefits.htm

[28] OGC (2007) 'OGC Gateway™ Process Review 5: Operations review and benefits realisation' available online at: http://www.dfpni.gov.uk/cpd-coe-ogcgateway5-operations-review-and-benefits-realisation.pdf (accessed 18 May 2012) (see page 7)

2.2. Enterprise Shared Services

ESS was established as a Directorate within DFP in January 2010. The overall aim of DFP is to help the Northern Ireland Executive secure the most appropriate and effective use of resources and services for the benefit of the community in Northern Ireland.

ESS was tasked with integrating six previously separate reform projects into a single, cohesive organisation. It monitors and reports on the performance of the shared services it its annual report.

The Minister of Finance recently set out the benefits of NICS shared services at a meeting with the Republic of Ireland's Minister for Public Service Reform Brian Hayes:

> *Enterprise Shared Services was established in 2010 and brings together Finance, Human Resources and IT services for the NICS.*
>
> *Benefits of the introduction of shared services take the form of reduced public sector costs and improved service delivery. To date, this has included a 40% reduction in the cost of basic IT provision per user, a reduction in the number of departmental HR staff from around 900 to below 400 and improved payment times for invoices.*[29]

ESS has recently undergone a Gate 0 (strategic assessment) review. This review found that the '*NICS has in place, through the implementation of the shared services, an exemplar of best practice in public service delivery.*'[30]

CFP may well draw considerable assurance from this finding. The Gate 0 review did, however, highlight a number of issues which require attention. The most critical of these centre on the vision and future strategy for shared services in the NICS.[31] For example, the review recommended that ESS defines options for future growth – should it, for instance, develop new customers for existing services, or new services for more customers?

Points for scrutiny: following the Gate 0 review, is there a designated timeframe for ESS to develop its vision? What options are DFP considering in terms of the future shape of the organisation, and therefore the future shape of shared services in the NICS?

[29] DFP press release 17 April 2012, available online at: http://www.northernireland.gov.uk/index/media-centre/news-departments/news-dfp/news-releases-dfp-april-2012/news-dfp-170412-minister-of-state-brian.htm

[30] ESS Internal Peer Review 0, 28 February 2012.

[31] Of nine recommendations made in the Gate 0 review, four were deemed 'critical' and all related to the vision and future direction of ESS.

2.3. The shared service experience in Great Britain

Over the last decade, central government departments and other public bodies in Britain have been moving some of their functions into shared service arrangements. This sub-section presents the conclusions of the NAO on how these services have operated.

A report by the NAO in 2007 found that shared services in the National Health Service and the Prison Service, for example, were '*delivering savings and tackling early problems with customer satisfaction.*'[32]

At the same time, the NAO found some weaknesses in the reform programme. For example, it highlighted that:

> *There are **no accurate figures for savings from shared services across the whole of central government.** By March 2007, Departments had reported £315m of efficiencies overall in the administration of finance and human resource functions but these savings came from other transformation programmes as well as from shared services.*[33] *[emphasis added]*

The NAO also observed that the Cabinet Office had not prescribed a particular model of shared service – in relation to methods of payment, or whether particular public bodies' participation in the shared service was voluntary or mandatory.

Points for scrutiny: does ESS hold figures for the savings delivered solely through the NICS shared services? Will the vision for future NICS shared services prescribe a particular model, or mandatory participation?

A more recent study by the NAO (published in March 2012) once again looked at services shared by UK Government departments. Some of the main findings of the report may be of considerable interest to CFP. The NAO's conclusions on value for money in particular may give rise to concerns:

> ***The shared services initiative has not so far delivered value for money for the taxpayer.*** *Since the Gershon Review recommended the creation of shared services in 2004, the Government has spent £1.4 billion against a planned £0.9 billion on the five Centres we examined. By creating complex services that are overly tailored to individual departments, **government has increased costs and reduced flexibility**. In addition, it has failed to*

[32] NAO (2007) 'Improving corporate functions using shared services' available online at: http://www.nao.org.uk//idoc.ashx?docId=5d760578-1b46-4586-a548-87d3697c1524&version=-1 (accessed 18 May 2012) (see page 4)

[33] NAO (2007) 'Improving corporate functions using shared services' available online at: http://www.nao.org.uk//idoc.ashx?docId=5d760578-1b46-4586-a548-87d3697c1524&version=-1 (accessed 18 May 2012) (see page 4)

> *develop the necessary benchmarks against which it could measure performance.*[34] *[emphasis added]*

The next section of this paper considers the recommendations made by the NAO in its 2012 study, and uses these as a framework for identifying further points for future scrutiny by CFP.

[34] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 7)

3. Themes for future scrutiny

Previous RaISe research has highlighted the role of scrutiny by committees of the legislature as important for ensuring sound financial governance in the public sector. Briefing Note 84/12 *Effective Legislative Scrutiny* noted the importance of committee scrutiny in investigating the content and direction of policy, in addition to the established role of the Public Accounts Committee (PAC) in assessing the effectiveness of implementation.[35]

The future development and roll-out of shared services in the NICS may present an opportunity for CFP to achieve what has been described as '*comprehensive financial scrutiny*'.[36] This section presents a number of themes highlighted by the NAO's study of shared services in central UK Government for the purpose of focusing discussion on key issues.

3.1. Benefits realisation

The NAO found that '*departments have not realised the planned benefits*' from shared services; the five shared service centres it studied should have saved £159m by the end of 2010-11. But, the NAO found that only one of those centres was able to demonstrate 'break-even'.[37]

It was noted in sub-section 2.1 above that benefits management is an important element of Programme and Project Management, and in the delivery of effective services. This point has been clearly highlighted in one of DFP's 'lessons learned' documents:

> *Clearly owned, agreed and measured benefits, concentrated on the business and end users, are essential for all programmes and projects. Early collection of baseline data with a detailed delivery plan and clearly identified and dated realisation activities are required to prevent a project losing sight of its purpose.*
>
> *All benefits should be consolidated into a single benefits management plan that details in a clear way how benefits will be measured, appropriate ownership and show progress against the measures.*[38]

[35] RalSe (2012) 'Effective Legislative Scrutiny' available online at: http://www.niassembly.gov.uk/Documents/RalSe/Publications/2012/finance_personnel/8412.pdf (accessed 21 May 2012) (see pages 3-5)

[36] Wehner, J (2003) 'Principles and Patterns of Financial Scrutiny: Public Accounts Committees in the Commonwealth' in Commonwealth and Comparative Politics Vol 41, No.3, pages 21-36 (see page 23)

[37] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 6)

[38] DFP (undated) 'Gateway Lessons Learned Key Themes 2010/2011' available online at: http://www.dfpni.gov.uk/index/procurement-2/successful-delivery/lessons-learned/content_-_successful_delivery-lessons_learned_gateway/content_-_successful_delivery-newpage-36.htm (accessed 21 May 2012)

Point for scrutiny: does ESS have benefits realisation plans in place for each of the shared services?

3.2. Service quality

As noted above, the NAO found that the planned benefits from the implementation of shared services in Great Britain had not been realised. In particular, it found that:

> *There is little standardisation of process definitions of the services provided to individual customers of a Centre so customers are not easily able to compare financial and operational performance.*[39]

It recommended that costs and benefits are measured in the shared service centres; the data should be used to establish a baseline and create incentives for continuous improvement in services. It also recommended that performance information should be used to inform the Cabinet Office's strategy.[40]

Service quality has also been a concern in the NICS shared services. In evidence to CFP in July 2009, a DFP official noted that:

> *The second area of concern, which remains of concern, is the quality of the service from the shared service centre — the quality of service that staff experience. […] We have invested a lot of time and effort on that with the contractor. The statistics […] show that there have been significant improvements in the amount of time taken to answer calls, the number of abandoned calls and the number of call-back requests. We seem to be seeing some fruit there as a result of the efforts invested. There is still a lot of work to be done.*
>
> *The main element of concern was the accuracy of the payroll. That was very difficult, and caused huge reputational damage to us.*[41]

Points for scrutiny: how is service quality measured and has service quality improved in the NICS shared services? What incentives are in place for improvement? How will ESS use performance information to inform its vision and strategy?

[39] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 29)

[40] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 8)

[41] Official report, 9 July 2009, available online at: http://archive.niassembly.gov.uk/record/committees2008/FinancePersonnel/090701_hrconnect.htm

3.3. Cost

The NAO found that the five shared service centres it studied had cost over £1.4bn. **This is £500m more than the expected cost of £0.9bn**. This cost overrun was due – at least in part – to the software systems used in the centres, which added both complexity and cost. For example, the Ministry of Justice shared service centre runs two separate Oracle systems – one for its Home Office customer, and another for it National Offender Management System.

The NAO also found that some centres had low levels of automation and standardisation. For example, the Department of Work and Pensions shared service centre used '*additional manual processes for Cabinet Office employees as they are not all willing to use the system directly themselves.*'[42] Overall, the NAO found that services were '*overly tailored to meet customer needs'* which reduces the ability of the centres to deliver savings.[43]

On the other hand, the centres have begun to reduce their running costs per customer. The NAO noted that this '*indicates that they may have achieved operational efficiencies.*'[44]

The issue of increasing costs has been a feature of shared services in the NICS. The Account NI contract was initially for a three-year period, but this was extended by an additional four-and-a half years. The DFP Permanent Secretary told the PAC that:

> *We had a three-year contract with the extensions. I do not think that we expected four and a half years of an extension. It is a bit like having an extension that is bigger than your house. It did develop. It became a different beast: it was an elephant rather than a horse.*[45]

The original consultancy cost was less than £1m, but this grew to nearly £10m – although it should be noted that DFP did not accept that this was a formal cost overrun:

> *Formally speaking, in our terms, it did not overrun on costs because there was provision for extension in the contract. What that suggests to me is*

[42] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 27)

[43] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 6)

[44] NAO (2012) 'Efficiency and reform in government corporate functions through shared service centres' available online at: http://www.nao.org.uk//idoc.ashx?docId=cc7b4441-ea1b-4327-acb1-6e0cdf1aa0f4&version=-1 (accessed 21 May 2012) (see page 21)

[45] Official report, 8 February 2012, available online at: http://www.niassembly.gov.uk/Documents/Official-Reports/PAC/120208_ReportontheUseofExternalConsultantsbyNorthernIrelandDepartments.pdf (accessed 22 May 2012) (see page 10)

that we did not have a clear concept at the outset of exactly what we wanted.[46]

Points for scrutiny: does DFP now have mechanisms in place to ensure that any future projects have clearly defined outputs at the start to prevent additional costs from being incurred? Does DFP monitor the operational costs of the shared services? If so, are these decreasing over time?

3.4. The 'intelligent customer' function in the NICS

The NAO found that in Great Britain most customers of shared services had not necessarily driven improvements - they had instead insisted on overly customised processes. This suggests that those bodies had not acted as 'intelligent customers'.

The OGC guidance provides the following explanation of this concept:

'Intelligent customer' denotes a capability of the customer organisation in understanding both customer and provider businesses fully. It does not necessarily imply that a nominated individual or team will become 'the intelligent customer' (although this may sometimes be the case), but rather refers to certain skills, experience and capability that must be available on the customer side to make a contract and relationship work.[47]

In addition, the OGC Gate 5 review requires evidence of *how* intelligent customer input is maintained by the purchaser of the service.[48]

As noted above, overly tailored processes hamper the ability of shared service centres to make efficiencies because running multiple processes increases overheads and reduces the standardisation of transactions. It may be indicative of a customer not understanding the impact of their requirements on the contractor that leads to this kind of complexity.

The NAO also found that one customer department had retained services that should have been transferred to the shared service centre. Again, this does not demonstrate an understanding of both the customer and the provider businesses on the part of that department.

The NIAO progress report into the NICS shared services found that what may be regarded as a similar problem occurred in relation to the Account NI project. The NIAO reported in 2008 that:

[46] Official report, 8 February 2012, available online at: http://www.niassembly.gov.uk/Documents/Official-Reports/PAC/120208_ReportontheUseofExternalConsultantsbyNorthernIrelandDepartments.pdf (accessed 22 May 2012) (see page 10)

[47] OGC (2002) 'Contract management guidelines' available online at: http://www.ifad.org/operations/pf/finance/procurement/contract_management.pdf (accessed 24 May 2012) (see page 10)

[48] OGC (2007) 'OGC Gateway™ Process Review 5: Operations review and benefits realisation' available online at: http://www.dfpni.gov.uk/cpd-coe-ogcgateway5-operations-review-and-benefits-realisation.pdf (accessed 18 May 2012) (see page 11)

> *…18 months elapsed between the appointment of a single preferred bidder and contract signature. A Gateway review by OGC personnel in March 2006 concluded that the length of the procurement may have been due to either the NICS having too few skilled resources available at critical times or delays in receiving financial models from the bidder, alongside the extension in the contract term. Also,* ***the service requirement was amended on 14 occasions*** *and the preferred bidder submitted revised prices twice.*[49] *[emphasis added]*

It should be noted that DFP advised the NIAO it is a normal part of complex negotiations for amendments and clarifications to be provided during the bidding phase of procurement.

Points for scrutiny: what steps has ESS put in place to ensure that future service developments are not overly customised? Are any NICS departments retaining services that should have been transferred? Is ESS able to demonstrate 'intelligent customer' capability?

[49] NIAO (2008) 'Shared services for efficiency – a progress report' available online at: http://www.niauditoffice.gov.uk/index/publications/report_archive_home/reports_archive_2008/shared_services_for_efficiency.pdf (accessed 18 May 2012) (see page 21)

4. Concluding remarks

This paper has provided some evidence to help shape the direction of CFP's future scrutiny of the NICS shared services. The NICS shared services are now well established and therefore issues related to the initial procurements are likely to be for the PAC to examine.

Members may wish, however, to pay particular consideration to the issues flagged up in the Gate 0 review of ESS. Specifically, a need was identified for the organisation to develop its future vision for shared services in the NICS. This may be an appropriate policy for CFP to investigate, in addition to the themes identified in section 3.

Members may wish also to consider sharing this paper with the Committee for Health, Social Security and Public Safety because of the move to shared corporate services in Health and Social Care.[50]

[50] For further information, please refer to the Minister's statement to the Assembly on 14 May 2012, available online at: http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Reports-11-12/Monday-14-May-2012/#a3 (accessed 22 May 2012)