Shared Services – Setting unrealistic expectations

by

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The Public Services International Research Unit (PSIRU) investigates the impact of privatisation and liberalisation on public services, with a specific focus on water, energy, waste management, health and social care sectors. Other research topics include the function and structure of public services, the strategies of multinational companies and influence of international finance institutions on public services. PSIRU is based in the Business Faculty, University of Greenwich, London, UK. Researchers: Prof. Steve Thomas, Jane Lethbridge (Director), Emanuele Lobina, David Hall, Sandra Van Niekerk

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This report was commissioned by PCS in February 2014 to inform campaigns against the outsourcing of services in the Ministry of Justice. It has been almost a decade since central government started to outsource shared services. This experience should be used to inform future decisions about shared service outsourcing. This report presents some of the evidence about the extent to which shared services can save on costs.

This report is in six sections:
1. Overview of shared services and UK government policy;
2. Lack of savings;
3. Problems faced by individual departments;
4. Alternative approaches;
5. Local level;
6. Conclusion.

1. Shared Services: overview

The concept of 'Shared Services' originates in the private sector motivated by reducing labour and other operational costs. Sometimes it involves concentrating expertise, e.g.HR, across a company and increasing the customer focus. However, although this is a model promoted widely by the private sector, there are also risks associated with shared services. Su *et al* (2009) identified nine risks:

- Over-standardisation of systems and processes;
- Lack of operational flexibility;
- Unbalanced power concentration;
- Increased system complexity;
- Unclear service accountability;
- Dampened employee morale;
- Ineffective communication;

- Unexpected implementation cost escalation;
- Long project timelines. [1]

Although there are a wide range of problems associated with 'shared services', the pressure to reduce costs in both the public sector and private sector has resulted in its continued adoption.

This report looks at the experience of the UK government sector. 'Shared Services' is a part of the UK government policy of 'Transforming government services to make them more efficient and effective for users' by making 'public services simpler, clearer and faster for users and make government services more efficient'. It is aimed at reducing waste, saving money and improving government services to make them more effective for those who need them. [2] The Cabinet Office 'Next Generation Shared Services. The Strategic Plan' [3] explained 'how central government intends to implement, operate and manage a more effective programme of back office shared services across departments and arm's-length bodies (ALBs), by building on prior investments and successes and learning lessons from experiences to date, most recently documented in the report "Efficiency and Reform in Government Corporate Functions through Shared Service Centres" published on 7 March 2012 by the House of Commons Committee of Public Accounts. [4]

The UK government 'Shared Services' programme aims to make saving and to make government 'more efficient' by 'simplifying and standardising back office services and functions'. [5] The programme was largely designed as a response to the Independent Review of Public Sector Efficiency or the Gershon Review of 2004. The Review identified six areas of potential saving:
(1) back office functions;
(2) procurement;
(3) transactional services;
(4) policy, funding and regulation for the public sector;
(5) policy, funding and regulation of the private sector; and
(6) the productive time of front-line public service professionals. [6]

2. Lack of savings

By July 2011, 'shared services' reforms were already underway in finance, HR, and procurement. The Government Strategic Vision document outlined the goals of spreading the practice to the rest of Central Government services. Individual Departments set up their own shared services centres and by 2011, eight had been set up. However, they did not yield the results that the Cabinet Office was anticipating. In March 2012, the National Audit Office conducted a review of 5 out the 8 centres. It discovered that the cost of the centres, up to 2012, was £1.4 billion instead of the expected £0.9 billion. Savings of £159 million had been expected by the end of 2010-11 but instead there were losses. These differed across the centres, with one centre achieving 'break-even in a time consistent with the private sector' and 'two centres that are tracking cumulative benefits report a measured net cost of £255 million'. [7]

The NAO acknowledged that 'the services provided are currently overly customized to meet the needs of individual departmental customers and more complex than the spending watchdog expected'. The underlying reason for the high level of departmental customisation is due to the historical development of the departments to match the needs of their customers/ users but the NAO did not consider this important. NAO stated that 'the software systems used in the centres have added complexity and cost; and that, as the use of the centres has been voluntary, departments have struggled to roll-out shared services fully across all their business units and arm's length bodies'.[8] The NAO concluded that the initiative for government departments to share back-office functions suffered from an approach which made participation voluntary and tailored services to meet the differing needs of individual departments. The result was over complexity, reduced flexibility and a failure to cut costs.

> "The new Cabinet Office strategy on shared services acknowledges these issues but, if it is to achieve value for money, it must learn the lessons from past implementation. Only in this way can the sharing of back-office functions have a realistic prospect of contributing towards the government's drive to cut public spending in the long term." (Amyas Morse, Head of the National Audit Office, 7 March 2012) [9]

This shows a difference in perception about how shared services should operate within government. Individual departments, on the basis of experience, had identified their needs within a shared services system. However, this was not necessarily the cheapest option. From the NAO perspective, departments need to reorganise themselves so that their own tailored needs do not dominate the overall service. NAO further criticises individual departments for not operating as 'intelligent customers', arguing that 'they will need to build in-house capability with enough business and technical understanding to manage the services and work with the centres to achieve efficiencies'.

Throughout the Cabinet Office Strategic Plan (December 2012) there is no mention of the losses behind the 'lessons and experiences', documented in the (2012) NAO Report, which are being used as a foundation for future improvements in the Shares Services Programme. The Strategic Plan claims that it aims to 'deliver a significant reduction in costs while raising the customer experience [and] it will look to achieve this through consolidation of volumes and services, standardisation of processes and leverage of IT, buildings and people assets'.[10] However, comparative analysis of the NAO Reports and the Shared Services programme development from 2004 (the year of Gershon Review) until the present shows that not only is the shared services programme not 'value for money' but that very few lessons have been learned in almost a decade.

Consolidation of services brought little more than financial losses and over-complication of software and services delivery alike. Standardisation that often involved outsourcing to foreign MNEs (e.g. ATOS, Arvato, and Steria) brought further expenses. The quality of services also fell, including deaths and suicides of disability benefit claimants and increased volume of mental health problems linked directly to financial insecurity caused by (potential) benefit loss.[11] Moreover, instead of 'raising leverage of people assets and experience', there are plans for increasing divestment/outsourcing of shared services to external/foreign suppliers. The latter raises concerns about private and personal data sharing of the Departments and their customers alike and potential job losses due to external supply of services.

The evidence from the targets and objectives set in the 2008 and 2012 NAO Reports show that few targets were met and lessons were not learnt. Nevertheless, the Cabinet Office continued to promote shared services more widely despite the evidence showing that there had been few positive changes, no savings, and increasing costs. The next Review or 'Update on the Next Generation Shared Services Strategy' by NAO will be published in Spring 2014.

Table 1. Summary of the costs of the Shared Services Programme

Time period	Expenditure	Savings	Net cost
7 years evolving shared services (2005-12)	£1.4 billion spent to deliver the core back-office functions of human resources, finance, procurement and payroll services in five shared service centres. (Estimated cost was £0.9 billion)	£159m of planned savings by end 2010-11	£255m is the net cost of the two Centres that are tracking benefits. One Centre broke-even within five years.

Although the NAO Report (2012) findings are critical of the programme implementation, they did not provide the full picture. The seven main NAO Report findings fail to show that it is the policy approach itself that is the problem.

Table 2: NAO report findings compared with additional issues

No	Findings	Validity	Examples
1	'Departments have invested significant cost and effort in implementing shared services'.	True. They followed Government instructions.	£1.4 spent to date on 5 shared services centres Only 1 broke even within 5 years
2	Departments have not realised the planned benefits.	True. The plan was deeply flawed, did not account for losses, and overestimated the benefits.	£2 billion capita contact: Savings could be just £128 million – not the £400 million to £600 million quoted frequently elsewhere. In fact, to reach £300 million to £400 million of savings per year the Cabinet Office "assumes that all ISSCs (independent shared service centres) and departments using them reach upper quartile performance across transactional and retained functions". [12]
3	Most customers of shared service centres have not driven benefits.	True. According to NAO reports potential benefits specified in the government plan were exaggerated.	Very short deadlines No training for staff Job cuts i.e. less capacity No clear guidelines for implementation
4	The services provided are overly customised	**True. It is an inevitable consequence of running services for a complex and diverse cohort of customers and it saves money**	**Such over-customisation, though contrary to the vision stipulated in the government plan, saves money i.e. 15-20% annually - as experience of DECC shows.**
5	The software systems used in the Centres have added complexity and cost'	**True and false. As above, the added complexity does not automatically add cost.**	Complexity saves money: as above.

6	The Cabinet Office and Civil Service Steering Board could have done more to ensure shared services were implemented appropriately'.	**True but not necessary. Evidence from various departments shows that most problems resulted from poorly designed policy, little consultation with experts from within the departments, and little time given to departments to seek appropriate solutions to their internal issues (if there were any).**	Better guidelines could have been provided. Better consultation with department and engagement with in-house experts who understand the nuances of specific services should have been facilitated Decision-making power over implementation and spending should be shared with departments – not taken away from them.
7	Departments have struggled to fully roll-out shared services across all their business units and arm's-length bodies.	True but not necessary.	As above plus, there is no research to show that it is possible to 'roll-out shared services across business units' in a standardised manner nor there is evidence to show that such standardisation is beneficial. On the other hand, cases such as ATOS and their standardised fitness-for-work assessment process show how dangerous such systems can be.

3. Problems faced by individual departments

This section will highlight some of the problems faced by individual departments. These include:

- Department for Transport;
- DWP;
- NHS Scotland.

Department for Transport

The Department for Transport (DFT) was one of the first government departments to implement the Shared Services Transformation Programme in April 2005 following an 11 month review which aimed to establish 'an in-house centralised Shared Services Centre in Swansea to provide the Department and its six executive agencies with support services for human resources, payroll, and finance' [13] The Report concluded that 'significant changes to the assumptions underpinning initial estimation of costs, inadequate contract management and poor initial implementation of the Programme have meant that the Programme as originally envisaged will not achieve value for money' and would cost £81.1 million to the Department up to 2015. Furthermore, even if the Department 'were to achieve additional savings of £50 million a year there would be a net benefit of £84.4 up to 2015, less any additional set-up costs', which would allow to break even by 2012-13 at the earliest.

The Report also highlighted that generally the plan was unrealistic and there were problems with:

1. Implementation;
2. Management control of the private service supplier (IMB) which resulted in overpayments (£54 million out of total £72 million to contractors by March 2008 alone), and;
3. Lack of clear specification of the new IT system needed. [14]

By 2007, some of these problems were addressed and partially resolved by bringing in experienced civil servants i.e. experts in and from their particular industry, and contractors who helped with system transfer. [15] However, in 2008 the Programme was forecast to cost over £120 million against the gross saving of £40.1million to March 2015, resulting in a negative net present value of -£81.1 million. By 2012, the losses were -£24 million.

Table 3: DfT First Shared Service centre, expenditure and savings for period 2005-15

	Expenditure	**Savings**	**Net present value**
Business Case in 2005	£55.4 m	£112.4	£57m
Interim business case	£70.4 m	£107.5	£37.1m
March 2008	£121.2m	£40.1	-£81.1m
December 2012	£81 m	£57 m	-£24m

Source: NAO Report DfT 2008

In April 2013, a second Shared Service Centre was planned, worth £2 billion. The contract was won by Arvato and 75% of savings were expected to go to private sector. [16] However, savings could be just £128 million and not the £400 million to £600 million quoted more frequently. In order to make savings of £300 million to £400 million per year the Cabinet Office "assumes that all ISSCs (independent shared service centres) and departments using them reach upper quartile performance across transactional and retained functions". [17]

Table 4: Second Shared Service Centre - Seven years

2013-20	Expenditure	Savings	Loss
	£2 billion	Expected savings just £128 million – not the £400 million to £600 million quoted frequently elsewhere. £128 million x 7years = £896 million	Loss of £1,104 billion

Source: Du Preez, Computerworld UK 2 April 2013

DWP

Fujitsu/ Oracle began to work with DWP in 2005 and a year later, the DWP Shared Services centre, was launched. Part of the implementation of the DWP Shared Services centre involved a reduction of staff from 4,500 to 1,300. This was due to the installation of an E-Business Suite and an increase in the number of service lines operating together, which meant more work for a reduced workforce. There were 24 physical sites of operation at the beginning of the scheme but these have now been reduced to 5. In 2009, DWP began to sell shared services to the Cabinet Office and in 2010 to the Department for Education.

The implementation costs were £233 million.[18] The expected savings were £230 million but three Whitehall Shared Service centres required upgrading to Oracle which cost a total of £47m (£15.6 million per centre). Therefore, the actual cost of the DWP Shared Service centre = Implementation cost (£233m) + Upgrade cost (£15,6m) – (reported) savings (£230m) which results in a loss of £18 million. [19]

Fujitsu already had a poor record with the Department of Environment and Climate Change (DECC) so it is unclear why the company won the DWP contract.

Table 5: DWP Oracle and Fujitsu Shared Services

	Implementation costs	Upgrade costs	Expected savings	Loss	Loss of jobs
2006-2012	£233m	£15.6m	£230	£18.6m	3,200

NHS Scotland

As well as poor records of service and failure to create any savings, there are additional problems that the public sector faces when companies sue for loss of contract. This results in additional, unbudgeted costs. BT is suing NHS Scotland for £20 million in damages over the £110 million Scottish Wide Area Network (SWAN) contract, after losing in its bid to force a re-run of the procurement process. [20]

According to NHS National Services Scotland (NSS), the new contract provided by the preferred bidder would have saved taxpayers £300,000 a month from the start date of April 2014. Currently NHS Scotland and six councils are on the contract, which has an option for other public organisations to join later.[21] However, the contract 'is worth approximately £110m initially, with the potential to rise to £325 million as more public bodies make use of it' but there is no data available to show whether any savings have been made.

Table 6: BT and NHS Scotland

	Costs	**Savings**	**Costs – savings = net cost**
7 years	£110 million (over 7 implementation years) + £20 million BT settlement	(£300,000 a month x 12 months = 3.6 million a year) x 7 = £25.2 million	
Total	**£130m**	£25.2 million	**£104.8million**
9 years	£325 million (over 9 years in total – when service sharing begins) [22] + £20 million BT settlement	(£300,000 a month x 12 months = 3.6 million a year) x 9 = £32.4 million	
Total	**£345 million**	**£32.4 million**	**£312.6million**

Source: Capita signs framework contract for Scottish Wide Area Network (2014) See more at: http://www.capita.co.uk/news-and-opinion/news/2014/capita-signs-swan-framework-contract.aspx#sthash.o6rQGb0L.dpuf

4. Future contracts

DWP/DEFRA/EA
The UK government is preparing to outsource back office functions from the Department of Work and Pensions (DWP), the Department of the Environment, Food and Rural Affairs (Defra), and the Environment Agency to French IT services and BPO provider Steria. Under the deal, a new shared services organisation will be created, 75% of which will be owned by Steria and 25% by the government. Over 1,000 roles may be moved to Steria's offshore delivery centres in India. [23]

The Steria response to the invitation to negotiate from the Cabinet office shows that there are a series of assumptions about the benefits that the new shared services organisation, called Shared Services Connected Ltd (SSCL), will bring. [24] SSCL will be working with Fujitsu (as their first choice of IT partner), even though the limitations of Fujitsu's record can be seen in the NHS and its removal from the DECC contract.

In the light of a series of failures to generate savings in the shared services projects outlined above, the assumptions that Steria has made to inform the creation of SSC Ltd are set out below.

Assumptions SSCL is expected to delivery savings of over 30% SSCL is the route to the public sector 'market' SSCL is targeting central government (60% addressable market), local government (addr.market 50%), police (addr. market 50%)and regions (addr.market 25%) (Addressable market is estimated as the percentage of potential services that each customer is able and willing to take as a shared service.) SSCL is considered a 'key channel to market and an engine of growth for Steria' SSCL will strengthen ties with the Department of Health to work with the Steria-Department of Health shared services joint venture. [25]

The assumptions of 30% savings are based on the expansion of SSCL into the central and local government sectors as well as the police and regional agencies. Growth is dependent on expansion of customers, even if these customers are already in shared services contracts. New customers will be able to take on additional services as 'they are developed, driven by the scale and demand that SSCL will create'. Again, the expansion depends on services which are not yet in existence. Steria views SSCL as an opportunity for growth and expansion, it will benefit from the dividend yield and any increase in the value of SSCL. [26]

5. Alternative approaches

Department of Environment and Climate Change (DECC)
DECC is the first government department to move away from a single supplier to a more complex series of providers for IT services. Although more in-house resources are needed, with 8 new staff taken on, making a total of 15 staff, there will be a net savings on IT costs of 15-20% year on year. Using complex, customised in-house resources, this contradicts the view of the NAO, which has argued that standardised and streamlined ones are cheaper.

Fujitsu was described as good 'for keeping lights on but it didn't deliver change and refresh with the speed of technology changes' (Ritchie, CTO at DECC) [27] This shows the failure of a private sector provider to deliver innovation and efficiency. [28]

6. Local level

At local level there have been some positive changes in relation to Shared Services. According to the Local Government Association,[29] some 337 councils across country are engaged in 305 shared service arrangements, which reportedly result in £263m of efficiency savings. The details of the latter need further exploration.

Table 7: Efficiency savings

Number of councils	Number of shared services arrangements	Savings
337	305	£263m efficiency saving

7. Conclusion

Shared Services is a concept used by the private sector which has been adopted by the UK government. For the last decade, shared services system have been introduced to central government departments, as a way of saving money. Evaluations, by the National Audit Office, show that the most striking feature of many schemes is that there are no savings and quality of services falls. There is a failure to learn from the experiences of the last 10 years.

This is particularly pertinent now because of the predicted outsourcing of shared services by the Ministry of Justice. The recent bid that Steria presented to provide shared services to the DWP, DEFRA and the Environment Agency, through the creation of SSCL, shows the assumptions that multinational companies are making when bidding for shared services. Clearly, the aim of the multinational company is to maximise profits as well as secure future markets in the public sector. Providing shared services to several government departments will enable Steria to expand. Meanwhile civil service jobs will be lost and the expertise and competence of government will be undermined.

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