



National Audit Office

Improving corporate functions using shared services

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KEY FACTS

- The Cabinet Office has estimated that central and local government spends £7 billion a year on finance and human resources services.¹ It believes there is scope to save 20 per cent from this total by greater sharing of corporate services.
- A focus on challenging the way that corporate services are delivered in order to enhance front line operations has been common in the private sector for some time but is only starting to emerge in the public sector.
- There are various approaches to improving the efficiency and effectiveness of corporate functions. These include streamlining processes, outsourcing and sharing services. Experience elsewhere, including in two case studies examined in this report, shows that implementing shared services can reduce costs by up to 20 per cent or more dependent on what an organisation has already done to improve efficiency and what further options are available to it.
- Sir Peter Gershon's review of public sector efficiency identified benefits from shared services, but departments' efficiency targets do not include savings specifically from shared corporate services.²
- As well as improving efficiency, the Cabinet Office believes shared corporate services can create a better working environment for staff and a better service for customers. Well-managed corporate functions provide essential support to front line operations and to services that public bodies provide.
- Public sector organisations are delivering corporate shared services in a variety of ways. The Cabinet Office has not prescribed any particular models, for example on payment mechanisms or on whether participation is voluntary or mandatory in any scheme that is made available.
- Shared services in the NHS and the Prison Service are delivering savings and are successfully tackling early problems with customer satisfaction.
- There are no accurate figures for savings from shared services across the whole of central government. By March 2007, departments had reported £315 million 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.

¹ http://www.cio.gov.uk/shared_services/introduction/objectives.asp.

² *Releasing resources for the frontline: Independent Review of Public Sector Efficiency*, Sir Peter Gershon, July 2004.

Public sector organisations are delivering corporate shared services in a variety of ways

Bringing dispersed corporate services together

HM Prison Service delivers finance and accounting, accounts payable and human resources services to all its establishments from a single location.

Joining together with other public sector organisations

HM Treasury, the Office of Government Commerce and the Debt Management Office have a shared service centre delivering finance and accounting support to the three organisations.

A large lead department providing services to its sponsored bodies

The Department for Environment, Food and Rural Affairs provides finance and accounting, human resources, procurement and facilities management services to many of its sponsored bodies.

Selling services to other organisations

The Department for Work and Pensions has begun the process of providing human resources and finance services to the Cabinet Office.

Joint venture with a partner

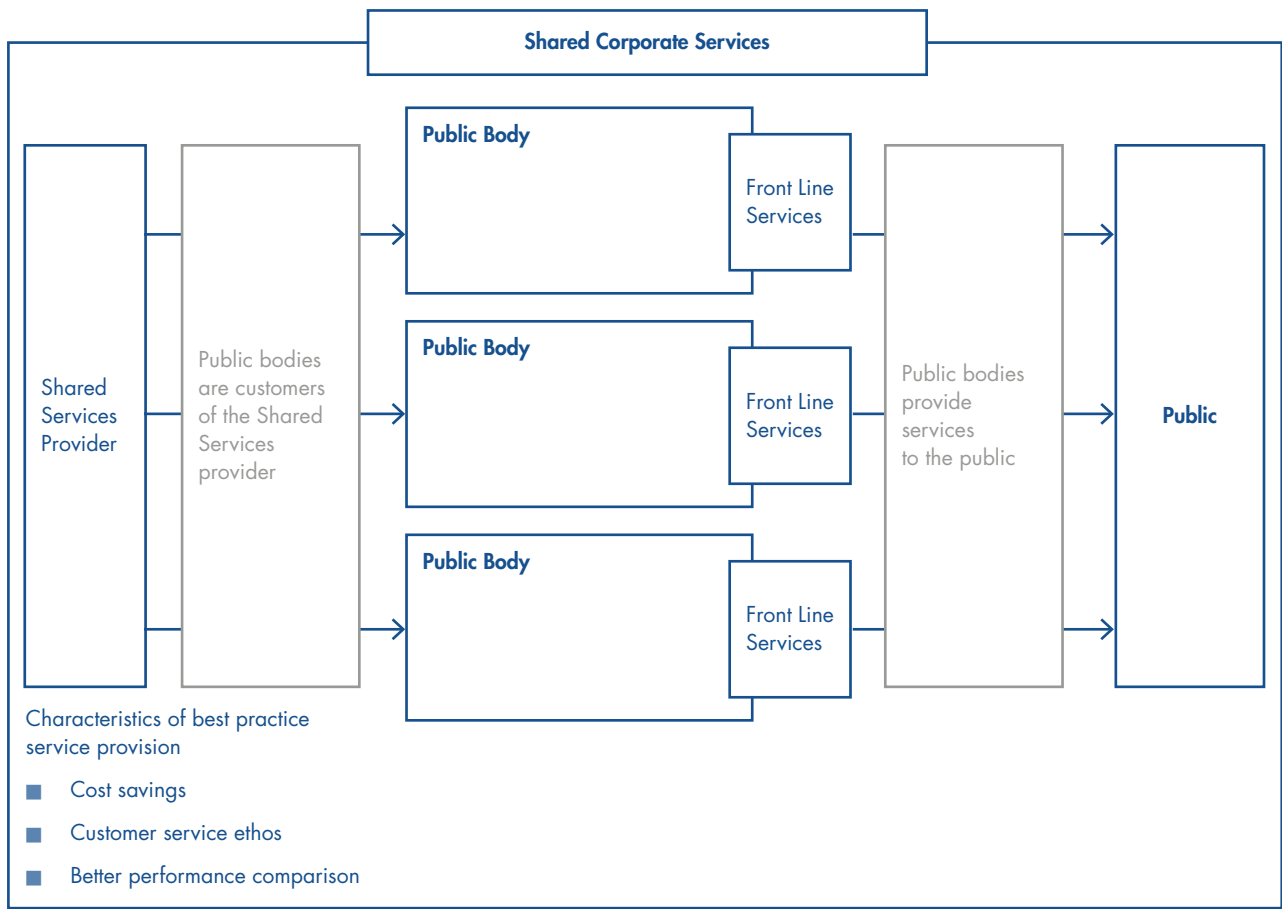
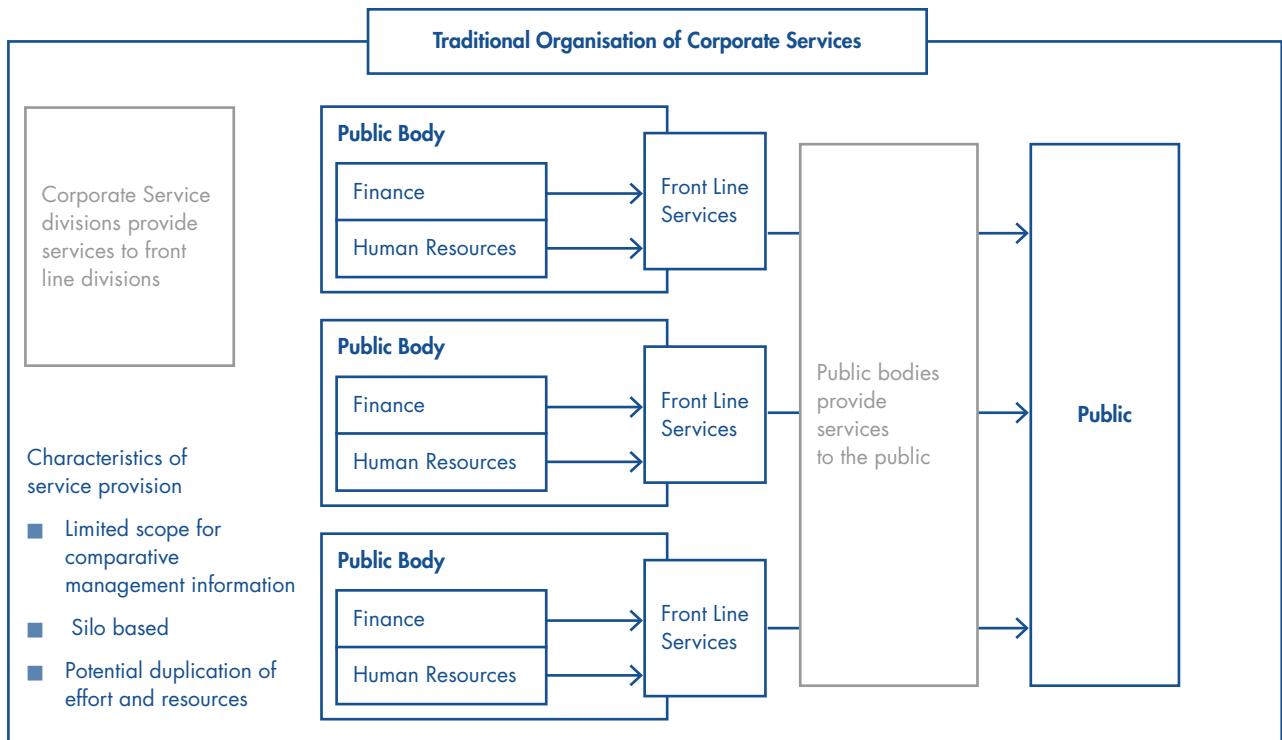
The Department of Health and Xansa PLC³ formed a joint venture to deliver finance, accounting and other back office services to NHS bodies and other public sector bodies.

Fully outsourced

Most departments have outsourced their IT provision but few have taken this approach for finance and human resource services.

3 On 17 October 2007, Xansa PLC was acquired by Groupe Steria SCA.

Shared corporate services can bring cost savings and better service



SUMMARY

1 Corporate services provide vital support to the delivery of effective and efficient public services that meet citizens' needs. They include activities such as finance and accounting, human resources, procurement, information technology, facilities management and estates management. These activities are usually not highly visible at the front line, but they have a major impact on the quality of public services. Corporate services are often least visible to the citizen when they are at their most effective.

2 Mechanisms to improve the efficiency and effectiveness of corporate services include more streamlined processes, better performance data, dissemination and adoption of best practice, and outsourcing, in addition to shared services, which form the subject of this report. Shared services involve the combination of activities across different parts of an organisation, or across separate organisations, in order to bring efficiency savings and improve service. They require a customer focus and they give organisations the opportunity to provide services to other organisations. They do not represent an end in themselves, but they provide a means, alongside other mechanisms, to greater efficiency and effectiveness.

3 The Cabinet Office estimates there is scope to save £1.4 billion from annual expenditure on finance and human resources functions, and to improve service quality, by implementing shared services across the public sector. The figure is not a target for departments and it does not form part of the £21 billion Efficiency Programme target. It represents 20 per cent savings on an estimated annual expenditure of £7 billion, which

is in line with what other organisations, mainly in the private sector, have already achieved. There is a wide range of implementation options for shared services, from provision that is in-house or shared among related public bodies to fully outsourced arrangements.

4 Shared services and streamlined processes are closely linked. Some organisations use a move to shared services as a mechanism to drive the streamlining of processes. The risk is that inefficiencies can then become entrenched. Other organisations find it sensible to streamline their processes before moving to shared services. A combined approach, adopted for example by NHS Shared Business Services, is to streamline as part of the process of migration to shared services.

5 We decided to report on shared services now because the transition from the 2004 Spending Review to the 2007 Comprehensive Spending Review⁴ is a critical point in the development of shared services. Our report focuses mainly on finance and human resources, which are the more developed shared service areas in the public sector.

Shared services are progressing across government but reported savings to date are relatively small

6 Central government as a whole made slow progress initially in taking shared services forward after Sir Peter Gershon identified their potential in 2004. Momentum has picked up over the last year and there are various programmes under way, many not yet sufficiently established to start delivering savings.

⁴ The Comprehensive Spending Review is a long-term and fundamental assessment of government expenditure, including the identification of departmental spending allocations for years 2008-09, 2009-10 and 2010-11.

7 The Cabinet Office has divided government into sectors in order to provide focus in developing shared services. The sectors have published plans for shared services. Most sectors now have some level of operational shared services. A large number of local arrangements dominate some sectors. In other sectors the emerging pattern is of a single shared services centre being steadily extended to cover more bodies within the sector. The least developed sector is the central government sector of small departments which includes, for example, the Department for Culture, Media and Sport and the Foreign and Commonwealth Office.

8 At March 2007, departments had reported savings across all corporate service functions of £1 billion, of which £315 million relates to finance and human resources. Some element of this has been achieved through shared services but it is not possible to determine how much because in many cases shared services form part of broader corporate services transformation programmes. The savings reported to date are relatively small and suggest that there is substantial untapped potential for securing savings through shared services and other means.

The Cabinet Office has promoted shared services but lacks a clear overview of the benefits being secured by departments

9 The Cabinet Office promotes shared services across government. The Head of the Home Civil Service puts shared services on the agenda of the Civil Service Steering Board when decisions need to be taken across government and he has written to all Permanent Secretaries to emphasise the need to move forward on shared services. The Shared Services Team has played a key role in promoting the development of shared services across government by working with OGCBuying.solutions to enable some software licences to be transferred cost effectively across government, providing an internal consultancy service for government, building a cross-government network of shared services professionals, identifying and tackling barriers to shared services and allocating central government bodies to sectors to provide focus. The Cabinet Office does not have powers to force departments to adopt shared services because accountability for generating savings through measures

like shared services rests with departments' Accounting Officers, there being no separate Accounting Officer for shared services. The Cabinet Office has not prescribed any particular models, for example on payment mechanisms or on whether participation is voluntary or mandatory in any scheme that is made available.

10 The Cabinet Office Shared Services Team has systematically identified a range of barriers to shared services in government and has successfully tackled some of them. The most significant barriers concern VAT and issues around buying and selling services.

- Under fundamental VAT rules reflected in EU agreements, buying services rather than providing them in-house may incur a VAT cost that can reduce the attraction of shared services. This is not an issue for government departments and local authorities because, as a result of measures introduced in the past to remove disincentives to outsourcing or to ensure that VAT is not a cost on local taxation, they can reclaim VAT in appropriate circumstances. For other bodies, principally non-departmental public bodies and the higher and further education sectors, VAT incurred on buying in services may be an irrecoverable cost. The Cabinet Office estimates that the VAT barrier is potentially inhibiting £70 million in annual savings for non-departmental public bodies. The potential benefit from removing the VAT barrier for higher education and further education bodies is believed to be tens of millions of pounds per year. Further work is being carried out in the sector to provide a better estimate.
- There has been confusion, particularly in the central government sector of small departments, over which departments will buy and which will sell. This was clarified in April 2007 when the Civil Service Steering Board designated the Department for Work and Pensions and HM Revenue & Customs as selling departments. There are no clear financial incentives for organisations to choose to sell services because, under rules designed to ensure departments receive funding only as allocated by Parliament, surpluses are not allowed to be made from transactions between departments, although departments may gain by reducing their own average costs through selling services. The designated selling departments have not yet determined how they will set prices, nor whether they will compete against other organisations, such as existing public sector

shared service providers. The Cabinet Office has resolved some incentive issues, notably over who can claim headcount reductions. It has also started a process potentially leading to the Cabinet Office buying services from the Department for Work and Pensions. This, however, is the only example of a commitment from a smaller department to buy services from another department. It will be the first test case of how a large department gives a good service to a much smaller department buying its services. Some issues remain. There are no clear mechanisms to push departments to buy or sell shared services, so there is a risk of failing to benefit fully from the economies of scale that exist within large departments.

11 The Cabinet Office's figure of £1.4 billion for potential annual savings from shared services is derived as 20 per cent of an estimated expenditure of £7 billion on finance and human resources and is not broken down into departmental elements. This makes it difficult for the Cabinet Office to track meaningful progress towards the overall figure. Sector plans do not contain sufficient financial detail for the Cabinet Office to assess whether the sum of individual projects will deliver savings on the scale required. There is a lack of transparent data about the costs of public bodies' existing corporate services.

Shared services in the NHS and Prison Service are on course to deliver savings but experienced early problems with customer satisfaction

12 Two of the more established public sector shared services are NHS Shared Business Services, operational since April 2005, and the Prison Service Shared Service Centre, in place since April 2006.

13 From our analysis of results and forecasts, we estimate that NHS Shared Business Services will potentially deliver net present value savings of £250 million over eleven years, of which £160 million is likely to occur over the first nine years, breaking even after five years. On the same basis, we estimate that the Prison Service Shared Service will deliver net present value savings of £120 million over nine years, with a break even point after five years. Customers of NHS Shared Business Services are guaranteed initial gross savings of

at least 20 per cent in the cost of their corporate services with further guaranteed cost reductions of two per cent each year. The Prison Service Shared Service will release savings ultimately equivalent to just over 30 per cent of the gross costs of corporate services. Both sets of forecast business results are estimates of future performance based on existing evidence and are therefore subject to some uncertainty.

14 Organisations receiving these shared services reported early problems. This is a common experience with large transformation programmes. Difficulties stem mainly from operational problems associated with the challenge of implementing large and complex systems and from the cultural changes necessary in customer organisations. Evidence from NHS Shared Business Services is that customer satisfaction levels rise over time.

15 Shared services have brought other benefits. Those most common non-financial benefits cited by customers of NHS Shared Business Services are better management information, paperless transaction processing, faster transaction processing and a step change in the robustness of processes. Customers have also seen substantial savings in procurement costs.

16 Neither of the shared services are yet performing at leading practice standards of efficiency but they are constantly pursuing improvements. Leading practice performance standards rely on characteristics such as invoices being consistently accompanied by purchase orders, automatic approval of low value invoices with retrospective audit checks, and 'passive authority' where larger invoices are paid automatically after an agreed period in which there is no response to requests for authorisation. The Department of Health is currently investigating the scope for automatic payment of low value invoices that have had prior purchase approval.

Value for money statement

17 Existing shared services are on course to deliver substantial financial savings but they need to make further progress in tackling problems with customer satisfaction in order to demonstrate value for money. It is not clear that wider shared service activity across government is on a scale sufficient to deliver value for money savings approaching the £1.4 billion potential estimated by the Cabinet Office.

Recommendations

To improve the broader management of corporate services

1 *Issue: Public bodies will miss potential efficiency savings if they do not streamline their processes, whether or not they move to shared services. **Public bodies should streamline their corporate service processes in line with best practice and their own specific requirements.*** They should identify and remove processes and aspects of processes where costs outweigh benefits. Streamlining will bring direct financial benefits regardless of any subsequent action and will put public bodies in a strong position to move to shared services if appropriate.

2 *Issue: Public bodies cannot quantify potential savings from sharing corporate services when they lack cost and performance data. They are unable to gauge whether their corporate services are improving over time. **Public bodies should improve how they analyse the performance of their corporate services.*** Management Boards should expect to receive clear information on the cost and performance of corporate services, drawing on performance indicators such as those published by the public sector audit agencies.⁵ As part of this, bodies should regularly benchmark their performance, with support from the Cabinet Office to encourage consistency and comparability.

3 *Issue: Public bodies cannot assess whether their corporate services are delivered in the most cost-effective way if they do not make comparisons with alternative options. **Public bodies should review regularly whether there are more cost-effective ways to obtain their corporate services.*** They should carry out rigorous reviews of performance against what is possible through alternative approaches such as shared services. They should plan future corporate services provision in line with the results of these reviews. If public bodies choose not to adopt shared services, they should demonstrate clear business cases showing why shared services are not the most suitable option. This approach could be termed 'share or explain'.

4 *Issue: The Cabinet Office is not well placed to drive improvements on corporate services through the use of shared services when there is a lack of clear information on the relative performance of departments' existing corporate service provision. **Departments should increase the public transparency of corporate service performance.*** Departments should publish an overview of their corporate services performance, including analysis of costs by corporate function, and showing performance against centrally agreed benchmarks in either their annual report or Autumn Performance Report. Such reporting would help the Cabinet Office, for example which leads on the information technology and human resources professions, to become a broader force for corporate service improvement, extending beyond the shared service agenda. Based on the Cabinet Office's estimate of spending on finance and human resources alone, a 10 per cent improvement by the least efficient 10 per cent in central and local government would release annual savings of £70 million.

To improve the take-up of shared services

5 *Issue: Recent machinery of government changes have split some previously existing departments. It is important that these changes do not result in a proliferation of corporate services. **The Cabinet Office should work to encourage newly formed departments to adopt shared services unless they can present compelling business cases for not doing so.*** Departments and other public bodies affected by machinery of government changes should review their corporate service provision and identify opportunities to share services.

6 *Issue: Smaller departments are not yet buying their corporate services from larger departments that can bring economies of scale such as HM Revenue & Customs and the Department for Work and Pensions. **Departments within the central government sector of small departments should perform a business case evaluation of buying corporate services from one of the two designated sellers, or provide clarity about their way forward towards shared services.*** Preparing such a business case is a significant undertaking and

⁵ *Value for Money in public sector corporate services*, a joint project by the UK Public Sector Audit Agencies, National Audit Office, 2007.

the capacity to undertake the work in both buying and selling departments will need to be taken into account. The estimated annual cost of finance and human resource corporate services within the central government sector of small departments is £130 million. If two thirds of these services by value moved to one of the designated sellers and secured 20 per cent cost savings, this would release around £17 million of annual savings. The selling departments consider this level of savings to be conservative, particularly when wider benefits such as improved management information and process control are taken into account.

7 *Issue: HM Revenue & Customs and the Department for Work and Pensions facilities could increase their capacity enabling them to sell shared services to smaller public sector bodies but there is some uncertainty around their incentives to do this. **The Cabinet Office and HM Treasury should examine whether existing incentives to sell shared services are sufficient and whether further action is required.*** The market for shared services has not yet developed across departmental boundaries, leaving untapped a potentially large source of savings. Providing greater incentives may encourage departments designated as sellers to be more active in designing products to attract customers.

8 *Issue: Despite rapid growth, the majority of NHS bodies are not using shared services. **Where service provision is retained in house, boards of NHS organisations need to be clear that this represents better value for money than alternative options such as NHS Shared Business Services or outsourcing.*** This approach would respect devolved responsibility and accountability while explicitly emphasising the requirement on every NHS body to secure value for money. It would challenge reasons for resisting change that are based on perception or anecdote rather than careful analysis. A business case evaluation would quantify the financial and non-financial benefits that could be secured by a move to Shared Business Services and provide the criteria from which a decision can be made. Shared Business Services' current market share, at 21 per cent, is forecast to deliver £16 million annual financial benefits in 2007-2008. An increase in market share to 30 per cent would realise additional annual benefits of £7 million.

9 *Issue: For some organisations, buying shared services incurs irrecoverable VAT. This provides a potential disincentive to moving to shared services. **HM Treasury's current financial evaluation of the VAT barrier should assess the degree to which irrecoverable VAT is preventing sharing of corporate services across government and the cost of removing the barrier.*** HM Treasury should take firm action in the light of that cost benefit analysis. Any solution would need to be consistent with EU law, the normal principles of public funding and the Government's wider position on irrecoverable VAT.

PART ONE

Shared services have great potential for the public sector

1.1 The Cabinet Office has estimated that implementing shared corporate services across central and local government, particularly in finance and human resources, could release £1.4 billion of savings every year and improve service quality.⁶ The figure represents 20 per cent savings on an estimated annual expenditure on finance and human resources of £7 billion. This part of the report explains what shared services are, describes the drive to implement them, sets them in the context of broader initiatives and explains why and how we studied them.

Efficient and effective corporate services are vital in delivering public services

1.2 Corporate services are vital in delivering effective and efficient public services that meet citizens' needs. Corporate services include activities such as finance and accounting, human resources, procurement, IT, facilities management and estates management. These activities may not be highly visible at the front line, but they have a major impact on the quality of public services, particularly if they are not working properly.

1.3 Mechanisms to improve the efficiency and effectiveness of corporate services include more streamlined processes, better performance data, dissemination and adoption of best practice and shared services through a range of mechanisms including outsourcing. Leading practice performance standards rely on characteristics such as invoices being consistently accompanied by purchase orders, automatic approval of low value invoices with retrospective audit checks, and 'passive authority' where larger invoices are paid automatically after an agreed period in which there is no response to requests for authorisation. Shared services do not represent an end in themselves, but they provide a means, alongside other mechanisms, to greater efficiency and effectiveness.

1.4 Public bodies must define clearly what they want from their corporate services. Without such clarity there is a risk that existing inefficiencies, which add no value, are built into any changes. A definition of purpose enables organisations to streamline their processes to do only what adds ultimate customer value, to define service level agreements or contractual arrangements with internal or external service providers, and to identify appropriate performance measures.

Shared services can save money and improve service quality

1.5 Shared services are about combining corporate service activities across different parts of an organisation, or across different organisations, to bring efficiency savings and to improve service. They are not new. BACS is a joint venture owned by 15 banks that has been processing financial transactions since 1968. Federal bodies in the United States of America have provided payroll and financial services to other federal bodies since the early 1980s.

1.6 The practice of sharing services has become increasingly widespread. Many FTSE 100 companies began to transfer their corporate services to shared services models over the late 1980s and early 1990s. The US Department of Defense consolidated 338 offices providing financial services to the military into the single Defense Finance and Accounting Service in the early 1990s.

1.7 Modern shared services emphasise customer focus and process re-engineering to achieve maximum operational efficiency and effectiveness. In this respect they differ from earlier organisations such as the Property Services Agency, which no longer exists, and the Chessington Computer Centre, which supplied centralised

⁶ http://www.cio.gov.uk/shared_services/introduction/objectives.asp.

services to public sector organisations for many years before it was privatised. 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. Dedicated process improvement teams measure performance over time and manage changes to processes in order to drive up operational performance against a range of key performance measures. From our analysis of shared services, we identified five recurring attributes that define shared services (**Figure 1**).

1.8 The level of gross annual savings achievable through shared services depends strongly on what an organisation has already done to improve efficiency and what further options are available to it. A UK based survey in 2006 found FTSE 250 companies achieving 12 per cent savings on average in operational costs through shared services, a figure close to respondents' expectations.⁷ An earlier version of the same survey conducted in 2001 found companies achieving operational savings of 22 per cent. The difference may be because later entrants had already secured some of the potential savings through streamlining

processes and adopting enterprise wide IT systems. The survey did not explicitly consider the levels of investment but the average payback period reported was found to be 4 years in 2001 falling to 3.5 years in 2006. A different international survey found a wide range of reported savings with the most commonly reported savings being 11 to 15 per cent.⁸ There is less information available on public sector shared services because progress in implementing them has been slower. Nevertheless, two case studies analysed in this report are delivering or projecting gross annual savings of 20 to 30 per cent, suggesting the Cabinet Office's figure of 20 per cent potential savings is a realistic aspiration.

1.9 Shared services bring benefits and challenges. The challenges have to do with the size and complexity of operations. The potential benefits are not simply about financial savings but cover broader issues around quality of service and better information (**Figure 2**).

1 Five attributes define 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 in both efficiency and levels of service.

Source: National Audit Office

2 Shared services have the potential to bring a range of benefits

Cost savings

Achievement of economies of scale, and higher levels of efficiency through simplification and standardisation of processes.

Lower investment costs

The pooling of transactional activities across an organisation into a single shared service operation makes more efficient use of investment capital.

Better information and data

Higher levels of technology investment leading to more reliable, richer and consistent management information, which can enable further financial savings, for example in procurement.

Customer service

From a single location using greater standardisation of processes, it is easier to deliver services to an agreed and documented set of performance standards with an explicit focus on customer service.

Shifting focus

The aggregation of transactional processing frees up the time of corporate services professionals allowing their focus to shift towards value added activities.

Comparability

The introduction of common standards enables easier comparisons of performance and processes across large organisations.

Source: National Audit Office

⁷ Shared service centres: delivering the promise; PA Consulting Group; 2007.

⁸ Shared services: The Evolution of Higher Performance: Accenture; 2003.

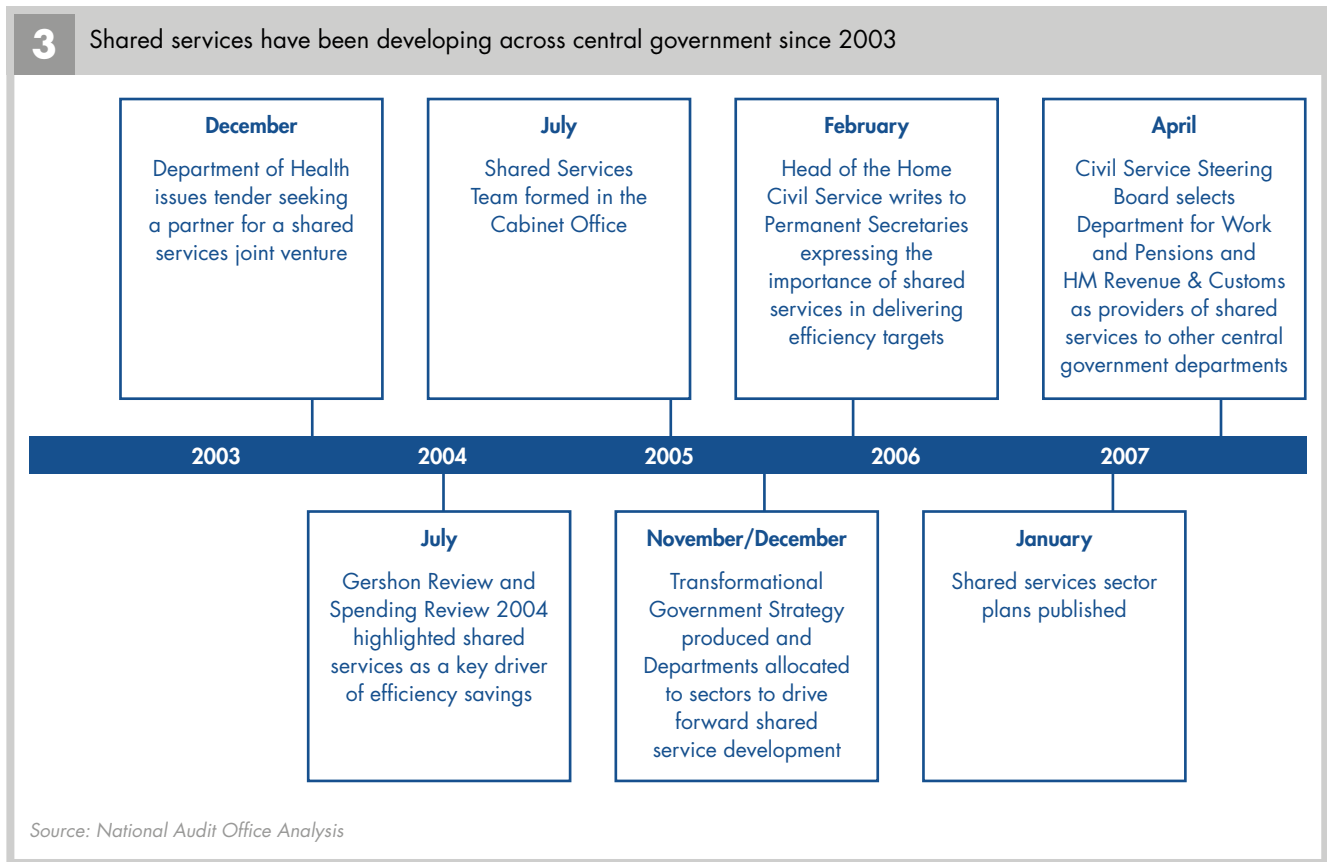
Shared services are relatively new to the public sector

1.10 The Gershon Review, which informed the 2004 Spending Review, identified shared services as a method for realising efficiency savings in the United Kingdom public sector.⁹ Since then, departments have developed and implemented their own plans while the Cabinet Office has taken the lead in driving shared services across the central government sector (Figure 3). Some work on shared services, notably NHS Shared Business Services, was in hand before the Gershon Review.

1.11 Shared services have high level support within government (Figure 4). The Corporate Function Leaders' Board also has the potential to contribute to the wider adoption of shared services. Its current emphasis is on ensuring consistent approaches to activities such as recruitment, talent management and performance appraisal within each profession, including finance and human resources, and across different professions. The Shared Services Team was established in the Cabinet Office in 2005 as part of a Transformational Government Strategy to assist in the rollout of shared services across central government.

Shared services and streamlined processes are closely linked

1.12 Organisations take three broad approaches to drive out inefficiencies from these functions (Figure 5). Some transform their functions first by streamlining processes, disseminating and adopting best practice, and then establish shared services to gain further efficiencies from reduced duplication and greater economies of scale. Others establish shared services then, once at a single location, transform their processes through streamlining and standardisation. A combined approach is to make both changes concurrently, as adopted by NHS Shared Business Services, which advises on process improvement during migration to the shared service. The risk of streamlining processes only after moving to shared services is that it can tie purchasers of shared services to providers that are prepared to work around purchasers' inefficient processes rather than opening up opportunities with other providers that might offer greater cost benefits.



⁹ Releasing resources for the frontline: Independent Review of Public Sector Efficiency, Sir Peter Gershon, July 2004.

4 Shared services have high level support within government

Ministerial Leadership

Ministerial Sub Committee

Arrangements are in the process of reorganisation. Prior to current changes, the Committee on Public Services and Public Expenditure set the overall strategic direction for shared services

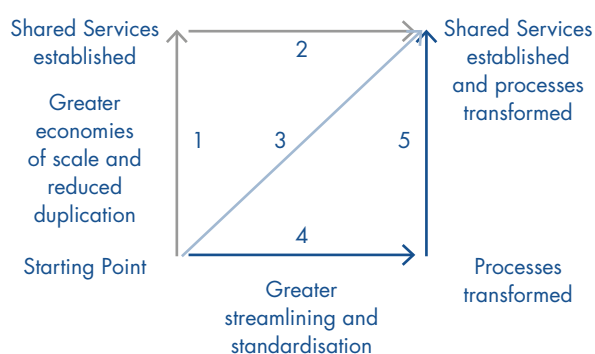
Civil Service Leadership

Civil Service Steering Board

Comprises selected Permanent Secretaries and considers shared services when decisions need to be made across government

Source: National Audit Office analysis

5 Shared services can be implemented before, after or alongside process transformation



Option 1 (routes 1 and 2) – Corporate service functions are moved to shared services with little or no process transformation, and processes are then simplified and standardised once all activity is in the shared services centre

Option 2 (routes 4 and 5) – Business processes are first transformed and then consolidated within a shared service centre

Option 3 (routes 3) – Process transformation and the move to shared services happen simultaneously

Source: National Audit Office analysis

Our report assesses progress in implementing shared services

1.13 Our report highlights achievements to date and identifies how central government can get more from a shared services approach. It covers mainly the corporate services areas of finance and human resources. We start with a detailed analysis of the costs and benefits of two more mature initiatives so that our broader assessment of progress across government is informed by a clear understanding of realities on the ground. More specifically, this study:

- assesses the performance of two existing shared services (Part Two);
- provides an overview of progress across central government (Part Three); and
- assesses how the Cabinet Office is leading the shared services initiative (Part Four).

1.14 The study involved detailed document reviews, semi-structured interviews with a wide range of key stakeholders, site visits to two shared service centres, a census of their customers, and comparison of performance with leading private practice. Appendix 1 provides further details of our methodology.

PART TWO

NHS and HM Prison Service shared services are on course to deliver savings but have experienced problems with customer satisfaction

2.1 This part of the report assesses two of the more established shared service centres operating in the central government sector: NHS Shared Business Services and the Prison Service Shared Service. Because shared services are relative newcomers to central government, even these more established services are in their early stages of operation and have yet to fulfil their ultimate potential, although they deserve credit for the progress they have made. Both are on course to deliver cost savings and both have the potential to deliver value for money as they address issues over customer service.

Different mechanisms can work for shared services

2.2 NHS Shared Business Services is a joint venture between the Department of Health and Xansa, a company specialising in shared services. A study commissioned by the Department of Health in 2000 led to an in-house pilot in 2001, prior to the launch of the Cabinet Office's shared services initiative in 2005. As a result of lessons learnt from the pilot, the Department of Health prepared a business case for the joint venture in 2003.

The Department of Health considered a joint venture would provide the right incentives for high quality service, respond flexibly to changing requirements, give cost transparency and generate the close working necessary to respond to uncertainty where the use of shared business services could not be mandated. Xansa were selected as joint venture partner as the Department considered the company demonstrated strong performance and value for money. The Department decided to transfer the

pilot project and its staff to the joint venture. The joint venture therefore took over the leases of two buildings, IT equipment and infrastructure, the customer base and existing staff from the pilot project. The joint venture, with two shared service centres in Leeds and Bristol in 2003, commenced across the whole of the NHS in April 2005. Shared Business Services offers procurement, finance and accounting services on a voluntary basis to 416 NHS organisations. It is processing invoices at a rate of 1.8 million a year with an annual value of £12 billion.

2.3 The Prison Service Shared Service stems from a review of back office functions in the context of the 2004 Spending Review. The review built on the existing Phoenix Programme to deliver a modern integrated IT system. The selected option was to create a Shared Service Centre for all 128 Prison Service establishments at a single site in Newport. The Shared Service Centre became operational for finance and procurement services in April 2006, and for human resources services in October 2006. Full deployment of finance and procurement services was complete in July 2007, and human resources services are due to complete in the second quarter of 2008.

2.4 The two case study shared services exhibit several contrasting features (**Figure 6**). For example, they differ on payment mechanisms and on whether participation is voluntary or mandatory. This shows that different approaches can work for different organisations. There are common challenges in implementing shared services regardless of the mechanism chosen, and further challenges associated with particular ways of doing business.

Shared services are beginning to deliver cost savings

2.5 Based on our analyses of results and forecasts, we estimate that **NHS Shared Business Services** will potentially deliver cumulative net present value net savings of £250 million over eleven years, of which £160 million is likely to occur in the first nine years (**Figure 7 overleaf**). These savings will be achieved through partnership, where Shared Business Services facilitates efficient processes and NHS bodies act to streamline local processes and undertake organisational change. The Department of Health's investment in Shared Business Services, comprising an independent valuation of the assets transferred from the pilot to the joint venture and the initial cost of the Oracle software licence, will reach a break even point after four years of operation, broadly in line with average private sector practice. Individual NHS bodies are guaranteed initial gross savings of at least 20 per cent on their existing costs when they join Shared Business Services, with further guaranteed annual cost reductions of two per cent. The gross savings secured are in line with private sector experience. The results and forecasts represent an overall improvement on the business case, due to the following effects.

- An agreement to provide services to NHS Professionals, the organisation supplying temporary staff to the NHS, has added to the customer base anticipated in the business case.
- Shared Business Services considers that its customers could negotiate reduced audit fees through the controls assurance provided by the SAS 70 accreditation secured by Shared Business Services.
- Shared Business Services decided to remove the business case assumption that take up would stop at 50 per cent of all NHS bodies, increasing the forecast savings in later years.

- The Oracle bulk licence required to run Shared Business Services has been made available at a discount to all NHS bodies, including those that are not customers of Shared Business Services.
- Aided by e-procurement, gains are beginning to be realised as a result of analysing and acting on better management information. The arrangement can secure better prices by comparing different suppliers for the same products. Shared Business Services intends to extend it across England and make it available to NHS bodies that are not customers of Shared Business Services.
- There has been a negative impact from NHS bodies becoming customers at a slower rate than planned. This may be due in part to NHS reorganisation diverting senior management attention away from shared services. By September 2007, 21 per cent of NHS bodies were customers.

2.6 Forecasts of future performance are estimates based on the best evidence currently available and are therefore subject to uncertainty. The main issues are as follows.

- Future savings are predicated on continuing growth of the customer base, to 65 per cent of NHS organisations by 2014-15. There is a high level of uncertainty around the growth assumption.
- Procurement savings represent the largest element of savings from NHS Shared Business Services. They are estimated very broadly at one per cent of the total budget of the customer base in each year assuming a conservative adoption.
- It is not clear to what extent NHS bodies will secure audit savings through SAS 70 accreditation at Shared Business Services.

6 The two case study shared services exhibit contrasting features

NHS

A joint venture between the Department of Health and Xansa

Operational from April 2005

Participation from 416 NHS Trusts is voluntary

Operations are based in the UK and India

NHS Trusts are charged individually for the services provided

There are no mandatory powers to require NHS Trusts to standardise their processes to fit the needs of Shared Business Services

Source: National Audit Office analysis

Prison Service

An in-house initiative with EDS as IT delivery partner

Operational from April 2006

Participation from 128 Prison Service establishments is mandatory

Operations are based solely in the UK

The Prison Service removes funds from every establishment to provide a single shared services budget

The Shared Service Centre has the power to impose uniform processes across Prison Service establishments

2.7 Four key features of NHS Shared Business Services help to secure savings.

- Shared Business Services has to demonstrate clear financial benefits in relation to potential customers' existing arrangements in order to persuade them to join. NHS Shared Business Services works with potential new customers to determine their existing costs. It then calculates a migration charge for each customer and an ongoing price for services which represents at least a 20 per cent reduction on existing costs, based on the costs to NHS Shared Business Services of supporting that customer. NHS bodies decide whether to join Shared Business Services partly on the basis of the cost reduction offered.
- Shared Business Services has a contractual commitment to deliver further two per cent annual real terms continuing savings to its customers once they join.
- A combination of a dividend and other fees for the right to operate shared services, all dependent on business results, will be distributed back to NHS customers of Shared Business Services. The dividend becomes payable when the joint venture reaches positive cash balances and is distributed between the NHS and Xansa. Other fees are payable only to the NHS. They comprise a licence fee calculated on a sliding scale from 0.5 per cent of turnover at £20 million to 4.0 per cent of turnover at

7 NHS Shared Business Services – actual/projected figures (£ million)

Years	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12	12-13	13-14	14-15
Costs											
Pilot project ¹	15.0										
Oracle licence	13.8										
Migration facility ²			0.2								
NHS migration costs		1.0	2.9	4.2	4.9	3.1	1.9	1.2	1.3	1.1	0.9
Total costs	28.8	1.0	3.1	4.2	4.9	3.1	1.9	1.2	1.3	1.1	0.9
Savings											
Trust savings		1.0	3.0	7.4	12.5	16.8	20.8	25.7	29.1	32.8	36.5
Dividend and fees to NHS ³				3.4	6.2	8.6	8.4	8.8	8.9	9.0	9.2
SAS 70 audit savings ⁴					2.0	2.2	2.7	3.2	3.7	4.2	4.7
Oracle discount to NHS ⁵		1.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1
Procurement savings ⁶				5.0	10.0	14.5	18.5	22.0	25.0	27.5	29.5
Total savings	0.0	2.3	3.3	16.0	30.9	42.3	50.5	59.8	66.8	73.6	80.0
Net savings											
Net annual savings	-28.8	1.3	0.2	11.8	26.0	39.2	48.6	58.6	65.5	72.5	79.1
NPV of savings ⁷	-28.8	1.2	0.2	10.5	22.2	31.8	37.5	42.6	44.7	46.2	46.6
Net cumulative NPV savings	-28.8	-27.6	-27.4	-16.9	5.3	37.1	74.6	117.2	162.0	208.2	254.8

Source: National Audit Office analysis of data provided by Department of Health and Xansa

NOTES

The analysis relates to the Department of Health's financial involvement in the NHS Shared Business Services joint venture and the benefits that involvement secures for the NHS. It shows the net savings, through shared services, on the costs of running corporate services in individual NHS bodies and it does not include the gross costs of those services.

1 The pilot project cost is the value to the joint venture of assets and liabilities taken over from the pilot project based on the best estimate of consultants employed by the Department of Health at the time of setting up the joint venture.

2 The migration facility, available to NHS bodies, helps with migration and redundancy costs incurred through moving to shared services.

3 The NHS share of the joint venture dividend is distributed back to NHS customers of Shared Business Services along with other fees paid for the right to operate the shared service.

4 SAS 70 savings are the estimated audit savings that NHS bodies could secure by relying on the accreditation of controls at Shared Business Services.

5 Savings from the bulk Oracle licence have been made available to all NHS bodies, regardless of whether they join Shared Business Services.

6 Improved management information has enabled Shared Business Services to secure procurement savings through better prices and reduced transaction costs.

7 Net present value figures are calculated using an annual discount factor of 3.5 per cent in line with Treasury guidance. The forecast extends over the period to 2014-15 in line with the original business case. Columns may not sum exactly due to rounding.

£70 million and above, in addition to a recognition fee of £6.5 million payable in the early years of the joint venture, with timing dependent on business results. No payments have yet been made under these arrangements, neither has Xansa taken any payment out of the joint venture for its initial investment of £20.6 million.

- The joint venture model provides commercial incentives to generate economies of scale by attracting new customers through professional sales and marketing and also to drive efficient practices such as electronic invoicing.

2.8 Based on our analysis of results and forecasts, we estimate that the **Prison Service Shared Service** will deliver cumulative net present value savings of £120 million over nine years (**Figure 8**). It will break even after five years, again broadly in line with private sector practice. Gross savings, based on eventual staff savings of £52 million offset by Shared Service running costs of £31 million, represent 32 per cent of the original staff costs of £66 million for the finance, human resources and procurement functions. This is a healthy result in relation to average private sector practice. The results and forecasts represent an overall improvement on the business case, due to the following effects.

- Emerging procurement savings are higher than expected, providing the main reason for improved results.

- Costs increased because of an underestimation of the technology costs required to support the administration of staff expenses and recruitment, and a late decision to merge training administration and training delivery within the shared service operation, with the aim of securing long term savings.
- Staff savings are beginning to materialise earlier than planned.

2.9 As with the other case study, forecasts of future performance are estimates based on the best evidence currently available and are subject to uncertainty. The main issues are as follows:

- Forecast operating costs stay largely unchanged after 2008-09, suggesting any growth in the prison population will not significantly impact on demand for shared services.
- A reduction in 1,100 posts in HM Prison Service is planned through a recruitment freeze and redeployment, rather than redundancy. This policy avoids the need to fund redundancies. However, tracking every individual affected by the programme is incomplete, so it is difficult for the Prison Service to substantiate staff savings fully.
- Procurement savings represent a major part of overall savings. Substantial procurement savings have already been delivered in 2005-06 and 2006-07, giving a degree of confidence around future forecasts.

8 HM Prison Service actual/projected figures (£ million)

Years	03-04	04-05	05-06	06-07	07-08	08-09	09-10	10-11	11-12
Costs									
Shared services operations	4.9	14.5	47.3	51.7	47.4	31.3	31.3	31.3	31.3
Total costs	4.9	14.5	47.3	51.7	47.4	31.3	31.3	31.3	31.3
Savings									
Staff savings	0.0	0.0	0.0	11.2	41.8	49.4	50.4	51.4	52.4
Other savings	0.0	8.6	22.8	24.9	35.6	25.7	23.8	23.8	20.3
Total savings	0.0	8.6	22.8	36.1	77.4	75.0	74.2	75.2	72.7
Net annual savings	-4.9	-6.0	-24.6	-15.6	30.0	43.7	42.9	43.9	41.4
NPV of annual savings	-4.9	-5.8	-22.9	-14.1	26.1	36.8	34.9	34.5	31.4
Net cumulative savings	-4.9	-10.6	-33.5	-47.6	-21.5	15.3	50.2	84.6	116.0

Source: National Audit Office analysis of data provided by HM Prison Service

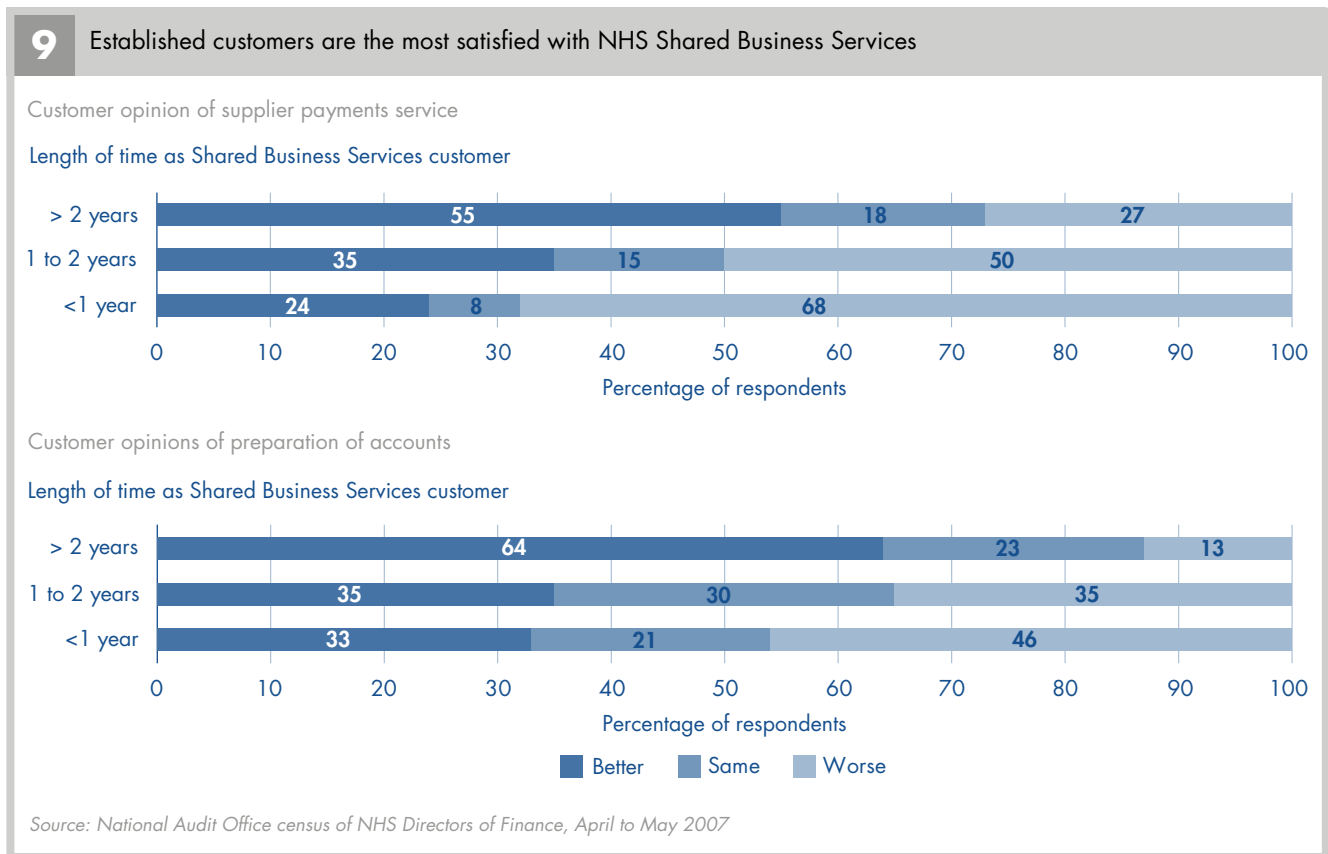
NOTE

Staff savings rely on staff being redeployed or leaving through natural wastage. Other savings are mainly from improved procurement and the avoided cost of replacing previous IT systems. Net present value figures are calculated using an annual discount factor of 3.5 per cent in line with Treasury guidance. The forecast extends over the period of the Prison Service's long term IT contract, which expires in 2011-12. Columns may not sum exactly due to rounding.

There have been improvements in customer satisfaction after initial difficulties

2.10 Both shared services have experienced early problems with customer satisfaction, although both show signs of significant improvement. This lack of initial acceptance by users is a common pattern of large transformation programmes.¹⁰ Satisfaction with NHS Shared Business Services is much higher among established customers than among more recent entrants: customers using Shared Business Services for less than a year initially perceive payment services to have worsened, whereas this picture clearly reverses after two years (Figure 9). Customers of the newer Prison Service Shared Service have low satisfaction levels like recent entrants to NHS Shared Business Services (Figure 10). Technology issues have been the underlying cause of many problems in the Prison Service Shared Service, when the electronic purchasing system failed in late 2006 and was a major

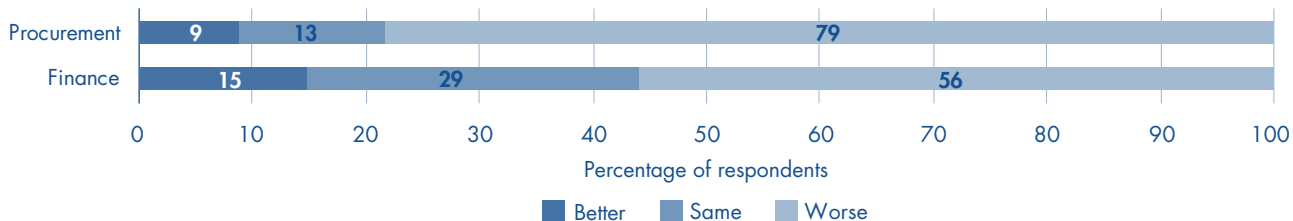
contributor to the late payment of invoices, causing customers to incur costs through additional management time. Consistent with the pattern for NHS Shared Business Services, the Prison Service’s own customer feedback figures show overall decreasing complaints and increasing compliments suggesting early dissatisfaction might be reversing as the service matures. The rising complaints against the new human resource service (Figure 11) is a cause for concern, though it does need to be considered in context; its roll out represents a period of change during which all parties are learning and making adjustments in light of experience. Also it is receiving lower levels of complaints at this point in its implementation than the purchasing service at a similar stage, which is encouraging as human resource services have a greater personal impact, and would be expected to elicit greater numbers of complaints. We have found no evidence of differences in customer satisfaction in either case study between smaller and larger customers.



10 Delivering successful IT-enabled business change, National Audit Office, HC 33-I 2006-2007. November 2006.

10 Customers are dissatisfied with the Prison Service Shared Service

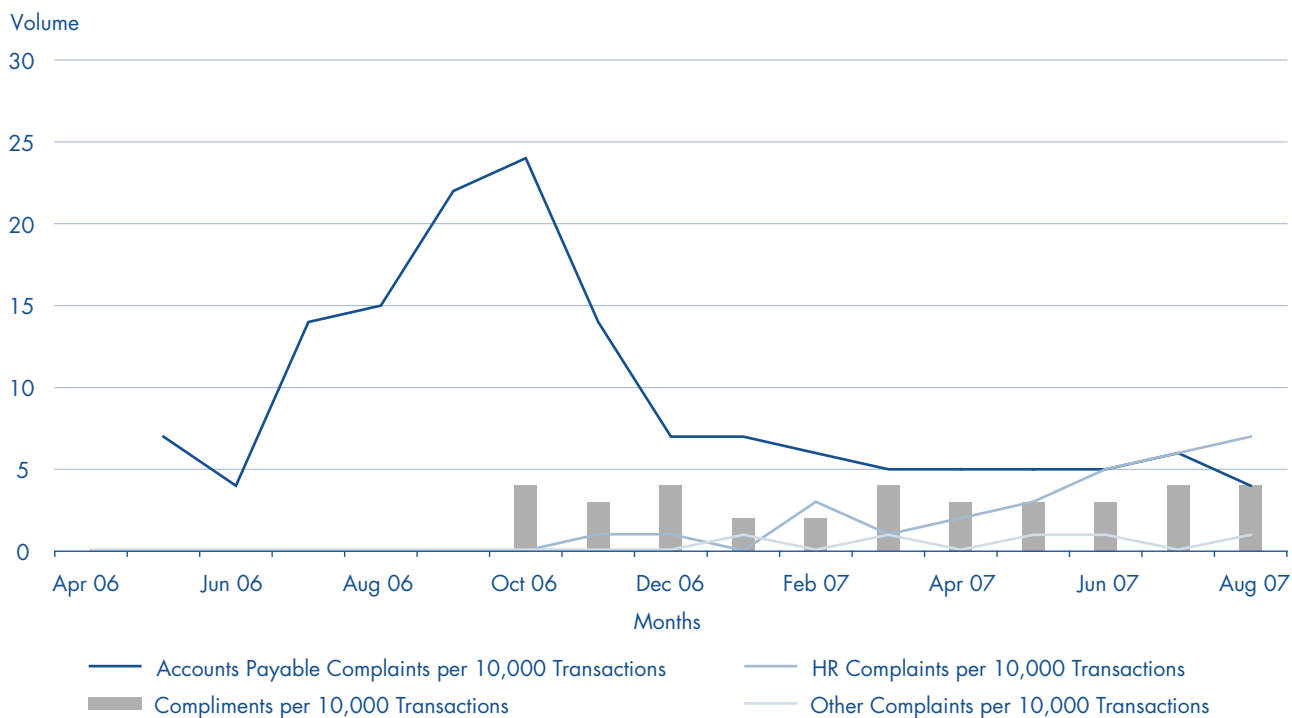
Customer opinion of the finance and procurement service



Source: National Audit Office census of Prison Service Governors and Area Managers, April to May 2007

11 HM Prison Service Shared Service complaints and compliments

HMPS Shared Services Complaints and Compliments



Source: HM Prison Service

2.11 Some of the reasons for differences in customer satisfaction between the two case study services stem from different implementation models. This does not mean that one model is better than the other, rather that they have different benefits and challenges.

- Funding arrangements are such that NHS customers see their cost savings directly, whereas Prison Service customers do not.
- Customers of NHS Shared Business Services join voluntarily so might be more disposed to make the arrangement work.
- NHS customers have been more willing to change their own procedures to gain maximum benefit from shared services, with 69 per cent implementing radical or significant change compared to 44 per cent in the Prison Service.¹¹

Shared services are beginning to bring other benefits

2.12 Despite the early problems with customer satisfaction, shared services are delivering benefits beyond financial savings. The experience of the Queen Elizabeth NHS Trust illustrates the diversity of business benefits, including procurement savings, received by customers of NHS Shared Business Services (**Figure 12**). The main general benefits cited in moving to NHS Shared Business Services are:¹²

- improved management information;
- moves towards paperless transactional processing;
- improved processing times; and
- a step change in the robustness of IT systems, with NHS Shared Business Services securing accreditation under SAS 70, an international standard signifying that an organisation has been through an in-depth audit of its control activities.

12 Queen Elizabeth Hospital NHS Trust has benefited from using Shared Business Services

Queen Elizabeth Hospital NHS Trust in south east London has a turnover of £149 million and employs over 2,200 people. The Trust decided to move to NHS Shared Business Services in 2004 based on a business case showing annual savings of £40,000. The move cost £180,000 which funded the process analysis, IT investment and staff training and took six months, completing in April 2005.

The Director of Finance at Queen Elizabeth Hospital NHS Trust is a member of the NHS Shared Business Services board, so he has a good understanding of how it operates and how to make the best use of it. He believes financial savings represent only part of the benefits of moving to Shared Business Services. The move provided state of the art systems not affordable to an organisation the size of the Trust acting on its own. Vastly improved management information enabled the Trust to analyse products and services procured and, through that analysis, secure significant purchasing savings. The target for purchasing savings in 2007-08 is £350,000. The Trust employed an external project manager to update processes and working practices to match those of Shared Business Services and to rationalise the number of suppliers from 3,000 to less than 1,000, with parallel reductions in the number of products used. The Trust gains maximum benefit from Shared Business Services because it is a good customer: for example, 65 per cent of its invoices are backed by a purchase order compared with an average of 30 per cent for all Shared Business Services customers.

The Director of Finance commented on the main lessons of moving to shared services. "Problems cannot be outsourced away; if something did not work before shared services, simply moving to shared services will not solve it. The movement to shared services will radically alter the behaviour of managers and mean that the management accounting and supplies services in particular will need complete overhauling."

Source: National Audit Office summary of information from Queen Elizabeth Hospital NHS Trust

¹¹ National Audit Office census of senior Prison Service Managers and NHS Directors of Finance.

¹² National Audit Office census of NHS Directors of Finance.

2.13 Both case study shared service operations place a strong emphasis on monitoring and improving customer service, using technology to produce management information for improving efficiency and service provision.

- NHS Shared Business Services provides customers with a monthly set of key performance indicators showing results against contractual commitments laid out in service levels agreements. Customers receive information on performance in areas such as the percentage of invoices paid within 30 days, the average time taken for an invoice to be approved by the Trust, and the percentage of invoices supported by purchase order. In addition, NHS Directors of Finance receive routine information on the performance of their own organisations, benchmarked against the Shared Business Services customer base, which highlights where they can act to improve their own results.
- The Prison Service Shared Service invested in service focused technology such as call handling software. This provides management information on query resolution statistics which enables structured capacity planning so members of staff are available when needed. Knowledge management databases enable front line staff to solve complex queries without delay. Like Shared Business Services, the Shared Service Centre provides quantitative information to customers on performance statistics such as the number of complaints received and the time taken to resolve them.

2.14 Management information is collected more systematically when shared services are implemented, providing the opportunity to identify scope for further service improvements and financial savings. For example, Westminster Primary Care Trust has used better information available to it to close redundant mobile phone accounts. NHS Shared Business Services has used improved information to extrapolate potential savings across the NHS through standardising and simplifying processes, for example identifying scope to streamline the processing of payments under £100, which account for a third of all invoices by number but only one per cent by value. The Department of Health is currently investigating the scope for automatic payment of low value invoices that have had prior purchase approval.

Performance lags behind leading practice comparators but there is a focus on continuous improvement

2.15 Neither of the case studies is currently performing to the levels of efficiency achieved in leading practice private sector organisations (**Figure 13 overleaf**). This is partly a consequence of different operational approaches in the public and private sectors. For example, it is common for shared service centres in the private sector to have authority to pay small value invoices without first seeking customer authorisation, for example the third of all NHS invoices highlighted in paragraph 2.14 that account for only one per cent of value. Many also operate 'passive authorisation' where larger invoices are paid automatically after an agreed period in which a customer does not respond to requests to provide authorisation. However, the large savings being delivered demonstrate that both case studies are more efficient than the arrangements they have replaced. The large difference between case studies in the number of transactions processed by each full time equivalent member of staff shows the impact of the Prison Service being in a position to enforce tighter discipline on customers' practices and so reduce the number of invoices requiring manual intervention. The NHS has been able to offset the cost impact of greater manual intervention by operating in India where labour charges are lower. A part of the difference may also be due to the measurement bases: the NHS figures are determined externally by the same organisation providing leading and average practice benchmarks while the Prison Service figures are internal calculations. Both case study examples are actively pursuing further efficiency savings to take their performance closer to leading practice through:

- standardising processes and rationalising the number of suppliers;
- attracting more customers to gain economies of scale and to spread fixed costs over more transactions; and
- using higher levels of automation to reduce transaction costs to best practice standards.

13 The case study shared services are not yet as efficient as leading practice comparators

Measure	Description	NHS	Prison Service	Average Practice	Leading Practice
Accounts payable transactions processed per full time equivalent per annum	The number of supplier invoices processed each year divided by the number of full time equivalent members of staff in the accounts payable team – giving the average number of invoices processed by each team member in a year	7,500	15,500	25,008	37,773
Accounts payable direct cost per transaction	The direct cost of the accounts payable function in a given period divided by the number of supplier invoices processed in the same period – giving the cost per processed invoice	£2.25	£2.12	£1.45	£0.68
Days to close general ledger	The number of working days for the organisation to complete its accounts, after which no adjustments will be processed	7	5	5	5
Cost per payslip	The direct cost of the payroll function in a given period divided by the number of payslips raised in the same period – giving the average cost per payslip	£2.54	n/a	£2.44	£1.14

Source: Comparators are from The Hackett Group, a firm providing advice based on performance metrics obtained over 14 years. NHS figures are calculated by The Hackett Group and supplied by NHS Shared Business Services. Prison Service figures are calculated and supplied by the Prison Service Shared Service Centre. As The Hackett Group and the Prison Service have not used identical methods to calculate performance metrics they do not represent a perfect like-for-like comparison.

NOTE

Leading practice comparators are upper quartile figures, while average practice comparators represent median figures. Both are drawn from 3,500 benchmark studies. NHS figures are means for three months ending January 2007 derived with the same methodology used for average and leading practice figures; Prison Service figures are for April 2007.

2.16 Both case study shared services are acting to streamline processes and rationalise supplier bases. Organisational context plays a key part in determining what is possible.

- The low level of supplier invoices supported by purchase orders in NHS Shared Business Services results in much manual intervention. This is a key factor in productivity on accounts payable being half that in the Prison Service Shared Service Centre, which requires purchase orders for all invoices. NHS Shared Business Services has managed to contain costs despite lower productivity by reducing wage costs through off-shoring 50 per cent of the supplier invoice processing function. NHS Shared Business Services has introduced a range of methods to encourage customers to standardise processes, including user events, master classes, additional training and publishing league tables.
- The Prison Service Shared Service uses “transactability” as a driver for more standardised processes. Transactability is the percentage of transactions that can be processed with no special intervention. For accounts payable, it reached a low of 30 per cent in November 2006. The Shared Service formed a team from all affected parties to solve the problems in the end to end accounts payable process. Transactability is now approaching 70 per cent with expectations of further improvements.
- The Prison Service Shared Service is working on rationalising the existing 25,000 suppliers and is using its new infrastructure to aggregate demand better. We previously found scope for significant savings in food procurement by applying such measures across central government, including the Prison Service¹³. The process has also been extended to stationery so, for example, Prison Service staff can now purchase only one type of ballpoint pen.

2.17 NHS Shared Business Services had 89 customers at September 2007 out of a total potential of 416 eligible NHS bodies, equating to 21 per cent coverage. The Department of Health is not yet a customer. Our study has highlighted various reasons and perceptions that some NHS staff give as reasons for not joining Shared Business Services.

- Some Trusts have been unable to replace existing IT contracts until they expire.
- Some Trusts consider that the costs of making existing staff redundant would outweigh any financial benefits that might be achieved through Shared Business Services, particularly given legislative changes on age discrimination from October and December 2006.
- Some Trusts have opted for local shared service centres, believing these offer Trusts greater financial control or a wider range of services.
- Some Foundation Trusts consider that their independent status would be compromised if they used a service sponsored by the Department of Health, despite the data being kept independent and secure from the Department of Health.
- Scepticism towards NHS Shared Business Services, caused by a perceived lack of clarity over the extent to which shared services would be mandatory or optional, has persisted amongst some Trusts.

2.18 The Prison Service Shared Service Centre already has every Prison Service establishment as a customer because the service is mandatory. A key part of the strategy for the Prison Service Shared Service Centre was to build an operation large enough to attract additional Home Office sector customers and so lower average unit costs by spreading fixed costs more widely. The Prison Service is in the process of agreeing a Memorandum of Understanding with the Home Office to commence the transfer of corporate services to the Shared Service from January 2008 with an estimated completion date of December 2008.

13 *Smarter Food Procurement in the Public Sector*, National Audit Office, HC 963-I 2005-06, March 2006.

PART THREE

Progress is variable across government

3.1 This part of the report assesses the progress of shared services across government. It highlights variations and assesses the reasons for them.

The Cabinet Office has divided government into sectors to provide focus for shared services

3.2 The Cabinet Office divided government into sectors (**Figure 14**) for the purposes of shared services. The sectors are arranged primarily around the eight larger departments. The exception is the central government sector of small departments which contains nine departments, including those, such as the Cabinet Office and HM Treasury, at the centre of government. Each sector includes the sponsored bodies associated with the core department or departments. The sectors have published plans for shared services, which include the sector sizes in terms of numbers of full time employees, the particular corporate services within the scope of the shared services strategies and the details of the governance arrangements. None of the plans contains quantitative data on the levels of investment being committed or, with the exception of the health sector, the savings each shared service initiative is forecast to deliver. The reasons for developing a sector approach are:

- to shape over 1,300 public sector organisations into a manageable and coherent structure;
- to ensure government does not build too much shared services capacity;

- to determine which sectors are able to provide the best return on shared services investments; and
- to enable key messages to be communicated more efficiently and effectively.

3.3 There have been significant changes in the machinery of government since the sectors were first allocated. The affected departments are discussing ways to share services across newly created boundaries in order to avoid a proliferation of activity.

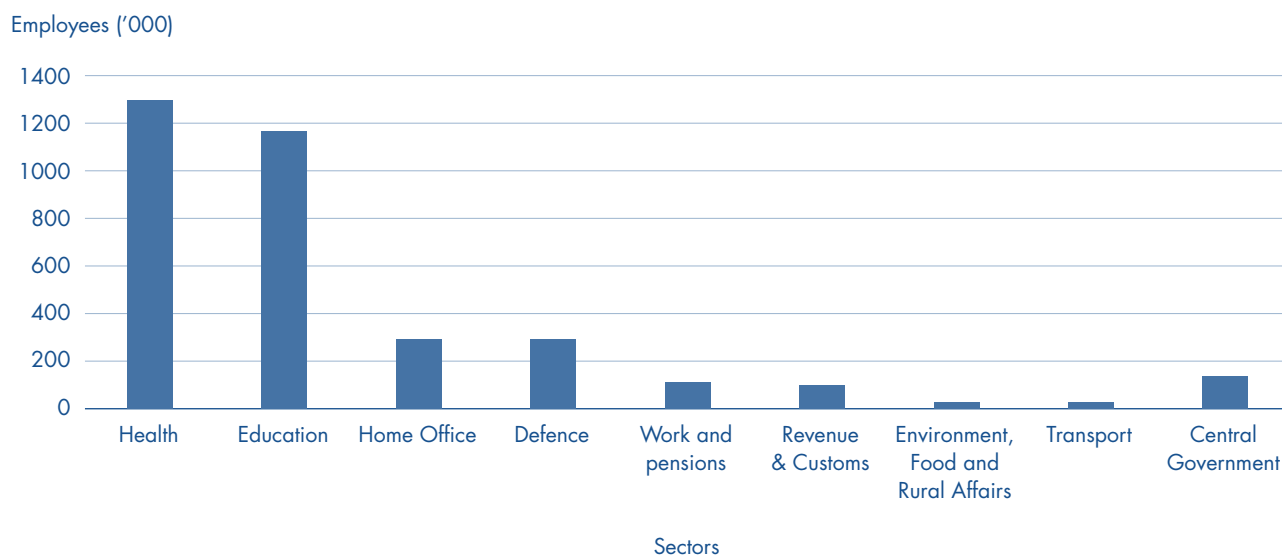
Approaches to sharing differ across sectors

3.4 Departments have approached the sharing of services in different ways. The Cabinet Office has not prescribed any particular models, for example on payment mechanisms or on whether participation is voluntary or mandatory in any scheme that is made available.

3.5 Larger departments have used their position as lead organisations to draw together both their own corporate services and those of their agencies into a single shared services model. The Department for Work and Pensions has integrated finance and human resources to deliver further savings by using a single organisational structure for both functions. HM Revenue & Customs has implemented an Enterprise Resource Planning¹⁴ system covering human resources, finance and procurement across the department and the Valuation Office Agency, and is considering a number of options for delivering shared services.

14 Enterprise Resource Planning systems integrate all of an organisation's data and processes into a single, unified system.

14 Health and education are the largest shared service sectors by employee size (thousands)



Source: National Audit Office Analysis of sectors defined by the Cabinet Office

NOTE

The central government sector of small departments comprises the Cabinet Office, HM Treasury, Government Actuary's Department, Communities and Local Government, Culture Media and Sport, Foreign and Commonwealth, International Development and Business Enterprise and Regulatory Reform (formerly the Department of Trade and Industry). It also contains the departmental corporate services of the Department for Children Schools and Families, and Department for Innovation University and Skills (both formerly the Department for Education and Skills) although within both departments wider planning is undertaken for the education sector. The Home Office sector reflects arrangements before changes that created the Ministry of Justice from elements of the Home Office and the Department for Constitutional Affairs. The Transport figure includes 3,000 coastguard volunteers, not on the full time employee headcount. Environment Food and Rural Affairs and Transport originally formed a single sector but have subsequently published separate plans.

3.6 Public sector bodies that have many small dispersed units are developing shared services by bringing duplicated functions together. Prior to developing shared services, HM Prison Service's 128 prisons each undertook their own finance, human resources and procurement activities. Across the entire service, 300 bank accounts were in use and each prison had its own basic accounting software. By bringing these functions together, the Prison Service Shared Service aims to transform both functions using enterprise wide information technology and streamlined business processes.

3.7 The Department of Health entered into a joint venture with a private sector supplier to develop NHS Shared Business Services. Use of NHS Shared Business Services is voluntary for NHS bodies, so the Department of Health used the joint venture with Xansa to gain access to sales and marketing expertise that it did not possess itself. Voluntary membership forces the provider to prove the business case for shared services to potential customers and is consistent with 'Shifting the Balance of Power'¹⁵, which gives greater decision making powers to local NHS bodies. The Department decided it would not compel local NHS bodies to join any national shared services initiative. Having obtained promotional expertise, efforts could be directed at NHS bodies to persuade them to join voluntarily.

15 *Shifting the Balance of Power: The Next Steps*; Department of Health; 2002.

3.8 Smaller public sector bodies are combining services to pool purchasing power and to reduce duplication. Within the Treasury Group, HM Treasury, the Office of Government Commerce and the Debt Management Office have developed a shared service centre to deliver finance services to the three organisations. This model is also used extensively within local government. For example, the district councils of Lichfield and Staffordshire Moorlands combined to purchase IT support services from an external supplier.¹⁶

3.9 Sharing can also be facilitated through the transfer of functions to business process outsourcers. Central government departments have long outsourced aspects of their IT but few have chosen to outsource finance and human resources. Outsourcing requires experienced negotiation and contract management skills. So far, with the exception of the Department of Health, central government has preferred to keep the delivery of shared services in-house. An international survey of government bodies in 2004 found that the preferred approach to developing new shared services was to build in-house facilities.¹⁷ The reason most often cited was to minimise union issues and workforce disagreements. Another survey of mainly private sector organisations found a similar preference for in-house delivery, with knowledge retention cited as the most important factor.¹⁸

3.10 Outsourcing can include offshoring, where activities are moved to another country with lower labour costs. NHS Shared Business Services uses Xansa's facility in India to undertake labour intensive activities such as invoice checking. Shared Business Services plans to undertake over half of its processing in India.

Shared services are progressing across government

3.11 The sectors published their shared services plans in January 2007. Some had already been developing shared services so the sector plans provided the opportunity to consolidate and confirm progress (Figure 15).

3.12 The central government sector of small departments is unusual because it contains smaller bodies, which may mean that having one shared services operation is too difficult to achieve. This sector's plan envisages rationalisation so that corporate services are run through centres serving organisations with a minimum combined

headcount of 20,000, and preferably 50,000 or more. The Treasury has begun to make some progress in this sector (Figure 16 on page 30).

3.13 Some relatively small shared services initiatives, often forming part of wider transformational programmes stemming from the 2004 Spending Review, were in progress before the Cabinet Office established its Shared Services Team in 2005. While these smaller programmes represent useful progress, the full savings potential of shared services will flow only from much larger integration. It is not yet clear how the Cabinet Office will drive further integration of these smaller shared services.

Reported savings are relatively small

3.14 The Cabinet Office does not hold information on financial savings secured through implementing shared services across government. However data collected by HM Treasury on savings from the Efficiency Programme associated with the 2004 Spending Review show that, by March 2007, just under £1 billion of corporate service efficiency gains had been reported of which £315 million related to finance and human resources (Figure 17 on page 30). Some of these savings have been achieved through shared services but it is not possible to determine how much because in many cases sharing services is part of a broader corporate services transformation programme. The reported gains are subject to some uncertainty, with significant concerns over 23 per cent of overall claimed efficiencies.¹⁹ The Cabinet Office does not collect the level of savings planned across government and the published sector plans, with the exception of health, do not set out this information. The departments that have reported the largest savings are the Department for Work and Pensions and the Ministry of Defence (Figure 18 on page 31). The education sector faces particular challenges because it comprises approximately 25,000 autonomous organisations ranging from small primary schools to large further and higher education institutions, which need aggregation to be attractive to suppliers but where central government cannot mandate any particular solution. Its shared services programme was established in 2006 and may not deliver savings until 2010-11. The transport sector does not appear in the analysis because the Department for Transport reports progress to HM Treasury according to its own business structure rather than the Efficiency Programme headings, which include corporate services.

¹⁶ *Transformation through shared services; improving quality, increasing efficiency*; Confederation of British Industry; 2006.

¹⁷ *Driving High Performance in Government: Maximising the Value of Public Sector Shared Services*; Accenture; 2004.

¹⁸ *Shared service centres: delivering the promise*; PA Consulting Group; 2007.

¹⁹ *The Efficiency Programme; A Second Review of Progress*; National Audit Office, February 2007, HC 156-I Session 2006-2007.

15 All sectors have made some progress with shared services

Sector	Progress
Health	NHS Shared Business Services has been operating since April 2005, providing finance, accounting and procurement services to 21 per cent of NHS organisations. The Department of Health has outline plans to move its own functions to NHS Shared Business Services. There are many separate examples of NHS bodies establishing local shared service centres, often with other public bodies. A business case is under development to introduce human resource services to NHS Shared Business Services.
Education	Many bodies in this sector have taken steps such as outsourcing their finance services and joining together in procurement consortiums to obtain better deals through their combined buying power as recently encouraged by the Committee of Public Accounts. ¹ For example, the North East Universities Purchasing Consortium has twenty two members and spends £70 million annually. It has reported £3.9 million of efficiencies. The UCAS admissions service and JANET computer network are examples of well established shared services available to the higher education sector. There is no single shared service centre available to the whole of the education sector.
Home Office	There are four programmes within this sector. The Prison Service Shared Service Centre is operational and will have fully completed its implementation transition by June 2008. The other three programmes are the Metropolitan Police, National Police and Home Office. Both police organisations are at the business case stage while the Home Office is in the process of agreeing a Memorandum of Understanding to move to the Prison Service Shared Service from January 2008.
Defence	The Ministry of Defence has two operational human resource shared service centres, one for military personnel and one for civilian personnel. A finance shared service centre is at the implementation phase.
Work and Pensions	The Department for Work and Pensions has had an integrated, fully operational, finance and human resource shared services operation since September 2006, building on foundations laid down by the Finance Transformation Programme and the HR Modernisation Programme.
Revenue & Customs	Driven by the integration of Inland Revenue and HM Customs & Excise, the new department has now standardised its processes and practices through a programme to implement a common IT business system. Extension of this system to the one agency in the sector, the Valuation Office Agency, occurred in July 2007.
Environment, Food and Rural Affairs	The Department for Environment, Food and Rural Affairs has had an operational shared services centre for finance, procurement, human resources and facilities management since May 2006 covering 13 organisations and 12,000 staff. The core department, several of its agencies and one non-departmental public body take the full range of services. The current sector plan envisages that all executive agencies should be taking all services by 2009-2010, with the shared services centre operating on an arm's length basis from April 2009.
Transport	A shared service centre for the Driver and Vehicle Licensing Agency and the Driving Standards Agency has been operational since 2007. The Department and other bodies in the sector plan to move to this shared services centre in a phased approach through to April 2009.
Central Government sector of small departments	There are isolated examples of small shared services in the central government sector of 9 smaller departments but no shared service centre covering the whole of the sector. The Cabinet Office has a commitment to buy shared services from the Department for Work and Pensions.

Source: National Audit Office analysis

NOTE

¹ *Improving procurement in further education colleges in England*, House of Commons Committee of Public Accounts, 41st report 2006-2007, HC 477 2006-2007.

16 The Treasury Group has implemented a local shared services centre as a potential step to wider integration

The Treasury Group, comprising HM Treasury, the Office of Government Commerce and the Debt Management Office, has introduced a shared service centre for finance, human resources, IT and facilities management as part of a process of streamlining its existing corporate service operations. The centre services a combined headcount of 1,580 people. The overall streamlining process involved transferring all transaction processing and reporting to a single system, and standardising and simplifying processes, in order to generate better quality information faster and build economies of scale. The shared services centre has

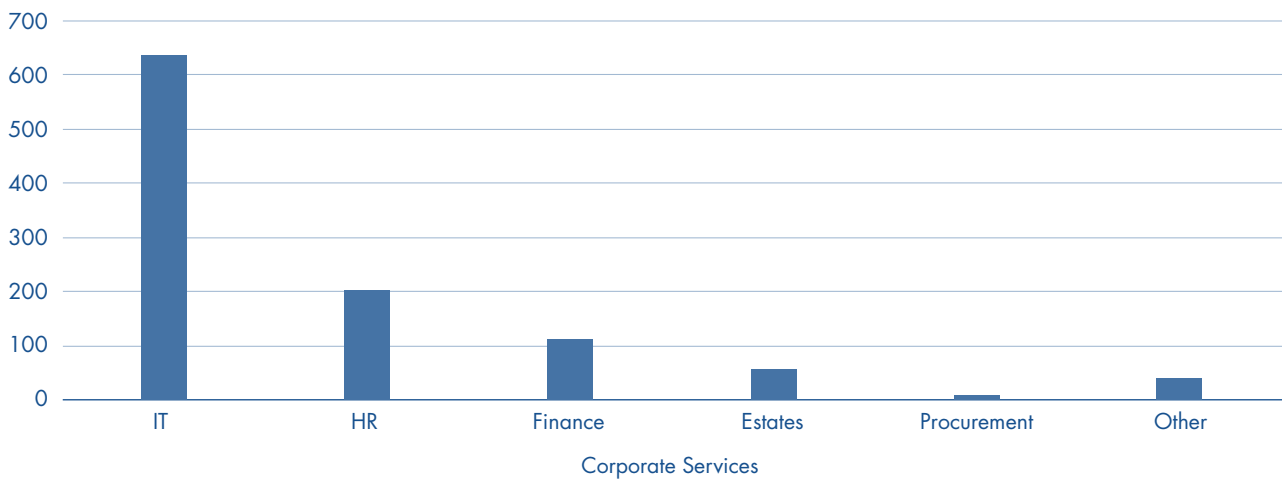
helped the Treasury Group to be more efficient, for example finalising its accounts more quickly within two months of the year end in line with the cross-government drive for faster accounts closing. It has also led to declared efficiency savings of £1.8 million a year. The Treasury Group sees its approach as a potential first step to wider integration. The approach has allowed the Treasury Group to explore arm's length operations and learn lessons around change and rationalising processes, making it a better informed customer for any potential future move.

Source: National Audit Office and HM Treasury

17 Savings of £315 million had been reported from finance and human resources services by March 2007

Corporate service savings by function

£ million



Source: National Audit Office analysis of returns from departments to HM Treasury

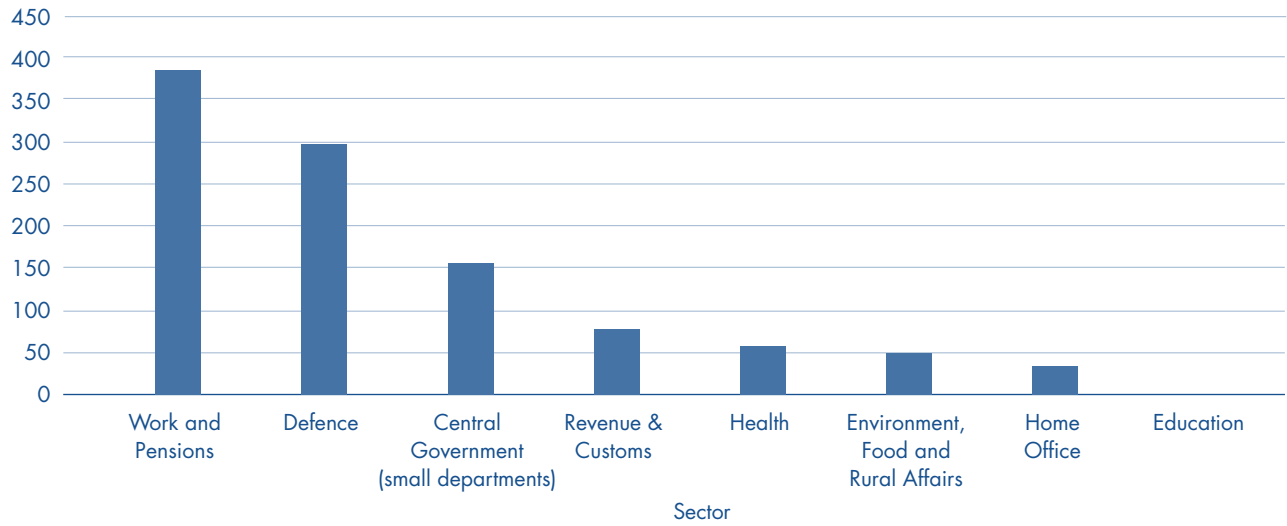
NOTE

'Other' savings come from general headcount reductions, improvements in areas such as contract management or changes to working practices that cannot be allocated to a particular corporate service.

18 The Department for Work and Pensions and the Ministry of Defence have reported the largest savings

Corporate service savings by sector

£ million



Source: National Audit Office analysis of returns from departments to HM Treasury

PART FOUR

The Cabinet Office has promoted shared services but lacks a clear overview of the benefits being secured by departments

4.1 This part of the report reviews how the Cabinet Office is acting to drive shared services across government. It includes an assessment of the barriers to shared services that the Cabinet Office has identified and partially tackled. The Cabinet Office does not have powers to force departments to adopt shared services because accountability for generating savings through measures like shared services rests with departments' Accounting Officers, there being no separate Accounting Officer for shared services.

The Cabinet Office has raised the profile of shared services across government

4.2 The Head of the Home Civil Service has given his own personal lead on shared services, including by:

- writing to all Permanent Secretaries in February 2006 to emphasise the need to move forward on shared services; and
- putting shared services on the agenda of the Civil Service Steering Board of Permanent Secretaries when decisions need to be taken across government.

4.3 Established in July 2005, the Cabinet Office's Shared Services team has so far cost £4.0 million.²⁰ Its complement in November 2007 was four full time equivalents. The team has played a key role in promoting the development of shared services across government, including by:

- working with OGCBuying.solutions to agree Memorandums of Understanding with a range of large IT suppliers allowing software licences used in shared services to be transferred across government departments for the first time, building on progress which saw the introduction of a range of lowest price guarantees to public sector customers;²¹
- providing an internal consultancy for government, for example analysing the business case for a Research Council's proposal, leading to a revised implementation plan;
- building a cross-government network of shared services professionals, enabling beneficial relationships to be established across a wide range of departments;
- identifying and tackling a variety of barriers to establishing shared services;
- building a repository of shared services methodologies and tools for departments to use;
- allocating central government bodies to different sectors and working with each to develop a plan for implementing shared services; and
- promoting the concept and viability of shared corporate services to a new audience within central government and the wider public sector.

²⁰ The cost of the Cabinet Office's Shared Services team was £2.2 million in 2005-06 and £1.8 million in 2006-07.
²¹ *Assessing the value for money of OGCBuying.solutions*, National Audit Office, HC 103 2006-2007, December 2006.

4.4 Departmental staff involved in shared services have appreciated the efforts of the Cabinet Office. We interviewed representatives in five departments, every one telling us that Cabinet Office initiatives had enhanced senior buy-in as well as providing an opportunity to take a more strategic view of shared services.

Ministry of Defence

“...provided an opportunity for confirmation of our plans...”

Home Office

“...valuable experience...”

“...provided the opportunity to look at the integration of Non-Departmental Public Bodies...”

“...promoted supplier confidence...”

HM Revenue & Customs

“...the sector plan provided an opportunity for HM Revenue & Customs to show the key role that shared services played in helping our staff to deliver our connected goals of better customer service leading to greater efficiency...”

“...added a public face to what had been an internal plan...”

“...added credibility to the path that HM Revenue & Customs had embarked upon...”

The Cabinet Office has identified barriers to shared services and started to tackle them

4.5 An important contribution by the Cabinet Office Shared Services Team has been to identify barriers to the spread of shared services and to tackle some of them successfully (**Figure 19 overleaf**). Two key barriers, covering VAT and the issue of buyers and sellers, are discussed in more detail below.

4.6 Under fundamental VAT principles reflected in EU agreements, buying services rather than providing them in-house may incur VAT charges that can reduce the attraction of shared services. This is not an issue for government departments and local authorities because, as a result of measures introduced in the past to remove disincentives to outsourcing or to ensure VAT is not a cost on local taxation, they can reclaim VAT in appropriate circumstances. For other bodies, principally non-departmental public bodies and the higher and further education sectors, VAT is an irrecoverable cost. At best, it reduces the potential savings from shared services and, at worst, it is not covered by the savings and so will leave an organisation with greater costs. The problem is complex because VAT is governed by EU law and any solution would need to be fair to all service-providing bodies in a similar position. The Cabinet Office estimates that the VAT barrier is potentially inhibiting £70 million in annual savings for non-departmental government bodies. The potential benefit from removing the VAT barrier for higher education and further education bodies is believed to be tens of millions of pounds per year. Further work is being carried out in the sector to provide a better estimate.

4.7 The barrier over buyers and sellers is one the Cabinet Office has been able to tackle. The issue is that shared services across departments were not happening while there was confusion over which departments would sell services and which would buy. The Civil Service Steering Board acted in April 2007 by declaring that the only departments selling to others will be HM Revenue & Customs and the Department for Work and Pensions. The designated selling departments have not yet determined how they will set prices, nor whether they will compete for business against other organisations, such as existing public sector shared service providers. The two departments were not asked for detailed costs since their selection was a strategic decision taken because they:

- had recent significant change management experience from implementing shared services;
- provided buying departments with a choice between two IT systems (Oracle and SAP);
- offered integrated finance and human resources shared services; and
- operated in sectors each comprising a single department and one or more agencies.

19 The Cabinet Office has identified barriers to shared services and successfully tackled some of them

Barrier	Description	Action	Tackled?
Headcount	Organisations providing shared services could not gain credit for headcount reductions arising in the organisation using the shared services.	Workforce Reduction Plan guidelines were redrafted in June 2006 to allow departments to trade headcount cap baselines.	✓
VAT	Many organisations cannot reclaim VAT incurred on externally provided corporate services, providing a disincentive to buying shared services.	HM Treasury has been investigating the issue since May 2006 at the Cabinet Office's instigation. It is aiming for a solution that is consistent with EU law, the normal principles of public funding and the Government's wider position on irrecoverable VAT.	✗
Funding	Organisations can have difficulties in securing initial funds for shared services where investment is required by one body to produce savings in another or by a parent department to generate savings in other organisations.	Selling departments raised this concern with HM Treasury as part of the 2007 Comprehensive Spending Review.	✗
Sellers' incentives	Selling departments may not include a surplus over costs in charging for shared services and they do not share in gains that buying departments make through paying less for corporate services through sharing.	To avoid the distortions of competition and resource allocation, HM Treasury has confirmed that public sector organisations can only sell services to each other at cost. However sellers do benefit from achieving greater economies of scale and in October 2007, the Treasury's guide <i>Managing Public Money</i> ¹ outlined possible ways public sector organisations can jointly fund and deliver services.	✓
Delivery vehicles	There was confusion about how to choose the right delivery vehicle for shared services, for example part of an existing organisation or a joint venture with a private partner.	The Cabinet Office published a paper in September 2006 describing the different vehicles available and explaining when each would be appropriate.	✓
Procurement rules	EU rules are designed to ensure competition in public sector procurement. The rules can be difficult for smaller organisations. They do not generally apply where one department buys services from another.	The Cabinet Office and the Office of Government Commerce published "EU Public Procurement Rules Considerations" in March 2007 to help when procuring services outside departmental boundaries.	✓
Buyers and sellers	Progress has been hampered because of a lack of clarity about which departments would sell shared services and which would buy them.	The Civil Service Steering Board decided in April 2007 the two departments that will be allowed to sell services to others. The Cabinet Office declared its intention to buy from the Department for Work and Pensions.	✓

Source: National Audit Office Analysis

NOTE

1 *Managing Public Money*, HM Treasury, The Stationery Office, October 2007.

4.8 The Cabinet Office has given a lead in breaking the stalemate over shared services across departments by committing to buy from the Department for Work and Pensions. This is the only example to date of a commitment from a smaller department to buy services from another department. It will be the first test case of how a large department gives a good service to a much smaller department buying its services. There are no clear mechanisms to push departments to buy shared services.

4.9 Public bodies do not have the same financial incentives as private sector bodies to sell shared services. Under HM Treasury rules public sector organisations must sell services to each other at cost to eliminate distortions of competition and resource allocation. While sellers cannot make a profit, they can benefit along with their customers from greater economies of scale. In October 2007, the Treasury's guide *Managing Public Money*²² outlined possible ways public sector organisations can jointly fund and deliver services.

A lack of information on current and expected performance makes it difficult for the Cabinet Office to demonstrate the extent of benefits being derived from shared services

4.10 There has been little focus on measuring the performance of corporate services and demonstrating how it can be improved through shared services. Our analysis of case studies represents the first time such financial and other performance information has been systematically publicised and shared across government. This analysis shows that, while shared services are on course to bring financial savings, current levels of customer satisfaction do not yet present a compelling case for others to follow the same route.

4.11 Although the Cabinet Office has identified an overall figure of £1.4 billion as the potential for savings across government in finance and human resources through implementing shared services, the figure does not form part of the Efficiency Programme savings targets, nor is it broken down at departmental level. This makes it difficult for departments to understand, in quantitative terms, their part in progress towards the overall potential saving. It also makes it difficult to assess whether the £1.4 billion figure is realistic, too demanding or too easy. There is a risk that departments may be satisfied with shared service programmes that are insufficiently ambitious. The lack of financial detail in sector plans, with the exception of the health plan, means that the Cabinet Office cannot use them to assess whether planned activity will deliver the £1.4 billion of potential savings.

4.12 The £1.4 billion figure lacks a clear baseline of existing costs, which would enable a more robust calculation of potential savings and provide a reference point for measuring achievement. The Cabinet Office found it impossible to obtain such a baseline figure. Many departments cited outdated systems, a lack of transparent information and clouded organisational definitions as reasons why they could not analyse current costs.

4.13 There are further difficulties with simply illustrating the scale of potential savings through the £1.4 billion figure. The main uncertainties are:

- how this figure relates to the corporate service savings in the Spending Review 2004 Efficiency Programme;
- the time period over which the savings can be achieved;
- the levels of initial expenditure required to achieve the savings;
- the payback period over which savings recoup the initial expenditure; and
- the level of sharing required to achieve the savings, for example whether they require sharing across departmental boundaries.

22 *Managing Public Money*, HM Treasury, The Stationery Office, October 2007.

APPENDIX ONE

Methodology

1 We carried out the fieldwork for this report between January and June 2007 in conjunction with our strategic partner KPMG. Our partner brought in-depth practical experience of shared services. One KPMG representative was based full time at our offices for the entire study, and we called on additional KPMG expertise through weekly status meetings and monthly steering meetings. Our study comprised:

- document reviews;
- interviews;
- case study site visits;
- an on-line census of shared service customers; and
- comparisons of performance with leading practice comparators.

Document review

2 We reviewed and analysed numerous documents, including:

- Cabinet Office papers;
- shared services sector plans;
- business cases for two case study organisations; and
- operational results and key performance indicators for two case studies.

Interviews

3 We conducted semi-structured interviews with Cabinet Office staff, senior staff responsible for our case studies, departmental representatives responsible for shared services and numerous stakeholders.

Organisations represented in our interviews

British Computer Society
Cabinet Office
Calderdale & Huddersfield NHS Foundation Trust
Confederation of British Industry
Department for Education and Skills
Department for Work and Pensions
Department of Health
Gartner
Health Financial Management Association
Home Office
HM Prison Service
HM Revenue & Customs
HM Treasury
Intellect
Kable
Lincolnshire NHS Shared Services
Management Consultancies Association
Mid Yorkshire Hospitals Trust
Ministry of Defence
NHS/Xansa Shared Business Services
Office of Government Commerce
OGCbuying.solutions
PA Consulting
Prison Service Shared Service Centre
Public and Commercial Services Union
Queen Elizabeth Hospital NHS Trust
Society of Information Technology Management
Surrey County Council
Westminster Primary Care Trust

Case study site visits

4 We selected two of the more established shared services within government as case studies: NHS Shared Business Services and the Prison Service Shared Service Centre. The two case studies employ markedly different delivery models and have contrasting participation patterns, as described in our report. We made a one day visit to each to interview senior management teams, gain a first hand view of the physical operation and clarify issues raised in our document reviews. We analysed figures presented by the two case study organisations and used them to generate the financial models presented in this report. We discussed the results in depth with the two organisations, compared them with original business cases, received explanations for variances and clarified how future projections took account of actual results to date.

Census of shared service customers

5 We undertook an on-line census of the customers of our two case studies to gain an insight into their expectations and experiences of shared services. The census focused on service quality, financial and non financial benefits realised and lessons to be learnt for other organisations making the move into shared services. We achieved our threshold of 90 per cent response rates in each element of the census.

Shared services customer census			
	Number in census	Returns	Response Rate %
NHS Shared Business Services ¹	76	70	92
Prison Service Shared Service Centre ²	158	142	90

NOTES

1 The NHS Shared Business Services census covered Directors of Finance because of the finance and accounting nature of the shared services provided.

2 The Prison Service Shared Service Centre census covered Governors and Area Managers because the shared services comprise procurement as well as accounting, finance and human resources.

6 Returns from the NHS census covered customers using Shared Business Services for different periods, distributed as follows.

Number of returns from NHS Shared Business Services customers according to time using the service

Less than 2 years	22
From 1 to 2 years	21
More than 2 years	27
Total	70

Leading practice comparisons

7 To enable comparison with leading private sector shared service operations, we made use of benchmarking information provided through KPMG by The Hackett Group, a firm providing advice on performance metrics. This information provided a quantitative reference point for the key services provided by both case study operations.

Third party surveys

8 We analysed three independent surveys to develop an understanding of the expectations and achievements of shared services in the private sector.

- PA Consulting Group received 141 responses to a survey of finance and human resource directors selected from FTSE250 companies. Some were past clients. The survey was carried out using a combination of telephone and internet methodologies over a six week period in 2007. Reductions in annual running costs were expressed as percentages in gross terms, excluding investment costs. Payback periods identified the time over which gross savings recouped investment costs.²³
- The Shared Services Business Process Outsourcing Association, with support from Accenture, conducted a web-based survey between April 2003 and August 2003. The public sector provided 6 per cent of the 188 respondents. The survey was international: 41 per cent of respondents were based in the United States, 36 per cent were from Europe, and the remainder were from rest of the world. The survey was sent to a wide range of organisations with annual revenues between \$50 million and \$10 billion.²⁴
- Accenture research surveyed 143 senior executives in a selection of government agencies across 13 countries: Australia, Canada, France, Germany, Ireland, Italy, the Netherlands, Singapore, South Africa, Spain, Sweden, the United Kingdom and the United States. Telephone interviews were conducted between September 2004 and November 2004.²⁵

23 Shared service centres: delivering the promise; PA Consulting Group; 2007.

24 Shared services: The Evolution of Higher Performance: Accenture; 2003.

25 Driving High Performance in Government: Maximising the Value of Public Sector Shared Services; Accenture; 2004.

GLOSSARY

Accounts payable	Accounts payable is an accounting term which represents debts resulting from purchasing assets or receiving services on credit or on an open account. Invoices are processed through the accounts payable system.
Foundation Trust	An NHS Foundation Trust has greater freedoms than other NHS Trusts in the way it manages its affairs. Independent of both the Department of Health and the local Strategic Health Authority, it is a mutual structure providing opportunities for local people to become members and play a role in holding the Trust to account.
Joint venture	A joint venture is an entity formed between two or more parties to undertake economic activity together. The parties agree to create a new entity by both contributing capital, and they then share in the revenues, expenses, and control of the enterprise. The venture can be for one specific project only, or a continuing business relationship.
Net Present Value	Net Present Value is an investment appraisal technique that is used to calculate the present value of future cash flows from an investment. Future amounts are discounted back to today's values to reflect the risks facing the project and the erosion of the value of money over time.
Office of Government Commerce	The Office of Government Commerce is an independent office of the Treasury and works with public sector organisations to help them improve their efficiency, gain better value for money from their commercial activities and deliver improved success from programmes and projects. It includes OGCBuying.solutions, which aims to secure better procurement deals for the public sector.
Offshoring	Offshoring occurs where an organisation carries out some of its functions outside the country where it is located in order to benefit from lower labour rates. Some shared service centres make use of offshoring, although this is not common in the public sector.
Outsourcing	Outsourcing involves an organisation transferring some of its functions to a separate organisation, to which it pays a fee. There is a mature market for outsourcing corporate services to companies that specialise in these activities. Outsourcing can be combined with offshoring.

SAS 70	Statement on Auditing Standards (SAS) 70 is a widely recognized auditing standard developed for service organisations. It signifies that a service organisation has been through an in-depth audit of its control objectives and activities, which often include controls over information technology and related processes. It allows service organisations to disclose their control activities and processes to their customers and their customers' auditors in a uniform way.
Sector plan	A sector plan is a high level plan for sharing corporate services prepared at the instigation of the Cabinet Office. These plans will guide the development and implementation of shared services over the next three to seven years.
Xansa	Xansa is a UK-based outsourcing and technology company which has a joint venture with the Department of Health called NHS Shared Business Services.

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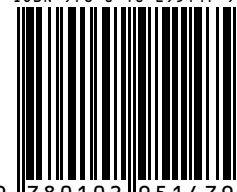
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