National Audit Office

REPORT

Government shared services

Cabinet Office

SESSION 2022-23
30 NOVEMBER 2022
HC 921

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Government shared services

Cabinet Office

Report by the Comptroller and Auditor General

Ordered by the House of Commons
to be printed on 28 November 2022

This report has been prepared under Section 6 of the National Audit Act 1983 for presentation to the House of Commons in accordance with Section 9 of the Act

Gareth Davies
Comptroller and Auditor General
National Audit Office

25 November 2022

HC 921 | £10.00

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011083 11/22 NAO

Contents

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Key facts

£525mn

approximate cost of providing corporate back-office functions, such as human resources (HR), finance, procurement, and payroll across major government departments in 2020-21 before the Shared Services refresh was launched (excluding the Foreign, Commonwealth & Development Office)

5

new shared service centres proposed in the Shared Services refresh

2028

target year by which all departments should be on cloud-based systems

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

Summary

Introduction

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

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

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

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

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

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

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

- In 2012, we examined five of the eight central government shared service centres. We found that the government had not achieved value for money and that services were tailored too much to individual departments, increasing costs and reducing flexibility.[1]
- In 2014, we reported on the Cabinet Office's Next Generation Shared Services strategy. This involved creating two independent shared service centres to provide back-office functions for up to 14 departments and their arm's-length bodies. We highlighted several significant future challenges, including maintaining clear leadership; designing a standard model for services and implementing the technology to support this; migrating departments to this model; helping departments to become intelligent customers; and ensuring clear accountability between service providers, departments and the Cabinet Office.[2]
- In 2016, we found that although the two independent shared service centres had led to some cost savings, the programme was not progressing as planned and weaknesses in its design undermined its success. The Cabinet Office had not developed an integrated programme business case to include both independent shared service centres and the customer departments; had not secured sufficient support and participation from departments at an early stage; and had not acted in a timely and effective manner as problems emerged.[3]

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

Scope

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

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

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

Key findings

Progress since we last reported on shared services

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

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

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

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

Putting the right conditions in place to deliver the strategy

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

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

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

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

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

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

Barriers to future delivery

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

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

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

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

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

Conclusion on value for money

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

Recommendations

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

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

Strategy design and governance

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

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

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

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

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

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

Implementation

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

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

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

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

Part One

Progress on government shared services

1.1 This part evaluates the progress government has made towards shared services since we last reported on the topic in 2016, including:

- the introduction of a new government Shared Services Strategy by the Cabinet Office in 2018 and its decision to refresh the delivery model in 2021;
- progress in implementing this strategy; and
- progress in learning from previous strategies, including the implementation of recommendations by the National Audit Office (NAO) and the Committee of Public Accounts (the Committee).

Shared services in government

1.2 All government departments need a range of corporate functions, including human resources (HR), finance, procurement and payroll to manage their operations effectively. Collectively known as the 'back-office', these functions deliver the core business processes needed to support front-line services. Since 2004, central government has sought to cut the cost of these services through the sharing of back-office functions between departments. This work has been led by the Cabinet Office.

1.3 The aim of using shared services is to standardise processes and services so that they can be provided in a consistent and repeatable way, in high volumes, and therefore reduce costs. This often involves moving to a common IT system (or operating platform) and transferring operations to an organisation that can specialise in providing a service and, through economies of scale, can offer the service at a lower cost. The private sector and local authorities typically claim savings from implementing shared service centres, breaking even on their investment costs in less than five years.

Government's new Shared Services Strategy

1.4 In 2018, the Cabinet Office published a new 10-year Shared Services Strategy with three objectives:

- Delivering value and efficiency, including by separating technology from service centres, including all transactional services, and moving to cloud-based technology.
- Convergence around processes and data, including the consolidation and modernisation of technology platforms while maintaining choice for departments.
- Meeting end-user needs.

1.5 The Cabinet Office's Government Business Services leads the strategy. This includes setting the initial strategy design, approving departmental plans, overseeing progress and managing central risks to delivery. It also aims to provide centralised back-office functions and system leadership for central government, comprising shared services, the Government Recruitment Service, pensions delivery, and associated platforms. Responsibility to deliver the objectives of the strategy was delegated to government departments. Each department subsequently established its own plan, with the aim that all departments would be on new cloud-based systems by 2025 at the latest.

1.6 In 2021, shared services across government consisted of 17 departmental groupings using seven different technology providers (**Figure 1** on pages 16 and 17). More than 450,000 civil servants used these systems, which remained slow and frustrating, with an over-reliance on manual input and spreadsheets. Data quality could be poor, take time to collate and remained inconsistent across departments. Differences in the way data were captured and held meant it was hard to share or make use of data across government and to track end-to-end processes across the systems that delivered shared services. A review of cross-government functions, published in 2021, noted that: "It appears that there has been little progress in driving forward shared services since 2015."[4]

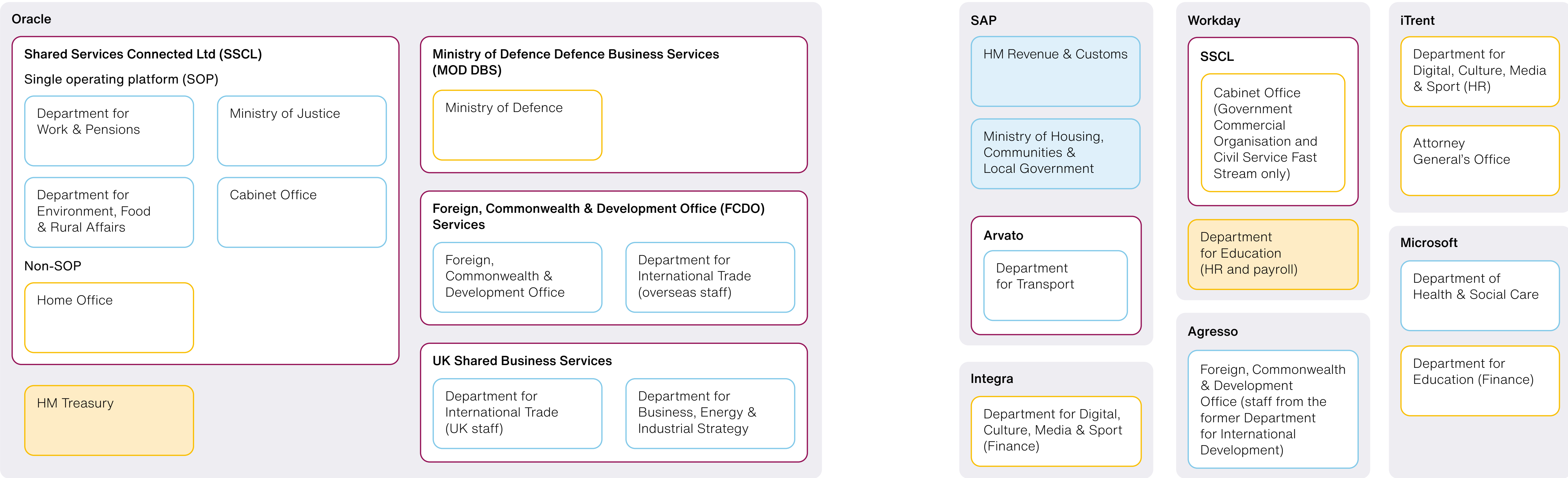
1.7 In 2020-21, the latest year where data are available, the costs of providing back-office functions such as HR, finance, procurement and payroll across major government departments was £525 million, excluding the Foreign, Commonwealth & Development Office. These costs were provided by departments to the Cabinet Office and cover internal and external shared services expenditure; the cost of all systems involved in the delivery of these back-office functions, including support and subscriptions; processing activities that are performed in-house within HR or Finance departments, such as payroll; and the cost of process transformation programmes.

4 The Rt Hon Lord Maude of Horsham, *Review of the cross-cutting functions and the operation of spend controls,* Cabinet Office, July 2021.

Figure 1

Shared services across government in 2021

In 2021, shared services across government were complex and fragmented



- Shared service centres
- Departments not on cloud
- Departments not on cloud and with an in-house service provider
- Departments already on cloud
- Departments already on cloud and with an in-house service provider
- Enterprise Resource Planning (ERP) software provider

Note

1 This figure shows the position of government shared services in 2021, including the ERP software providers and shared service centre providers as confirmed by the departments involved. Since then, some departments shown as not on cloud have migrated to cloud.

Source: National Audit Office review of Cabinet Office documents

1.8 This was a 16% increase on the costs for 2019-20, resulting mainly from greater spend on transformation programmes, such as new technology. There was significant variation across departments in the cost per full-time equivalent employee ranging from £451 to £1,288**.** The Cabinet Office told us that the variations were down to the range and complexity of legacy systems in use and departments noted that costs may not be reported on a consistent basis.

1.9 In March 2021, the Cabinet Office refreshed its delivery model, due to concerns that the objectives of the 2018 strategy would not be delivered.[5] Departments were competing in the market for scarce skills and paying individually for services, rather than using the weight of government in the marketplace. The refresh moved away from the idea of individual departments procuring their own single software platforms. Instead, it proposed a cluster model, with departments grouped into five shared service clusters of varying sizes (**Figure 2**), who are free to procure any system that best suits their needs.

1.10 The delivery model refresh aimed to make both the landscape simpler and increase departments' abilities to exchange and make use of information (interoperability). It is part of wider government efforts to reform and modernise the civil service. The strategy has five work streams:

- **The development of five shared service centres by 2028 at the latest**, serving five departmental clusters: Defence, Matrix, Overseas, Synergy and Unity. Departments in each centre will work together to design a common operating model and implement standardised operating systems know as Enterprise Resource Planning (ERP) platforms. These platforms will be delivered via cloud technology as Software-as-a-Service (SaaS). SaaS providers host software or equipment on their servers, which are accessed through web applications and purchased through subscription licence fees. The Cabinet Office allocated each department to a cluster (see Figure 2).

- **Commercial convergence**. Development of new Crown Commercial Service frameworks as the route to procurement, supported by a national pricing model for major ERP suppliers. The Cabinet Office recommended three platforms for departments to adopt in their move to SaaS: Oracle, SAP and Workday.

- **Data convergence**. Development of common data standards for HR, finance and commercial, and improved data-sharing both in and between departments.

- **Process convergence and transformation**. To transform services and user experiences, through policy standardisation, automation and interoperability. The priorities are Joiners, Movers and Leavers, and Source to Pay, a procurement system.

- **Performance and quality**. The experience of those who use these services will be measured with a Net Promoter Score. There will be regular reporting against a standard set of key performance indicators (KPIs) on staff payments and invoices, and 95% of staff transfers will be completed within an agreed end-to-end timeline.

5 Cabinet Office, *Shared Services Strategy for Government*, March 2021.

Figure 2
Government shared service centres

The government is setting up five shared service centres capturing all main departments

	Defence	Matrix	Overseas	Synergy	Unity
Departments	**Ministry of Defence (MoD)** Civilian workforce and Armed Forces	**Department for Business, Energy & Industrial Strategy**; Attorney General's Office; Cabinet Office; Department for Digital, Culture, Media & Sport; Department for Education; Department of Health & Social Care; Department for International Trade (domestic); HM Treasury	**Foreign, Commonwealth & Development Office (FCDO)**; Department for International Trade (overseas); Other departments with an overseas presence	**Department for Work & Pensions**; Department for Environment, Food & Rural Affairs; Home Office; Ministry of Justice	**HM Revenue & Customs (HMRC)**; Department for Levelling Up, Housing & Communities; Department for Transport
Technology provider	Currently Oracle	Consortium to procure	Currently Oracle	Consortium to procure	Currently SAP
Shared service provider	MoD Defence Business Services *(Shared Services Connected Ltd (SSCL) are a delivery partner for military HR and veteran services)*	Future service provider to be confirmed	FCDO shared services	Future service provider to be confirmed	HMRC Services

Departments; Technology provider; Shared service provider

Notes

1 The Ministry of Defence is the lead department in the Defence cluster. The Department for Business, Energy & Industrial Strategy is the lead department in the Matrix cluster. The Foreign, Commonwealth & Development Office is the lead department in the Overseas cluster. The Department for Work & Pensions is the lead department for the Synergy cluster. HM Revenue & Customs is the lead Department in the Unity cluster.

2 The Ministry of Defence shared service also supplies pensions and compensations services.

Source: National Audit Office review of Cabinet Office documents

Progress in delivering the Shared Services Strategy

1.11 The strategy aims to deliver a better experience for all users with systems that are intuitive, easy to use and mobile-enabled; deliver efficiency and value for money through better systems and services which support productivity and reduce costs; and standardise processes and data to support shared operations, making it easier to understand and compare corporate data. **Figure 3** sets out progress against the strategy's five work streams. The government is still a long way from having five functional shared service centres or the convergence it is seeking.

1.12 Clusters described the strategy as "exceptionally ambitious" and the timelines as "challenging". Once clusters have implemented their individual solutions, they will still have work to do to ensure data and process convergence across government. Governance arrangements also differ by cluster, with the Matrix cluster being the only one to have a joint investment committee. Individual departments in the Matrix cluster have also signed a 'declaration of commitment' that sets out agreed ways of working and reaffirms their commitment to the Shared Services Strategy. Other clusters currently use existing departmental governance structures, meaning that all proposals must be approved by each department's boards, slowing the decision-making process down. The Cabinet Office does not know how much the strategy has cost to date.

Figure 3
Progress in delivering the Shared Services Strategy

The Cabinet Office has made some progress across all five workstreams

Workstream	Actions completed	Actions in progress	Future action
The development of five shared service centres	The Defence and Overseas clusters have launched their new Enterprise Resource Planning (ERP) systems. The Matrix, Synergy and Unity clusters obtained approval for their outline business cases in autumn 2022.	The Defence and Overseas clusters are working to expand their initial services, while onboarding more clients.	The Matrix, Synergy and Unity clusters will undertake procurements and implement their solutions.
Commercial convergence	The Crown Commercial Service put new commercial frameworks in place to procure back-office software, software design and implementation services and outsourced contact centre and business services. The Cabinet Office introduced a national pricing model for tier-one ERP software suppliers.	The Matrix, Synergy and Unity clusters are still in the process of assessing and agreeing their route to market.	Common commercial frameworks are utilised by clusters.

Figure 3 *continued*
Progress in delivering the Shared Services Strategy

Workstream	Actions completed	Actions in progress	Future action
Data convergence	HM Treasury set up the Functional Convergence Programme to deliver common data standards across Finance, HR & Commercial functions. The programme has developed some data standards for the commercial function.	The programme aims to share common data standards by December 2022, with a validation phase to April 2023. This will serve as a framework for remaining functions to align their data standards. It plans to produce guidance for clusters to use during their procurements for system implementers to ensure consistent data standards are followed.	Clusters implement the data standards.
Process convergence and transformation	The Cabinet Office introduced a single movers process that is available to all departments on gov.uk and unified processes mean it is now possible to benchmark data on joiners, movers and leavers across all departments. It simplified processes for complex death in service cases; introduced an automated contract generator for departments that it provides contract services for; and mapped end-to-end processes for contracts and payments, sharing these with departments. Communities of practice established.	Further work by the functional convergence programme to join up the Source to Pay end-to-end process aims to be completed by April 2023.	Clusters implement the common processes.
Performance and quality	The Cabinet Office introduced processes to monitor payroll accuracy, invoice accuracy, end-user satisfaction, government transfers and mobility of services. It identified 476 key performance indicators across 28 categories, with 575 supporting data points, and developed a benchmarking tool to facilitate reporting of these indicators. It established a user experience practitioners' network and developed new metrics for user experience.	Cross-departmental working groups are discussing the creation of additional metrics. The Cabinet Office plans to improve data, acquiring data where previously unavailable and improving data quality where necessary.	Cabinet Office will need to develop metrics to understand progress in implementation of its Shared Services Strategy.

Note
1 A cluster is a group of departments working together to form a shared service centre.

Source: National Audit Office analysis of Cabinet Office documents

Learning from previous shared services strategies

1.13 The Cabinet Office and other government departments have taken action to address the recommendations that the NAO and the Committee made in their respective 2016 reports on government shared services (**Figure 4** on pages 23 and 24).[6] Many of those recommendations have yet to be fully addressed and outstanding issues are covered in Part Two and Part Three of this report.

1.14 In 2021, the Cabinet Office encouraged each cluster to complete a standardised 'lessons identified' assessment to consider how their cluster has addressed the recommendations made by the NAO, the Committee, the Shared Services Board, internal technology experts, and industry specialists. By November 2022, it was still unclear whether any cluster had completed this assessment. This hinders their ability to avoid repeating past mistakes.

6 Comptroller and Auditor General, *Shared service centres*, Session 2016-17, HC 16, National Audit Office, May 2016 and HC Committee of Public Accounts, *Shared Service Centres*, Twentieth Report of Session 2016-17, HC 297, October 2016.

Figure 4

Progress against previous recommendations on shared services from the National Audit Office (NAO) and the Committee of Public Accounts (the Committee)

The Cabinet Office has made progress in implementing previous recommendations from the NAO and the Committee but many issues remain unresolved, and many actions remain incomplete

Recommendation	Progress	Outstanding actions or issues	NAO rating
Leadership			
The Cabinet Office should demonstrate it has learned from past experience, consider the role of the centre and the concerns of stakeholders, provide clear leadership, provide realistic timetables and benefits and ensure that it secures buy-in from departments.	The Cabinet Office set up a team within Government Business Services to act as a centre of expertise and created a strategy board, attended by departmental director generals.	Not all departments fully support the cluster model and some have concerns about their ability to deliver the strategy. Benefits remain unclear.	Red
Risk management			
The Cabinet Office should take a more proactive approach to risk management by monitoring and responding to risks as they arise; including ensuring that short-term contract expiry risks for existing IT systems do not dictate decisions about new long-term solutions. It should also ensure that future change programmes (such as cloud-based solutions) can be delivered by suppliers and are not subject to the delays and issues seen in the past.	The Cabinet Office created and maintained a risk register. However, some risks on the register had no owner, control activity or response. It has since introduced a new digital risk management solution to address this. It also uses meetings with departmental Permanent Secretaries to address strategic risks. The Crown Commercial Service put new commercial frameworks in place to clarify responsibilities of suppliers. Departments are adopting different solutions to manage these risks.	The Cabinet Office needs to work to fully embed its new digital risk management solution to ensure that they get maximum value out of its use. It also needs to ensure that risks are articulated in terms of uncertainty, rather than as statements of intent or fact.	Amber
Business case			
Large-scale transformation projects should have a programme business case with clear buy-in from stakeholders and explicit sign up from departments. It should cover governance and management arrangements, plans to realise benefits, and possible funding models. It should be updated if there are any future significant changes.	The Cabinet Office produced a case for change, as well as guidance for cluster business cases. The Cabinet Office was named among assurers for clusters going through the Spend Controls process. Departments committed to the Shared Services Strategy at the Civil Service Board.	The Cabinet Office did not produce a programme business case for the Shared Services refresh and the 'case for change' produced by the Cabinet Office lacked the requisite details, including on benefits. This had significant knock-on effects when it came to funding and the development of individual cluster business cases.	Red

Figure 4 *continued*

Progress against previous recommendations on shared services from the National Audit Office (NAO) and the Committee of Public Accounts (the Committee)

Recommendation	Progress	Outstanding actions or issues	NAO rating
Funding			
Consider how funding is distributed to ensure that affordability issues within some departments do not compromise the programme.	The Cabinet Office provided support for departments when they were preparing Spending Review bids during the 2021 Spending Review.	Clusters are concerned about the affordability of shared services. Clusters may not receive the level of funding required for their preferred options over the 2021 Spending Review period and will require additional funding in future Spending Review periods.	Red
Standardisation of processes			
The Cabinet Office should ensure that its initiative to identify common finance and HR processes is simplified and standardised to realise planned benefits.	The Government Finance Function, Civil Service HR, and the Government Commercial Function have developed a set of design principles that should apply to finance and HR processes in all departments. The Joiners, Movers and Leavers programme is being developed to standardise key processes.	Clusters have yet to implement the global design principles.	Amber

Notes

1 Recommendations are from: Comptroller and Auditor General, *Shared service centres*, Session 2016-17, HC 16, National Audit Office, May 2016 and HC Committee of Public Accounts, *Shared Service Centres*, Twentieth Report of Session 2016-17, HC 297, October 2016. The table is intended to provide a summary of all of the NAO and the Committee's recommendations. The complete recommendations can be found in the original reports.

2 NAO ratings on implementation of recommendations as of September 2022: green – fully implemented; amber – clear progress made; red – limited or no progress made.

Source: National Audit Office analysis of Cabinet Office documents

Part Two

Conditions to deliver the government's Shared Services Strategy

2.1 Our previous work has shown that several conditions should be in place to maximise the successful delivery of shared service strategies. These include, but are not limited to:

- support and participation from departments;
- a programme business case, including clear benefits;
- proactive risk management;
- appropriate funding; and
- appropriate governance and oversight.

This part considers some of these conditions with Part Three, on future challenges, considering the other conditions.

Departmental support and participation

2.2 Our previous work on shared services has highlighted the importance of securing departmental buy-in to delivering government shared services strategies.[7] We found that departments supported the cluster approach adopted by the Cabinet Office.

7 For example, Comptroller and Auditor General, *Shared service centres*, Session 2016-17, HC 16, National Audit Office, May 2016, and Comptroller and Auditor General, *Investigation into Verify*, Session 2017–2019, HC 1926, National Audit Office, March 2019.

2.3 As part of the refresh, the Cabinet Office considered four options: doing nothing; a single shared service across government; a single shared service provider but different Enterprise Resource Planning (ERP) systems; and a small number of centres with one shared service provider and one ERP system (the cluster model). Departments told us that the cluster model made sense and that a single shared service would have been overly complex. However, they were not consulted on the number of clusters or which cluster they were allocated to, which affected support from some departments. When assigning departments to clusters, the Cabinet Office told us it considered several factors, including whether a department's focus was on policy or delivery and what operating system each department currently used. It told us that it used an informal working group to check ideas with departments, but it is not clear why some departments were assigned to particular clusters. A review of the cross-cutting functions and the operation of spend controls, carried out by Lord Maude in 2021, recommended that there be no more than five clusters, preferably fewer.[8]

2.4 The departments who are less convinced by the cluster model mainly come from the Matrix cluster. This cluster faces several issues which stem from the large number of departments (eight) expected to work together and the lack of rationale behind their grouping. However, these departments told us they remain committed to making the cluster model work.

Programme business case

2.5 Our previous work has highlighted the need for large-scale transformation projects to have a programme business case to support more effective decision-making and a more efficient planning and approval process. HM Treasury guidance also states that all major programmes and projects considered by the centre of government should be supported by a business case. The Cabinet Office did not produce a programme business case for its 2021 Shared Services Strategy. It considers the strategy to be neither a programme nor a project and therefore asserts it was not required to complete a business case and submit it to HM Treasury for review. Regardless of what it is called, an initiative of this size requires significant advance planning. Because a business case was not deemed necessary, insufficient thought was given to issues such as costs, benefits, risks and interdependencies. This had significant knock-on effects when it came to funding and the development of individual cluster business cases.

2.6 Instead of developing a business case, the Cabinet Office produced a less comprehensive 'case for change', which was approved internally but did not receive any external scrutiny. This includes some of the thinking that we would expect to see in a business case but lacks the requisite detail in areas such as costs, benefits, risks, alternatives and management safeguards (**Figure 5**).

8 The Rt Hon Lord Maude of Horsham, *Review of the cross-cutting functions and the operation of spend controls*, Cabinet Office, July 2021.

Figure 5

Comparison of the Cabinet Office's 'case for change' for shared services with HM Treasury's business case requirements

The Cabinet Office's 'case for change' is far less comprehensive than a business case

Business case requirements	'Case for change' (CfC) requirements	Differences between the CfC and HM Treasury business case requirements
Strategic case	Why we need to change	Does not discuss objectives or alternatives. Does not demonstrate stakeholder buy-in.
Economic case	The way forward	Does not have the same breadth of options and does not include a full appraisal of the costs and benefits.
Commercial case	Using government's buying power	Does not establish if procurement is required, if it is crucial or set a procurement strategy.
Financial case	Financial considerations	Does not estimate contingent liabilities, funding gaps, provisions for dealing with delays or overruns, or the impact of total costs on budgetary control.
Management case	Moving to delivery	Does not identify gateway reviews or internal audit arrangements. Contingency planning is not addressed. There is no provision for evaluation and monitoring arrangements are not specified.

Note

1 The Cabinet Office submitted a 'case for change' to the Civil Service Operations Board in January 2021.

Source: National Audit Office analysis of the Cabinet Office's 'case for change'

Benefits

2.7 The benefits of the strategy remain unclear and this uncertainty has not helped departmental support. While the Cabinet Office has begun to identify and measure benefits on some individual areas such as the programme to standardise the processes for people to join, move and leave the civil service, its central database of expected benefits does not contain any quantified or measured savings. It instead provides only a narrative description of each anticipated benefit, such as 'less time spent by staff scanning & loading invoices'. This makes it difficult to measure success. It assumes broader savings of between 10% and 15% across the programme but it is unclear how these figures have been calculated and what evidence supports them. If the Cabinet Office considered the strategy to be strategically vital, for example to keep critical services going, then its benefits would become less important. However, this was never communicated to departments. Clusters frequently cited the uncertainty surrounding central interoperability benefits as the biggest obstacle the strategy faces which may be hindering buy-in from some senior officials.

2.8 The Cabinet Office made a deliberate decision to not calculate programme-wide costs and benefits at the outset. It told us that the business cases from previous central shared services strategies were inaccurate in terms of costs and benefits. To address this problem, it adopted a bottom-up approach for the current strategy, with the Matrix, Synergy and Unity clusters asked to develop their own business cases, setting out their costs and benefits. We have not seen any assessment of costs and benefits from the remaining two clusters. The Cabinet Office told us that the case for change will be updated to reflect cost and benefit estimates as clusters develop these calculations and business cases. It acknowledges that this approach brings risks but believes that there is enough evidence from other industries to assume that the programme will generate savings by developing economies of scale and increasing operational efficiencies.

2.9 We were told that the Cabinet Office has worked with clusters to make each cluster's benefits calculation process more reliable, including undertaking work to understand what benefits the private sector has generated from similar initiatives. Clusters are required to follow HM Treasury's *Green Book* guidance for defining benefits, as well as to address optimism bias in their calculations. However, clusters' calculations of benefits are cluster specific and do not include the wider benefits to government, such as better data and interoperability. Clusters consider that the Cabinet Office should have calculated those government-wide benefits and that this would have helped departmental buy-in. Departments told us that the Cabinet Office did not calculate the expected programme benefits as it did not understand what benefits could be generated.

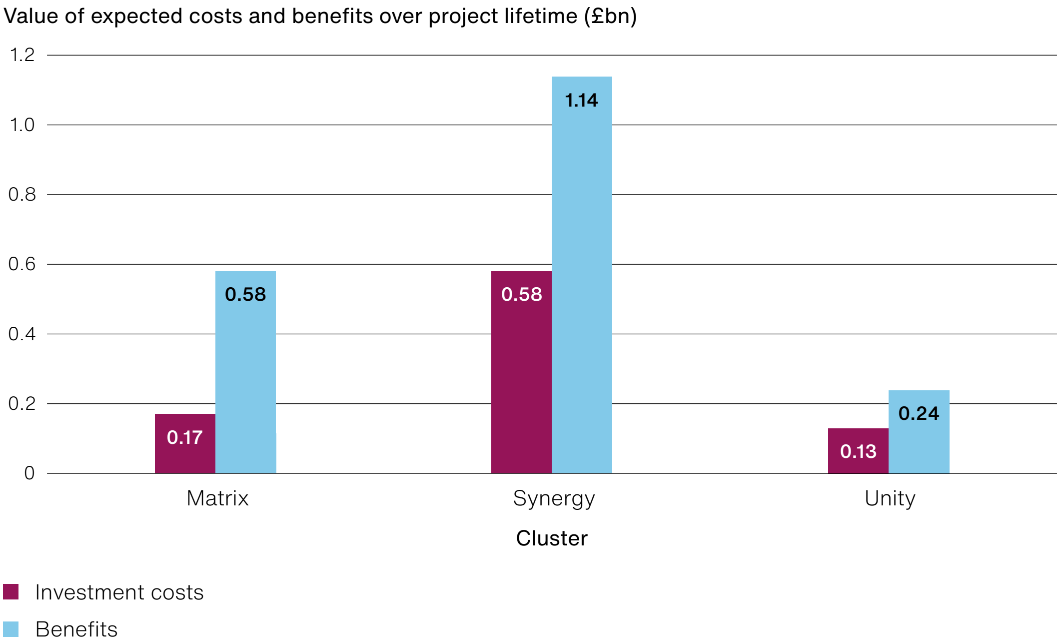
2.10 In July 2022, the Cabinet Office estimated that it would have cost £1.7 billion to replace shared service systems individually by department, as they reach the end of their service contracts, rather than adopting a cluster model. It told us that the decision to cluster avoids this scenario and as such it considers avoiding this cost to be a benefit. The estimate of expenditure does not take account of the costs that will be incurred through delivery via the cluster model, or that departments already on cloud are having to replace those systems under this strategy when they would not have needed to otherwise.

2.11 In November 2022, clusters identified potential benefits of £2.0 billion and total investment costs of £0.9 billion (**Figure 6**). Benefits include cashable and non-cashable benefits. Cashable benefits range from £65 million to £336 million across the three clusters. Costs and benefits have also not been calculated consistently across clusters which makes it difficult to come to a clear picture on the financial position of the strategy. The Cabinet Office is working with clusters to improve the quantification of the overall benefits.

Figure 6

Estimated investment costs and benefits of the Shared Services Strategy, November 2022

Clusters have estimated £2.0 billion in benefits and £0.9 billion in investment costs from the new Shared Services Strategy



Notes

1 A cluster is a group of departments working together to form a shared service centre.

2 The Matrix cluster comprises the Attorney General's Office, the Department for Business, Energy & Industrial Strategy, HM Treasury, the Cabinet Office, the Department for Digital, Culture, Media & Sport, the Department for International Trade, the Department of Health & Social Care and the Department for Education. It assumed a 15-year project lifetime.

3 The Synergy cluster comprises the Department for the Environment, Food & Rural Affairs, the Department for Work & Pensions, the Home Office and the Ministry of Justice. It assumed a 15-year project lifetime.

4 The Unity cluster comprises HM Revenue & Customs, the Department for Transport and the Department for Levelling Up, Housing & Communities. It assumed an 11-year project lifetime.

5 All costs and benefits are current estimates and likely to change.

6 We have used the largest value in the range of costs and benefits provided by the Matrix cluster for the purpose of this analysis.

7 There are a number of differences in the way that clusters calculated their costs and benefits, such as whether to adjust for optimism bias or discount the expected cash flows, that may impact on the comparability of these figures.

Source: National Audit Office analysis of data provided by the Matrix, Synergy and Unity clusters

2.12 There is no consistent standard followed when calculating predicted benefits. Some benefits are cashable, meaning they generate financial savings, whereas other are non-cashable, meaning they produce qualitative benefits like level of satisfaction with the service. Depending on their own definitions, different clusters may define the same benefit as cashable or non-cashable. Some departments believe that most of the benefits resulting from the transformation will be non-cashable benefits. They note that, while shared services will mean people will not have to enter the same information into the system as many times, such benefits will not necessarily save money. The Cabinet Office considers that entering less information into the system will inevitably lead to cashable benefits, noting as an example that fewer people may be needed if information does not have to be entered repeatedly.

Risk management

2.13 When we last reported on shared services in 2016, the Cabinet Office did not have a central risk register for the strategy. We recommended that it should take a more proactive approach to risk management, and it has since introduced a central risk register and identified success factors that are critical to programme delivery. This register is part of an operational end-to-end risk management framework that should allow for effective risk mitigation. Key risks at a cluster level are identified and monitored by the Cabinet Office, who work to ensure that the causes and consequences of these risks are properly understood. The central risk register is updated monthly following risk reviews with each workstream lead where ongoing risks are discussed, and risks which exceed tolerance levels are flagged for escalation with senior leaders. The Cabinet Office has also set up a project management office to define a structured approach to risk management and has recently introduced a new risk tool which intends to standardise risk reporting across the organisation.

2.14 Although the Cabinet Office has taken steps to improve its management of risk, there were several inconsistencies in the practical application of its register. This included risks without owners or control activities. The Cabinet Office has since implemented a digital risk management solution which will help to ensure that this cannot happen in the future, as risks cannot be logged without owners or control activities. Of the open project risks, five have a residual 'red' risk rating even after mitigation. This raises concerns around the effectiveness of steps taken by the Cabinet Office to reduce risk (**Figure 7**). Some risks are also articulated as statements of intent or fact, rather than in terms of uncertainty. Without clearly articulated risks it is difficult to ascertain what the real uncertainty is, and how effective the response will be in managing the impact of the risk.

Figure 7
Open risks for the Shared Service Strategy that have a ‘red’ rating even after mitigation, November 2022

Five out of twenty-five open project risks have a ‘red’ risk rating even after mitigation

Risk category	Risk description
Strategy	There is a risk that delays to future iterations of cluster business cases will result in delays to the timeline for onboarding departments to their Enterprise Resource Planning (ERP) solutions.
Operations	There is a risk that negotiations with Trade Unions will not be complete by the forecast date of March 2023.
	There is a risk that clusters will be competing with each other for the same types of suitably experienced resources in key and high-demand skills sets.
Technology	There is a risk that some departmental systems are likely to become unsupported before the new ERPs can become operational.
	There is a risk that at least one department chooses not to move off its current operating platform until after its existing contract end date. The cluster’s new service provider would then need to support the old technology, which may not be legally or commercially viable.

Source: National Audit Office analysis of Government Business Services’ project risk register

Design and technology considerations

2.15 When planning for a new programme of work that involves significant organisational change, bodies rely on experts to assure them that their strategy is viable and will meet their needs. The Cabinet Office did not obtain such assurance over its Shared Services Strategy or the delivery model. This means that there was no external review of the strategy design, the proposed technology or the suggested procurement timeframes. There was no external assurance of the assumptions on process convergence, interoperability and data integration across government. The Committee of Public Accounts recently noted the importance of carrying out technical assurance, both at the beginning and throughout the lifecycle of digital change programmes.[9] The Cabinet Office told us that technical and design assurance will be carried out on clusters’ individual shared services programmes.

9 HC Committee of Public Accounts, *Challenges in implementing digital change*, Thirtieth Report of Session 2021-22, HC 637, December 2021.

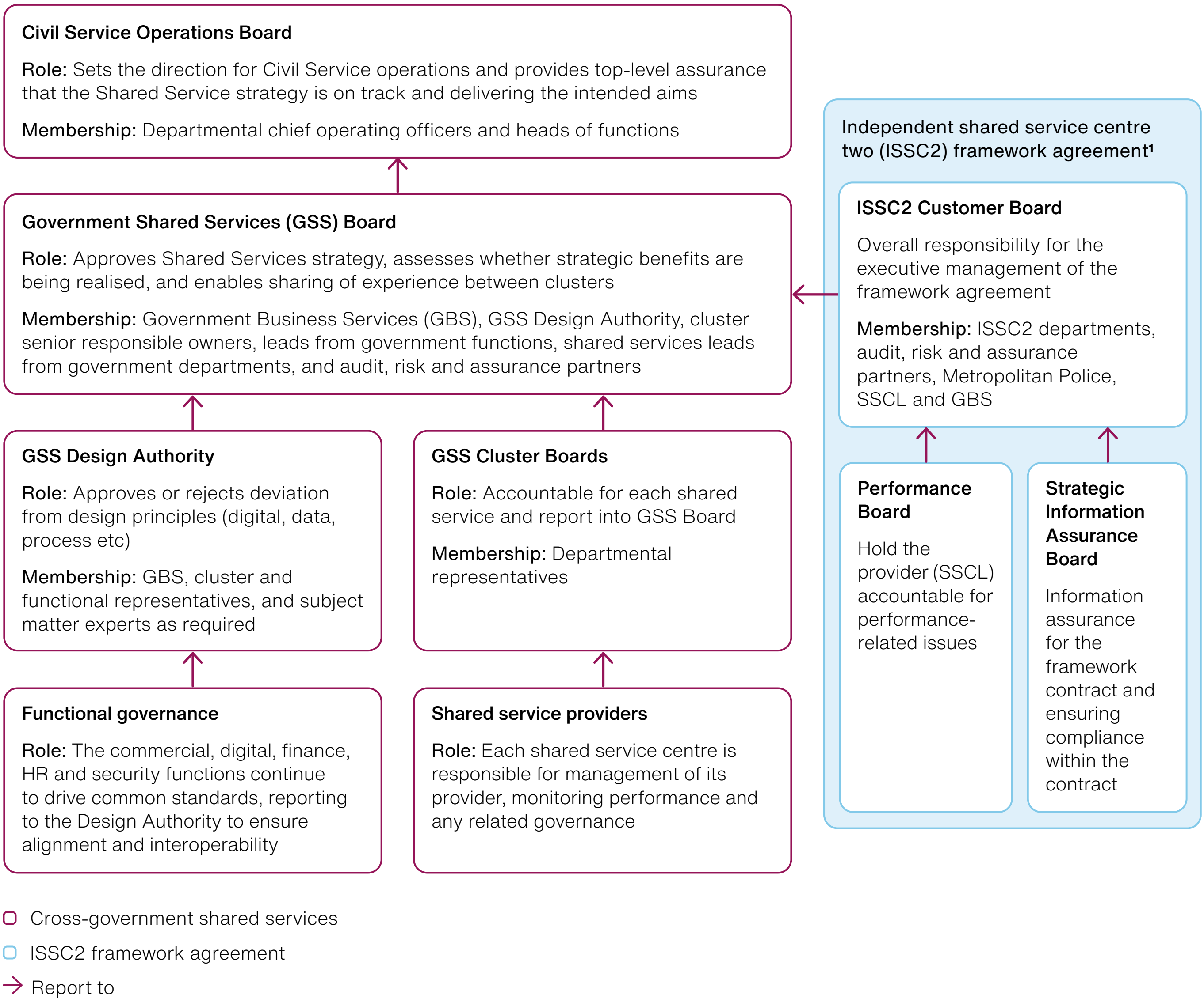
Governance

2.16 Figure 8 sets out the governance arrangements for shared services. The Cabinet Office set up three new boards which provided governance for the strategy: the Shared Services Board, the Shared Services Design Authority, and the Strategy and Delivery Board (whose operations were wholly internal to Government Business Services and which has now been disbanded). Some departments told us that they considered the central governance of the strategy to be poorly thought through and likely to result in duplication of effort. The Cabinet Office recognises that its governance arrangements can be improved and has begun to streamline them.

2.17 The central boards are in addition to governance arrangements at both cluster and departmental levels. HM Treasury told us that these multiple layers of governance are not conducive to good decision-making or coming to a joint view on what matters, and the Cabinet Office themselves recognise that there 'remain challenges around the coordination, complexity of requirements and governance' that need to be worked through. Governance arrangements also differ by cluster, with some requiring approval from each department, before high-level cluster decisions can be taken. This risks undermining the work done to date to bring departments together into clusters. It also risks increasing fragmentation, delivering poorer standardisation and user experience, and securing fewer efficiencies and benefits than intended. HM Treasury told us that it considers excess departmental governance to represent a risk to both the current and future delivery of the strategy.

Figure 8
Governance of government's shared services

The governance arrangements for shared services are complex



Notes

1 The ISSC2 framework agreement covers one of the shared service centres for the government's previous Shared Services Strategy. The contract is due to end in October 2024.

2 SSCL is Shared Services Connected Ltd.

Source: National Audit Office review of Cabinet Office documents

Part Three

Future challenges

3.1 This part sets out some of the challenges that departmental clusters will face in delivering the current Shared Services Strategy and the mitigating actions that have been put in place to address them, including:

- operating systems that will soon become unsupported;
- funding uncertainty;
- potential procurement issues; and
- limitations on capacity and capability.

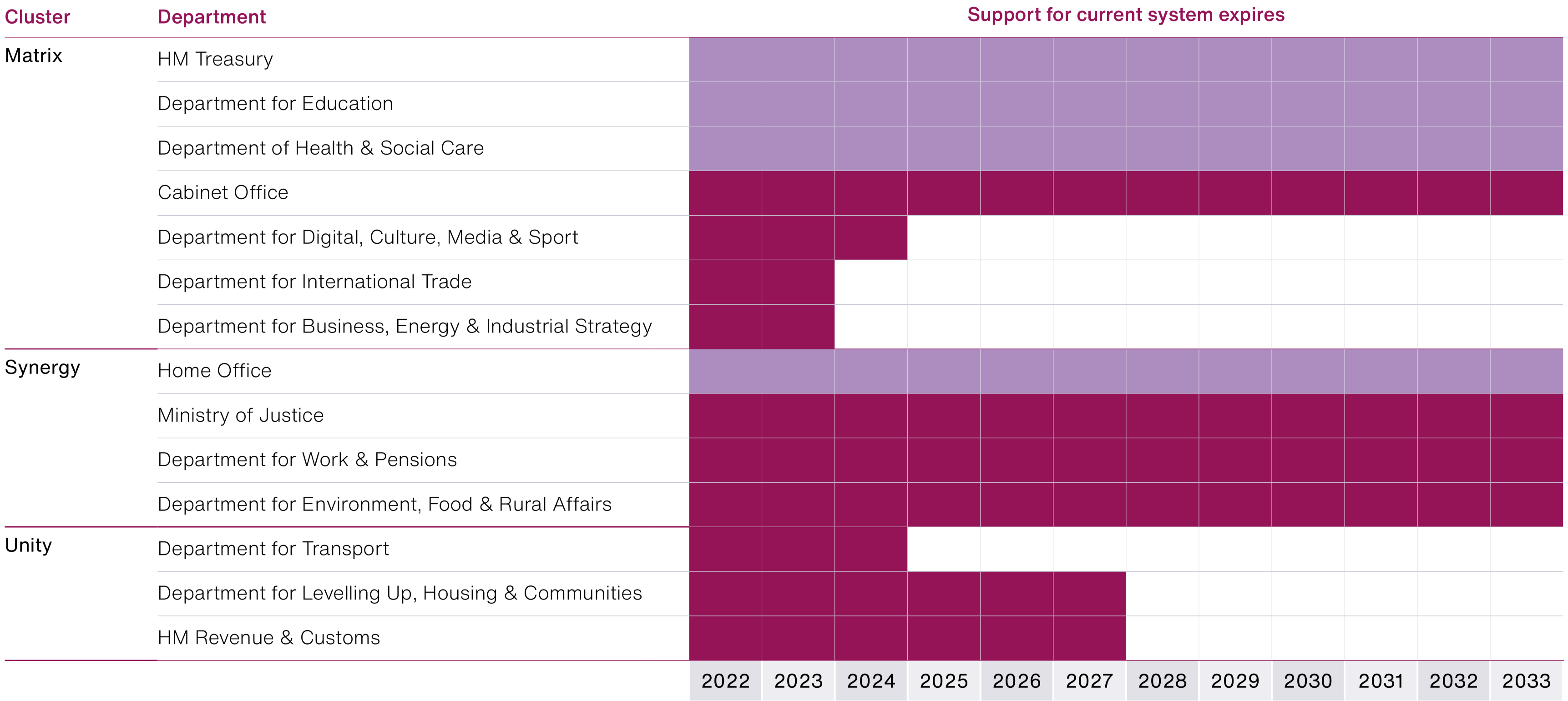
Operating systems

3.2 Some departments have ageing systems that will soon be unsupported, increasing the risk of system failure, cyber vulnerabilities and additional costs (**Figure 9**). For example, the Department for Business, Energy & Industrial Strategy (BEIS) uses an Oracle platform which will no longer be supported after 2023. HM Revenue & Customs (HMRC) told us it must be off its current platform by 2027, which will be a tight deadline to meet. Departments are adopting different approaches to managing these risks, demonstrating differences in their risk appetite. For example, some departments are putting in place contingency plans in case the new shared services are not operational in time. BEIS, meanwhile, is in the process of upgrading its platform because it does not anticipate the Matrix cluster being up and running before its platform runs out of support. The Cabinet Office approved this procurement on security grounds. These contingency plans will increase the cost of the Shared Services Strategy by an unknown amount.

Figure 9

End-of-life dates for departments' Enterprise Resource Planning (ERP) systems in the Matrix, Synergy and Unity clusters

Some departments' systems are approaching their end-of-life dates



Use cloud-based services that are continually updated and therefore have no end-of-life date

Notes

1 A cluster is a group of departments working together to form a shared service centre.

2 To ensure that the Department of Business, Energy & Industrial Strategy and the Department of International Trade do not go out of support, there is a project to upgrade their on-premise platform. This is a technical compliance upgrade only and the benefits of this are minimal.

Source: National Audit Office analysis of Cabinet Office documents

3.3 Some clusters are planning for their departments to join their shared services in phases. The Matrix cluster plans to use two phases, with four departments designated as 'early adopters' and four departments joining later. The four 'late adopters' have not participated in much of the planning and want to reserve the option of moving to another cluster. This increases the difficulty of organising a cohesive cluster. The Cabinet Office told us that it is willing to be flexible with the sequencing of when departments join shared services, noting that it made no sense for some departments to leave existing contracts early to synchronise with those currently using ageing systems.

Funding

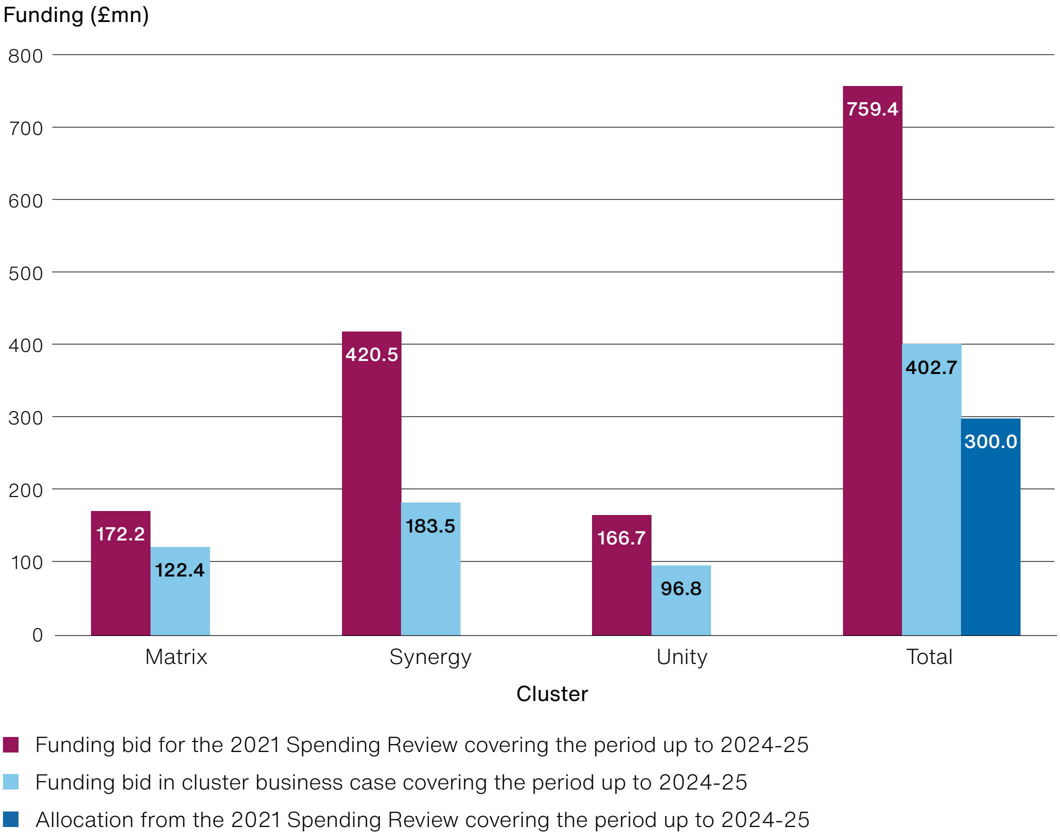
3.4 Three clusters (Matrix, Synergy and Unity) submitted bids for the funds to deliver the Shared Services Strategy in the 2021 Spending Review for the period up to 2024-25. The Overseas and Defence clusters are much further advanced and have been using existing funding to create single technology platforms. HM Treasury rejected all three bids, with a combined value of £759 million (**Figure 10**), due to concerns that the Cabinet Office and clusters had not done enough work to develop robust cost estimates or to consider fundamental elements of the strategy, including governance arrangements and cluster design. HM Treasury noted that at that time there had been a lack of joined-up working throughout the process and that not all stakeholders were equally committed to the idea of the strategy.

3.5 Although these three bids were rejected, HM Treasury approved a funding envelope of up to £300 million to support these clusters to deliver the Shared Services Strategy and to address the risk that departments could be left with unstable and unsupported systems in the interim (Figure 10). Cabinet Office recognises the risk that these ageing systems bring in its central risk register for the strategy. Access to this funding was contingent on the approval of cluster business cases by the Cabinet Office and HM Treasury, which clusters only obtained in autumn 2022. The forecast funding requirement for the current Spending Review period in these business cases is £382 million to £403 million, for clusters' preferred options. Some departments told us that the uncertainty about funding and the intensive bidding process has entailed considerable time and effort, with missed opportunities for some departments to already be on cloud platforms. Departments also told us that this settlement may not be enough money to allow them to proceed with their preferred procurement options if final costs continue to exceed the funding envelope. However, the Cabinet Office noted that departments already spend money on corporate services and should be contributing their existing resources to their cluster's efforts.

Figure 10

Funding for the Shared Services Strategy

There is a shortfall in funding for clusters' preferred options for the 2021 Spending Review period of about £100 million



Notes

1 The Matrix cluster comprises the Attorney General's Office, the Cabinet Office, the Department of Business, Energy & Industrial Strategy, the Department for Digital, Culture, Media & Sport, the Department for Education, the Department for International Trade, the Department of Health & Social Care, and HM Treasury. The Synergy cluster comprises the Department for Environment, Food & Rural Affairs, the Department for Work & Pensions, the Home Office and the Ministry of Justice. The Unity cluster comprises, the Department for Transport, the Department for Levelling Up, Housing & Communities and HM Revenue & Customs.

2 The Defence and Overseas clusters use existing funding.

3 The 2021 Spending Review took place in 2021 and covers the period up to 2024-25.

4 The funding bid in the Matrix cluster's business case ranged in value from £101.9 million to £122.4 million. The upper value has been used in this figure.

5 Clusters' funding figures are likely to be revised as clusters engage with the market and finalise their business cases.

Source: National Audit Office analysis of Cabinet Office Spending Review data

3.6 To make the clusters' shared services programmes more affordable, the Cabinet Office asked departments to reduce costs in the current Spending Review period. This has resulted in some costs being pushed into future Spending Review periods. The cluster business cases forecast that about £480 million in investment funding will be required in subsequent Spending Review periods to deliver these programmes. These figures are likely to change as clusters engage with the market and finalise their business cases. It is not clear what the Cabinet Office plans to do if clusters do not get this future funding or what impact this will have on the government's Shared Services Strategy.

Procurement

3.7 The Cabinet Office has told the clusters that when they procure their new Enterprise Resource Planning (ERP) systems, these procurements must align with the existing central digital procurement framework.[10] This standard procurement framework considers five- to seven-year contracts to be standard. Contracts of this length are often beneficial, facilitating frequent technological upgrades and cheaper deals. However, clusters told us that they would welcome more flexibility to award longer contracts to maximise cashable savings. Some clusters noted that they may not reach a breakeven point on their investments within the lifetime of a five- to seven-year contract.

3.8 A department told us that, given the significant number of staff and volume of spend these systems will manage, the procurement represents infrastructure spend rather than digital spend. As such it believes that these contracts should not be bound by the digital procurement framework, meaning longer contracts would become an available option. Clusters are currently liaising with the Cabinet Office's Digital Controls Team and the Government Commercial Function to better understand what options are available to them.

3.9 When the Cabinet Office refreshed its delivery model in 2021, it told all departments to stop any existing work on planning and procurement. Although the refresh meant that there would be only five cluster procurements rather than 17 departmental procurements, it also meant that timescales became condensed. Each of the five clusters had to start afresh, with future milestones such as going out to tender and launch dates now more closely aligned across the groups. As a result, there is a risk that three clusters (Matrix, Synergy and Unity) will now be looking to purchase both their technology and their expertise at very similar times. As there is already a limited pool of experts, competing for the same resources at similar points in time is likely to create winners and losers between the clusters. The Cabinet Office is working with clusters to improve the coordination of their timelines for commercial activity to ensure that this risk is addressed.

10 The relevant framework is the Back Office Software Framework.

Capacity and capability

3.10 Clusters have been working to improve their capacity and capability to deliver the Shared Services Strategy. Some departments have already invested in training and recruitment so that they can reduce reliance on external specialists. However, departments noted that this remains a challenge for them, with a limited pool of experts to draw from, pay limitations, funding uncertainty and a complicated approvals process exacerbating the issue. Three clusters (Matrix, Synergy and Unity) have capacity and capability as one of their key risks to the successful delivery of their shared service and the Cabinet Office also acknowledges that this is a significant risk.

3.11 The Cabinet Office has provided support and advice to clusters in some key areas, such as commercial considerations, cloud services and designing systems that are easy to use. The Cabinet Office has also lent individual staff members to clusters to help them at important stages and has outlined proposals to create a resource pool that will help match clusters to relevant capability and expertise and help ensure that lessons learned in each implementation can be carried through to future clusters. This resource pool will be made up of existing staff with relevant experience.

3.12 The Infrastructure and Projects Authority (IPA) undertook Gate 0 reviews of the shared services programmes of the Matrix, Synergy and Unity clusters in July and August 2022. These reviews take place at the start of programmes, typically when a programme business case has been produced. They highlighted significant issues that remain to be addressed, including resources and funding.

Appendix One

Our audit approach and evidence base

1 Our independent conclusions on whether the government's Shared Services Strategy is on track to deliver and represents value for money were reached following our analysis of evidence collected between March 2022 and September 2022. We formed our conclusions after considering our three study questions:

- Has the government made progress since we last reported on shared services in 2016? Sub-questions covered implementation of learning from previous shared services strategies, including implementation of previous National Audit Office (NAO) and Committee of Public Accounts (Committee) recommendations, and progress against the current strategy's objectives and the work streams that support these objectives.
- Are the right conditions in place for the government to deliver its proposed efficiencies and savings? Sub-questions covered, but were not limited to, governance arrangements, departmental buy-in, funding, capacity and capability to deliver, and data to support progress monitoring.
- Has the government put in place mitigating actions to address the future challenges it faces in delivering its strategy? Sub-questions covered the key risks to delivery of the strategy and the mitigating actions being put in place to address these risks.

2 While the Shared Services Strategy is a cross-government initiative that involves every central government department, our study mainly focuses on the role of the Cabinet Office in setting the strategy and coordinating its implementation. This work drew on two main evidence sources.

Document review

3 We submitted a formal document request to the Cabinet Office, asking for documents that would help us to answer each of our audit questions. We held regular meetings with officials from the Cabinet Office's Government Business Services team to discuss what documents were available and relevant. We also followed up with additional document requests as the result of information provided through our interviews or from the review of documents we had already received.

4 We reviewed and qualitatively assessed a wide range of Cabinet Office documents relating to the Shared Services Strategy against each of our audit questions and sub-questions. The results of the reviews were documented in a matrix setting out our findings against each of our audit questions. This analysis was used to:

- inform further discussion and follow up with the Cabinet Office;
- triangulate findings from other sources, including interview and quantitative data; and
- report on our three study questions.

5 The documents reviewed included, but were not limited to, strategy documents, internal assessments, commercial frameworks, board papers, the 'case for change', risk registers, implementation plans and performance updates. We also reviewed the shared services business cases of the Matrix, Synergy and Unity clusters.

6 We made extensive use of specialist expertise within the NAO to review key documents. For example:

- our Financial and Risk Management Hub reviewed the shared services risk register;
- our Major Projects Hub, and in particular our business case review network, reviewed the Cabinet Office's 'case for change' document and the business cases for the three clusters;
- our Commercial Hub reviewed documents relating to the procurement approach being adopted; and
- our Digital Hub reviewed documents on the digital elements of the strategy.

Interviews

7 We carried out five online semi-structured interviews with officials from the Cabinet Office's Government Business Services, selected to participate because of their job roles and their relevance to the audit. This included staff responsible for (or involved in): the day-to-day management of the shared services, strategy and policy, data and interoperability, assurance and finance, and commercial procurement. Interviews focused on the following topics and were tailored to the job roles of those being interviewed: lessons from previous shared services strategies; the current strategy and progress being made; links to other government objectives; and key current and future challenges.

8 We carried out 11 online semi-structured interviews with departmental officials involved in the Shared Services Strategy.

- Five interviews were with officials involved in leading and coordinating their respective clusters, one for each cluster. The officials were from the Department for Business, Energy & Industrial Strategy – representing the Matrix cluster, HM Revenue & Customs (HMRC) – representing the Unity cluster, the Ministry of Defence – representing the Defence cluster, the Foreign, Commonwealth & Development Office – representing the Overseas cluster, and the Department for Work & Pensions – representing the Synergy cluster.
- Six interviews were with officials from the other departments involved in each cluster. We held at least one such meeting for each cluster apart from the Defence cluster, where the Ministry of Defence is the only department involved. Not all departments decided to field a representative at these interviews. The departments represented were: the Department for Transport and the Department for Levelling Up, Housing & Communities (from the Unity cluster); the Attorney General's Office, the Cabinet Office, the Department for Culture, Digital, Media & Sport, the Department for Education, the Department for International Trade, the Department of Health & Social Care, and HM Treasury (from the Matrix cluster); the Department for International Trade and the Home Office (departments whose overseas presence form part of the Overseas cluster); and the Department for Environment, Food & Rural Affairs and the Home Office (from the Synergy cluster).

9 Both sets of interviews focused on the following topics: learning from previous shared services strategies, the current strategy and progress to date, cluster dynamics and future challenges.

10 We also carried out four online semi-structured interviews with other key stakeholders:

- The Infrastructure and Projects Authority (IPA). This interview focused on the work that the IPA had carried out on government shared services and its views on the current Shared Services Strategy.
- The Government Internal Audit Agency (GIAA). This interview focused on the work that the GIAA had carried out on government shared services and its views on the current Shared Services Strategy.
- HM Treasury. This interview focused on the bids that clusters submitted as part of the 2021 Spending Review and future funding for government shared services.
- UK Shared Business Services Ltd (UK SBS). This meeting focused on UK SBS's experience as a public sector shared services provider.

11 We analysed each interview note thematically against our study questions, using this analysis to:

- inform future interviews, further discussion and follow-up with the Cabinet Office;
- triangulate findings from other sources, including document review and quantitative data; and
- report on our three study questions.

12 We also held three meetings with board-level departmental officials, as well as with the Cabinet Office's Government Business Services team to feed back our emerging findings and seek any further comments on the issues presented. Departments represented were the Department for Work & Pensions, the Department for Business, Energy & Industrial Strategy and the Home Office.

Quantitative analysis

13 The quantitative data presented in this report were either collected from departments by the Cabinet Office and drawn from Cabinet Office documents, taken from cluster business cases or provided by clusters themselves.

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National Audit Office

Design and Production by NAO Communications Team
DP Ref: 011083-001

£10.00

ISBN 978-1-78604-457-0

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