



House of Commons
Committee of Public Accounts

Improving corporate functions using shared services

**Eighteenth Report of Session
2007–08**

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed 31 March 2008*

HC 190
Published on 8 May 2008
by authority of the House of Commons
London: The Stationery Office Limited
£0.00

The Committee of Public Accounts

The Committee of Public Accounts is appointed by the House of Commons to examine “the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit” (Standing Order No 148).

Current membership

Mr Edward Leigh MP (*Conservative, Gainsborough*) (Chairman)
Mr Richard Bacon MP (*Conservative, South Norfolk*)
Angela Browning MP (*Conservative, Tiverton and Honiton*)
Mr Paul Burstow MP (*Liberal Democrat, Sutton and Cheam*)
Rt Hon David Curry MP (*Conservative, Skipton and Ripon*)
Mr Ian Davidson MP (*Labour, Glasgow South West*)
Mr Philip Dunne MP (*Conservative, Ludlow*)
Angela Eagle MP (*Labour, Wallasey*)
Nigel Griffiths MP (*Labour, Edinburgh South*)
Rt Hon Keith Hill MP (*Labour, Streatham*)
Mr Austin Mitchell MP (*Labour, Great Grimsby*)
Dr John Pugh MP (*Liberal Democrat, Southport*)
Geraldine Smith MP (*Labour, Morecombe and Lunesdale*)
Rt Hon Don Touhig MP (*Labour, Islwyn*)
Rt Hon Alan Williams MP (*Labour, Swansea West*)
Phil Wilson MP (*Labour, Sedgefield*)

The following were also Members of the Committee during the period of the enquiry:

Annette Brooke MP (*Liberal Democrat, Mid Dorset and Poole North*) and
Mr John Healey MP (*Labour, Wentworth*).

Powers

Powers of the Committee of Public Accounts are set out in House of Commons Standing Orders, principally in SO No 148. These are available on the Internet via www.parliament.uk.

Publication

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at <http://www.parliament.uk/pac>. A list of Reports of the Committee in the present Session is at the back of this volume.

Committee staff

The current staff of the Committee is Mark Etherton (Clerk), Emma Sawyer (Committee Assistant), Pam Morris (Committee Assistant) and Alex Paterson (Media Officer).

Contacts

All correspondence should be addressed to the Clerk, Committee of Public Accounts, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 5708; the Committee’s email address is pubaccom@parliament.uk.

Contents

Report	<i>Page</i>
Summary	3
Conclusions and recommendations	5
1 The lack of accurate information on the cost and performance of departments' corporate services	7
2 The effectiveness of the Cabinet Office's work in promoting the use of shared services across government	9
3 The impact of NHS Shared Business Services	11
4 The impact of shared services in HM Prison Service	13
Formal Minutes	15
Witnesses	16
List of written evidence	16
List of Reports from the Committee of Public Accounts 2007–08	17

Summary

Corporate services provide vital support to the delivery of effective and efficient public services. They include activities such as finance and accounting, human resources, procurement, information technology, facilities management and estates management. Shared services are designed to improve efficiency and service quality by combining such activities across different parts of an organisation, or across separate organisations. When adopting a shared services approach, public bodies need to secure support from their customers and maintain tight data security arrangements. They also need to manage the risk of damage to staff morale, for example, where changes in the work lead to reduced customer contact.

The Cabinet Office has estimated the cost of finance and human resources functions across government as £7 billion a year. It believes there is scope to save in the order of £1.4 billion annually through the use of shared services. The Cabinet Office does not have a timeline for realising these savings, and many public bodies do not have baselines of current costs and performance, which will make it very difficult to make accurate assessments of progress. The Cabinet Office wants smaller departments to buy corporate services from larger departments, but only the Cabinet Office and the Department for Children, Schools and Families have so far committed to buying services this way.

The Cabinet Office has a Shared Services Team to help develop shared services across government but was unable, at the time of our hearing, to explain how the Team had spent its budget for 2005–06 and 2006–07. At the Committee's request the National Audit Office reviewed the spending and provided a detailed breakdown by delivery area. This analysis showed that the largest area of spending was in working with government users of corporate services to develop strategies for sharing.

NHS Shared Business Services is a joint venture between the Department of Health and Xansa PLC selling procurement, finance and accounting services to 89 NHS organisations out of a total of 416 potentially eligible NHS bodies. It is not yet making a profit and has paid no dividend to either the Department of Health or Xansa. It needs to attract a further 22 customers simply to break even, and approximately 180 more customers to deliver its forecast savings to the taxpayer of £250 million by 2014–15.

HM Prison Service's Shared Services Centre provides finance, procurement and human resources services to all 128 Prison establishments. A major technology failure in the last quarter of 2006 led to a return to manual invoice processing. HM Prison Service believes the system is now working well and is in the process of agreeing a Memorandum of Understanding to provide corporate services to the Home Office.

On the basis of a report by the Comptroller and Auditor General,¹ we examined the Cabinet Office's efforts to improve corporate functions using shared services, as well as the impact of two of the more established public sector shared services in the NHS and the Prison Service.

1 C&AG's Report, *Improving corporate services using shared services*, HC (Session 2007–08) 9

Conclusions and recommendations

- 1. Government lacks reliable information on the cost of corporate services.** Activities such as finance, procurement, human resources and facilities management are important for delivering high quality public services, but the resources they consume must be fully justified. Departmental Management Boards should receive clear information on the cost and performance of their corporate services on a regular basis so that they can consider the contribution these services make to key business objectives and whether they are providing value for money.
- 2. Inconsistency in the way corporate services are recorded prevents regular benchmarking to help secure improvements in value for money.** The Cabinet Office should develop standard definitions for what constitutes corporate services and how their costs and activities should be reported. Departments should require their internal audit functions to provide assurance that such a standard is consistently followed. The Cabinet Office should undertake regular benchmarking exercises to identify scope for further efficiencies.
- 3. It is not clear how the £1.4 billion potential annual savings from shared services will be achieved.** The Cabinet Office will find it difficult to drive improvements until it obtains clear information on the relative performance of departments' corporate services. Departments should publish an overview of their corporate services performance in their annual report, including an analysis of costs by corporate function, how shared services are being used to improve value for money, and performance against centrally agreed benchmarks.
- 4. The Cabinet Office does not have sufficient grip on the cost of its activities to promote shared services.** The team set up to encourage the use of shared services did not know how much money it had spent or how it was allocated across different activities. To improve performance and operational efficiency, the team should routinely record and analyse all its expenditure and assess the cost effectiveness of different interventions.
- 5. The number of NHS organisations using NHS Shared Business Services will need to increase significantly if the forecast annual savings of £250 million are to be secured by 2014–15.** The proportion of NHS organisations using Shared Business Services will have to increase from the current level of 21% to 65% if the planned savings are to be achieved. To encourage greater participation, the Department of Health should lead by example by setting a firm date to become a customer now that the system has been redesigned to meet the Department's needs. Where corporate services are retained in-house, the Management Boards of NHS organisations should be clear that the decision represents better value for money than alternative options such as NHS Shared Business Services or outsourcing.
- 6. Within the NHS, less than 30% of invoices received reconcile with purchase orders, increasing the risk of incorrect or unjustified payments.** NHS Shared Business Services is developing an electronic invoicing system that would improve financial control by making it impossible for a supplier to submit an invoice unless it

already had a valid purchase order. The Department of Health should work with NHS organisations, regardless of whether they are customers of NHS Shared Business Services, to achieve a dramatic improvement in the proportion of invoices that match to purchase orders, improving productivity and timeliness.

7. **There is doubt about the scale of staff cost savings in HM Prison Service arising from the use of shared services.** The Prison Service claims that reductions in prison budgets are proof of staff cost savings arising from the introduction of shared services, but only has inconclusive evidence. The Prison Service needs to have better information to track reductions in staff posts, which should be validated by internal audit or other assurance arrangements.
8. **Further savings could be achieved through economies of scale if more small departments bought their corporate services from larger departments.** Smaller departments should evaluate the benefits of buying corporate services from one of the two designated sellers—HM Revenue and Customs and the Department for Work and Pensions. To allow this to happen, these two departments must develop the capacity to provide shared services and market the benefits to smaller public sector bodies.
9. **Whether or not they move to using shared services, public bodies will miss potential efficiency savings if they do not streamline their administrative processes.** Without careful analysis of whether all the steps in their processes are really adding value, public bodies cannot know whether they are receiving value for money from their corporate functions. Even when shared services are not adopted, public bodies should be able to show that they have mapped all the key processes in their corporate functions and used the results as a basis for driving out waste.

1 The lack of accurate information on the cost and performance of departments' corporate services

1. Corporate services are vital in delivering effective and efficient public services that meet citizens' needs. The most common services include finance and accounting, human resources, procurement, information technology, facilities management and estates management. Mechanisms to improve the efficiency and effectiveness of these services include measures like more streamlined processes, better performance data and outsourcing, as well as the sharing of services.

2. Shared services involve combining activities across organisations, or across different parts of the same organisation, to give better and more efficient service. In the private sector, many FTSE 100 companies transferred their corporate functions to shared services during the late 1980s and early 1990s. In July 2005, the Cabinet Office established a Shared Services Team to help the development of shared services across government.

3. Government has little information available about how much it spends on corporate services.² The Cabinet Office cannot provide an accurate figure for total corporate services spend across government because departments operate outdated systems and have poor management information.³ This is despite past government developments such as the Financial Management Initiative in the 1980s and the creation of Next Steps Agencies, which were intended to improve management information and reporting.⁴

4. By extrapolating the quantified information it was able to collect from nine departments and other public bodies, the Cabinet Office estimates the cost of finance and human resources functions across government at £7 billion a year.⁵ At the time of our hearing, it had lost the calculations and underlying data involved in its estimate,⁶ but has since outlined its main assumptions and approximations.⁷ The broadest assumption relates to the cost of finance services, which was estimated at 90% of the cost of human resources services, based only on high level data collected by police bodies.

5. The Cabinet Office Shared Services Team estimated that government could save £1.4 billion in the cost of corporate functions through shared services.⁸ The figure represents 20% savings on the estimated total spend of £7 billion, which is in line with what other

2 Qq 1–2

3 Qq 3, 82, 104–105; C&AG's Report, para 4.12

4 Q 79

5 Qq 69–72, 74; C&AG's Report, para 1.1

6 Qq 75–78, 84–85

7 Ev 14

8 Q 4; C&AG's Report, paras 1.1, 4.11

organisations, mainly in the private sector, have already achieved. The Cabinet Office does not have a timeline for realising these savings.⁹

6. To improve corporate functions, public bodies need to establish baselines of current costs and performance,¹⁰ but many do not have this basic information.¹¹ The Cabinet Office claimed that a lack of common definition for corporate functions makes it difficult for it to collect information on costs,¹² but public bodies like the Home Office's former Immigration and Nationality Directorate have been able to supply it.¹³ Public bodies have access to substantial advice and assistance on how to benchmark their corporate services, including a set of value for money metrics published by the public sector audit agencies.¹⁴

7. Public bodies need to keep their administrative processes under constant review regardless of whether they are considering a move to shared services. Unless they undertake careful analysis of whether all the steps in their processes are really adding value, public bodies cannot know whether they are receiving value for money from their corporate functions.¹⁵

9 Q 103

10 Q 81

11 Q 79

12 Qq 79–80

13 Qq 4, 80. The former Immigration and Nationality Directorate was renamed the Border and Immigration Agency and is now part of the UK Border Agency.

14 *Value for Money in public sector corporate services*, a joint project by the UK Public Sector Audit Agencies, 2007, www.public-audit-forum.gov.uk

15 C&AG's Report, recommendation 1 and para 1.12

2 The effectiveness of the Cabinet Office's work in promoting the use of shared services across government

8. In the years 2005–06 and 2006–07, the cost of the Cabinet Office's Shared Services Team was £3.0 million.¹⁶ The Cabinet Office was unable, at the time of our hearing, to explain how this money was spent.¹⁷ At the Committee's request, the National Audit Office has since reviewed the spending (**Figure 1**).¹⁸ The review showed that the Cabinet Office had incorrectly included £1.0 million in its previous estimate reported to the Committee, mostly on contracts not attributable to the Shared Services Team. While this error will not have affected the Cabinet Office's financial accounts for the two years, it further demonstrates poor cost control.

Figure 1: The costs of the Cabinet Office Shared Services Team

Costs over two years: 2005–06 and 2006–07	£000
Programme management	404
Work with government users, including sector plans and identifying the total cost of HR and finance services	1,010
Market development, including analysing market dynamics and identifying practical barriers to shared services	580
Business engagement, including events to bring suppliers and potential purchasers together	195
Solution design, creating a manual for shared services	311
Support, including seminars and special interest groups	541
Total	3,040

Note: the table does not sum exactly because each individual figure is rounded to the nearest £000.

Source: National Audit Office analysis of Cabinet Office data

9. The Cabinet Office's Shared Services Team has not done any systematic analysis of the risks in adopting shared services or provided any advice on how to manage them.¹⁹ These risks include not gaining customer acceptance if shared services are seen to lead to deterioration in standards, declining staff morale if face-to-face customer contact is reduced, for example, through the use of call centres, and the need to handle large amounts of sensitive data concentrated in fewer centres.²⁰ Without changes in the culture of many

¹⁶ Q 83; Ev 15–16

¹⁷ Qq 86–92

¹⁸ Q 96

¹⁹ C&AG's Report, para 4.3

²⁰ Qq 5–9, 17–18, 66–68

public bodies and very different approaches such as streamlined processes for low value invoices, the savings to be gained will not be secured.²¹

10. The Cabinet Office's Shared Services Team has tried to assist the development of shared services across government by creating a web-based repository of information and tools for departments to use.²² The website gives advice on the stages involved in developing shared services from the original vision through to their operation, and provides pointers to other sources of advice on matters like project management.²³ It attracts around 4,000 to 5,000 visits each month, with 1,700 downloads a month on average. However, the Cabinet Office is unable to say how useful departments have found the material.²⁴

11. Some publicly funded bodies are unable to recover Value Added Tax (VAT) when they buy shared services from external providers.²⁵ The Cabinet Office considers this a barrier to the wider adoption of shared services which may be inhibiting £70 million in annual savings in non-departmental public bodies and tens of millions of pounds in higher and further education institutions.²⁶ At the request of the Cabinet Office, HM Treasury has been examining the scope for a solution since May 2006, but it does not know when it might find one.²⁷ The Treasury has provided only broad assurance that evidence on the scale of the VAT problem will be factored into the Chancellor's decisions on tax.²⁸ The problem repeats previous examples of VAT-related difficulties dragging on without resolution, for example, in hindering academies from opening their school buildings to other users²⁹ (on which the Treasury has now taken action), and in affecting decisions about demolition or refurbishment in housing market renewal.³⁰

12. The Cabinet Office is encouraging smaller departments to buy corporate services from larger departments but this strategy is hampered by the speed at which two of the largest—the Department for Work and Pensions and HM Revenue and Customs—are able to develop their services to meet the requirements of other organisations.³¹ So far, only two public sector organisations have committed to buying their corporate services in this way: the Cabinet Office and the Department for Children, Schools and Families.

21 Qq 56–57, 64, 110–111

22 Q 94

23 www.cio.gov.uk/shared_services

24 Qq 93, 95

25 Qq 107, 117–119; C&AG's Report, para 4.6

26 Qq 108–109; C&AG's Report, para 4.6

27 Q 115

28 Ev 20

29 C&AG's Report, *The Academies Programme*, HC (Session 2006–07) 254

30 C&AG's Report, *Housing Market Renewal*, HC (Session 2007–08) 20

31 Q 106

3 The impact of NHS Shared Business Services

13. NHS Shared Business Services is a joint venture between the Department of Health and Xansa PLC, a company specialising in shared services. It is one of the more established public sector shared services. It began operating across the whole of the NHS in April 2005 and was selling procurement, finance and accounting services to 89 out of a total of 416 potentially eligible NHS bodies by September 2007.³² This represents take up of 21%.

14. NHS Shared Business Services provides NHS bodies with the opportunity to reduce the cost of their finance function by 20% and reduce procurement costs through a computer interface to NHS Logistics.³³ However, to realise this level of savings, customers have to change their systems and ways of working, such as streamlining the number of different codes used in their finance systems.³⁴ NHS Shared Business Services supports its customers in carrying out this transformation.³⁵

15. NHS Shared Business Services is not yet making a profit and has paid no dividend to either the Department of Health or Xansa.³⁶ It needs to attract a further 22 customers simply to break even.³⁷ To deliver its forecast savings to the taxpayer of £250 million by 2014–15 its customer base needs to grow from 21% of eligible NHS bodies to 65%, representing 180 further customers.³⁸

16. Potential customers of NHS Shared Business Services may be deterred from signing up as the Department of Health itself is not yet a customer.³⁹ The Department of Health believes it needs a more bespoke service than NHS Shared Business Services currently offers.⁴⁰ A system redesign to meet the Department's needs is now complete. The Department of Health considers this will enable NHS Shared Business Services to tender for central government work in the 2008–09 financial year.⁴¹ However, the Department has still not set a firm date to become a customer.

17. Some foundation trusts also have concerns that joining a venture sponsored by the Department of Health would compromise their independence.⁴² The Department does not believe NHS bodies will compromise their financial independence by joining NHS Shared

32 C&AG's Report, para 2.17

33 Qq 19–21

34 Qq 22–23

35 Q 23

36 Qq 24–29

37 Qq 30–33

38 Q 45; C&AG's Report, paras 2.5–2.6

39 Q 10

40 Qq 11–16

41 Q 10

42 Q 35

Business Services, but it has only exerted pressure to join in the case of NHS Professionals, which has less freedom than NHS trusts.⁴³

18. Currently, the service is not achieving the levels of efficiency that would be possible if NHS customers adopted better business practices. Across the NHS, less than 30% of invoices received match to purchase orders, often because NHS bodies place orders informally without raising purchase orders at the same time.⁴⁴ When an invoice arrives without a purchase order, staff at NHS Shared Business Services must carry out expensive manual interventions to confirm that what was delivered and charged was what was ordered. The lack of purchase orders also makes it more difficult to maintain financial control and is bad practice.⁴⁵ NHS Shared Business Services is introducing an electronic invoicing system to make it impossible for a supplier to submit an invoice without a valid purchase order.⁴⁶ Such improvements would also lead to significant financial benefits in terms of increased productivity and timeliness, and better financial reporting within the NHS.

43 Qq 34, 36, 39–42

44 Qq 122–123

45 Q 124

46 Qq 58–59, 127–128

4 The impact of shared services in HM Prison Service

19. HM Prison Service has created a Shared Services Centre for all 128 Prison establishments at a single site in Newport. This is another of the more established public sector shared services. Finance and procurement services began operations in April 2006, and have been fully operational since July 2007. A service supporting the human resources function was introduced towards the end of 2006 and will be fully deployed in the second quarter of 2008.

20. HM Prison Service expected the implementation of a Shared Services Centre to be challenging, and so made risk management integral to the business plan.⁴⁷ Nevertheless, a major technology failure in its purchase-to-pay system in the last quarter of 2006 meant that HM Prison Service had to enact its disaster recovery procedures and return to manual invoice processing.⁴⁸ These temporary measures affected levels of service, and help to explain low levels of customer satisfaction.⁴⁹ HM Prison Service believes the purchase-to-pay system is now working well,⁵⁰ and complaints are down to one for every 3,000 transactions. The proportion of transactions that can be processed without special intervention has reached 77%,⁵¹ against a target of above 80%. The Service considers its Shared Services Centre should eventually be able to reach 95%.⁵²

21. HM Prison Service is in the process of agreeing a Memorandum of Understanding with the Home Office to provide the latter with corporate services.⁵³ HM Prison Service is confident it can provide a good service and use the additional volumes of work to lower the average unit cost for each transaction.⁵⁴ It intends to apply the incremental approach used for its own human resources services rather than what it regards as a more risky “big bang” approach.⁵⁵

22. HM Prison Service cannot prove that introducing shared services has allowed it to cut staff numbers because it does not maintain records of the job changes of individual employees.⁵⁶ The Director General of the Prison Service told us that the cost of extracting the information from the systems operated before shared services were introduced would be excessive, although such information would be readily available in the future.⁵⁷ Instead it sees reductions to prison operational budgets as evidence of savings. HM Prison Service

47 Q 62

48 Q 17

49 C&AG's Report, Figure 10

50 Q 63

51 Qq 63, 102

52 Q 63

53 C&AG's Report, para 2.18

54 Q 65

55 Qq 63, 65

56 Q 61, 97

57 Qq 98–101

warned governors and budget holders of these reductions, giving them the opportunity to make temporary appointments to fill vacancies in posts that would disappear, and to move permanent staff from those posts to other work. HM Prison Service saw these measures as reducing the risk of having to fund large redundancy costs.⁵⁸ While this broad overview of budget changes can provide evidence of savings, it is not proof that savings have come as a result of shared services rather than through other efficiencies.

23. Shared services inevitably involve the aggregation of personal data such as staff records and bank details. HM Prison Service assured us that its shared services follow best practice for data security, that as an organisation it is experienced in handling highly sensitive data, and that its most sensitive data were not affected by the adoption of shared services.⁵⁹

58 Q 60

59 Qq 66–68

Formal Minutes

Monday 31 March 2008

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon

Mr Alan Williams

Mr Keith Hill

Phil Wilson

Mr Don Touhig

Draft Report (*Improving corporate functions using shared services*), proposed by the Chairman, brought up and read.

Ordered, That the draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 23 read and agreed to.

Conclusions and recommendations read and agreed to.

Summary read and agreed to.

Resolved, That the Report be the Eighteenth Report of the Committee to the House.

Ordered, That the Chairman make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No. 134.

[Adjourned until Wednesday 2 April 2008 at 3.30 pm.]

Witnesses

Wednesday 12 December 2007

Page

Ms Alexis Cleveland, Director-General, Transformational Government Cabinet Office; **Mr Peter Coates**, Director of Finance and Investment, NHS; and **Mr Philip Wheatley**, Director General, HM Prison Service.

Ev 1

List of written evidence

1	The Cabinet Office	Ev 13
2	The National Audit Office	Ev 15
3	Letter from Treasury Officer of Accounts	Ev 20

List of Reports from the Committee of Public Accounts 2007–08

First Report	Department for International Development: Tackling rural poverty in developing countries	HC 172 (Cm 7323)
Second Report	Department of Health: Prescribing costs in primary care	HC 173 (Cm 7323)
Third Report	Building for the future: Sustainable construction and refurbishment on the government estate	HC 174 (Cm 7323)
Fourth Report	Environment Agency: Building and maintaining river and coastal flood defences in England	HC 175 (Cm 7323)
Fifth Report	Evasion of Vehicle Excise Duty	HC 227 (Cm 7323)
Sixth Report	Department of Health: Improving Services and Support for People with Dementia	HC 228 (Cm 7323)
Seventh Report	Excess Votes 2006–07	HC 299
Eighth Report	Tax Credits and PAYE	HC 300
Ninth Report	Helping people from workless households into work	HC 301
Tenth Report	Staying the course: the retention of students on higher education courses	HC 322
Eleventh Report	The compensation scheme for former Icelandic water trawlermen	HC 71
Twelfth Report	Coal Health Compensation Schemes	HC 305
Thirteenth Report	Sustainable employment: supporting people to stay in work and advance	HC 131
Fourteenth Report	The budget for the London 2012 Olympic and Paralympic Games	HC 85
Fifteenth Report	The Pensions Regulator: Progress in establishing its new regulatory arrangements	HC 122
Sixteenth Report	Government on the Internet: Progress in delivering information and services online	HC 143
Seventeenth Report	Foreign and Commonwealth Office: Managing Risk in the Overseas Territories	HC 176
Eighteenth Report	Improving corporate functions using shared services	HC 190

Oral evidence

Taken before the Committee of Public Accounts

on Wednesday 12 December 2007

Members present:

Mr Edward Leigh, in the Chair

Mr Richard Bacon
Nigel Griffiths
Keith Hill

Dr John Pugh
Mr Alan Williams
Phil Wilson

Sir John Bourn KCB, Comptroller and Auditor General, **Mr Tim Burr**, Deputy, Comptroller and Auditor General and **Mr Keith Davis**, National Audit Office, were in attendance and gave evidence.

Ms Paula Diggle, Treasury Officer of Accounts, HM Treasury, was in attendance and gave evidence.

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL IMPROVING CORPORATE FUNCTIONS USING SHARED SERVICES (HC 9)

Witnesses: **Ms Alexis Cleveland**, Director-General, Transformational Government Cabinet Office; **Mr Peter Coates**, Director of Finance and Investment, NHS; and **Mr Philip Wheatley**, Director General, HM Prison Service, gave evidence.

Q1 Chairman: Good afternoon and welcome to the Committee of Public Accounts where today we are considering the Comptroller and Auditor General's Report, *Improving corporate functions using shared services*. We welcome Alexis Cleveland, who is the Cabinet Office's Director-General of Transformation and Delivery, who leads the cross-government shared services drive. Also appearing to answer questions on the shared service centres in their organisations is Mr Philip Wheatley, who is the Accounting Officer and Director General of HM Prison Service, and Peter Coates, who is the Director of Finance (Investment) at the Department of Health. You are very welcome. If I could start by just saying that we welcome as a visitor the Chairman of the Ethiopian PAC. I do not know where he is sitting. Oh, he is coming through security! More seriously, I should say that two officials from the National Audit Office—Dave Clarke and James Francis—were auditing the World Food Programme in Algiers yesterday when the office was bombed. I am pleased to say that both have now returned safely to the UK, but I think it shows the debt we owe our staff in the National Audit Office for the difficult and dangerous work that they do around the world, and we are very grateful, as we also are for the work that they do for us. Alexis Cleveland, perhaps I could start with you, if you could look at paragraphs 4.10 and 4.11, at page 35, it is headed: "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" If you read this Report, it is clear, Ms Cleveland, that there is a dearth of information about the cost and performance of these shared services. Does that worry you?

Ms Cleveland: One of the really encouraging things we have seen from the introduction of shared services across departments is the great

improvement that you do get in management information. I think until you have got good information it is actually quite difficult to effectively manage any of the services that you have got.

Q2 Chairman: If that is right, Ms Cleveland, why until we had this NAO Report—and we again read this in paragraph 4.10—has there been no published analysis of the financial efficiency performance? If what you say is right, why did we have to wait for this Report to know this?

Ms Cleveland: There are figures in different government departments' accounts. Some of them do actually publish some figures on their shared service areas. What we are looking to do centrally from the Cabinet Office is to gather in far more information.

Q3 Chairman: Should you not have done it before?

Ms Cleveland: We tried to collect some information when we set up our shared service team within the Cabinet Office and that is where we managed pull together an estimate of what we thought the costs were, but that very much was an estimate with a lot of assumptions in it and benchmarks and such like, but that was our first attempt to try to pull that together. If you go to the areas now where they have made progress in shared services we are giving much better financial information.

Q4 Chairman: If you read paragraph 4.11 you will see that you identified an overall figure of £1.4 billion as a potential global figure. Would it not be much more useful to set robust individual targets rather than a global figure of £1.4 billion where it is difficult to work out exactly what has been achieved or what should have been achieved?

Cabinet Office, Department of Health & HM Prison Service

Ms Cleveland: If we had robust costs for each of the individual departments and individual services then we can begin to start looking at setting targets against those. What we were trying to do with this was identify what we thought the total cost was that we were spending across central and local government, to look at the sorts of savings that people were achieving in the private sector in terms of moving to a shared service model, and putting up “this is the prize for the public sector”, and we are seeking to influence departments by saying that we have all got to live within tight administrative settlements and therefore there is something to be gained in looking at your shared service area.

Chairman: John Pugh and myself travelled up to Leeds yesterday to look at NHS Shared Services and the management told us that they were passionate about improving this, and they were very impressed with it. We walked in and there was a large room full of people working away. The effect was slightly spoiled by the very first person who was playing Patience on their computer screen, but we will leave that to one side!

Mr Bacon: Did you get his name?

Mr Williams: Was he winning?

Q5 Chairman: It just struck me that I am not convinced that in these vast office blocks there is the morale on the shopfloor that you might expect. Would it not have been better to have broken these units down to much smaller units? What we saw yesterday was people dealing with vast quantities of paper, invoices, and scanning them every day, passing a piece of paper in front of a scanning machine. Would it not have been better to have smaller units where people would have better morale and could deal with their customers and know why they are working in this field?

Ms Cleveland: No, I do not agree with that. I think as part of the move to shared services we need to drive up the quality of service that people get and we need to drive up the efficiency overall of the services. I do not think there is a correlation between staff morale and size of organisation.

Q6 Chairman: Or even dealing with your customers and knowing really what you are about, the issue you are dealing with? It could be hospitals or prisons or anything else, but if you are in some faceless office block in the middle of Leeds doing shared services for 30 hospital trusts, how much interaction do you ever have with your customers? None is the answer.

Ms Cleveland: I do not know that particular example. I am sure Peter could give you more information in that particular sense.

Q7 Chairman: John Pugh and myself do know about it because we spent the afternoon there. Have you been there, by the way?

Ms Cleveland: I have not been to that centre. I have been to other shared service centres where people do have contact. It varies a bit from centre to centre because if you are dealing with HR services, for example, then you do have a lot of dealings with your direct customers. If you are in an area that deals

with procurement you may be doing more in terms of just processing invoices through. The morale in a particular organisation depends very much on the management in the particular area. If we are looking at efficiency, generally looking across processing centres and contact centres, areas like that, units of about 500 are often the optimum size for management units.

Q8 Chairman: If HMRC and the Department for Work and Pensions are gathering ever greater amounts of personal data in ever fewer centres, how can you reassure us that this will be kept safely?

Ms Cleveland: I think clearly we take data security very seriously. Bringing together data into centres—

Q9 Chairman: I am sure you take it seriously but how can we be sure that none of this will be lost or get into the wrong hands?

Ms Cleveland: I do not think anyone in the private or the public sector can say with 100% assurance that they will never have any security issues or breaches. In fact, the private sector do not operate to 100% levels; they look at levels in the very high 99%*s* in there. What you can do if you have more data in these shared service centres is you can concentrate your training on more specific groups of people, you can police your procedures more easily than if these are spread across a large number of outlets. What I think the risk in those areas is is that if there is then data lost it could be of larger numbers. I think the risk of loss is less but the potential numbers in any individual case could be higher.

Q10 Chairman: Peter Coates, how can you expect NHS bodies of the type we were looking at yesterday to sign up to shared services when you yourself will not make that commitment?

Mr Coates: We are making that commitment. SBS (Shared Business Service) currently have a proposal with the Department of Health to move across to shared services and we expect to sign a contract in the near future.

Q11 Chairman: It rather begs the question—and by the way the reference to this is paragraph 2.17—why have you not done so up to now?

Mr Coates: Because the Department of Health decided they wanted to design bespoke system based on Oracle—

Q12 Chairman: Please speak a little louder, I am having difficulty hearing what you are saying.

Mr Coates: The Department of Health decided that they wanted a new bespoke system to move across to Shared Business Services to maintain once they had built the system, and that took some time. There was transparent discussion between SBS and the Department and that has now come to an end and we are now discussing final terms, *et cetera*.

Q13 Chairman: So the industrial-capacity, bespoke Oracle system that we were shown yesterday, and we were given various assurances about, was not good enough for your purposes; is that right?

Cabinet Office, Department of Health & HM Prison Service

Mr Coates: For the Department's purposes they wanted some refinements in it that Xansa, who support the Oracle software at SBS, could not offer.

Q14 Chairman: What could they not offer? After all, they are dealing already with a very complex system, I do not know how many trusts they are dealing with so why could they not deal with your organisation?

Mr Coates: It was to do with the report writing software. I am not familiar with the detail, I am afraid.

Q15 Chairman: Is there anybody in this room who could tell me?

Mr Coates: I can offer you a note on it by all means.¹

Q16 Chairman: Do you not think it might have been useful for you to have briefed yourself before you came to this Committee so you could have told us? It is a fairly obvious question. Have you got an official behind you, perhaps they can help us? We do not mind who answers these questions.

Mr Coates: I have got nobody from the Department here with me.

Q17 Chairman: Okay, do a note for us then. Can I ask please, Philip Wheatley—welcome back to our Committee Mr Wheatley—to look to page 21, figure 10; why do you think that four out of five prison governors think the performance of the Prison Service is worse than it was before shared services were introduced?

Mr Wheatley: There are two reasons. The first is the period when this survey was done was immediately after the period when we had had significant problems with the payment system and we had to close the system, revert to our disaster recovery process and go back to a manual system in order to pay our invoices, which we have done successfully, and we were then getting the system up and running, and since then it has been working very well. The survey was done at a point when the shared service had just had major problems and I am not surprised that governors were very aware of that because their staff had to revert to doing the old job by paper in establishments in order to make sure that we paid invoices. It is not surprising that they said it was not working as well. I think the other thing is that the old system, which had staff working in establishments directly to governors just down the corridor, was very expensive but very user-friendly from the governor's personal point of view because you could immediately get hold of somebody—

Q18 Chairman: If you do not mind me saying so, Mr Wheatley, that is precisely the point that I was trying to put five minutes ago to Alexis Cleveland. We are told how much more efficient this is but you lose the personal contact.

Mr Wheatley: You do but it is a question of cost. We are trying to work efficiently and we get an efficient system in which we get a lot more security that people will be using the system properly and nobody is cutting corners. It works much better and in terms of the Committee of Public Accounts you will probably be pleased with it. It makes sure that we buy everything properly, we receipt properly, we do a really thorough job. It is not as immediately responsive from a governor's point of view as a person in the office next door. That is very expensive and this is a question of how we use public money. We are using public money to do the job effectively and to do it in a way that is entirely consistent with the right method of doing it, and it costs less money.

Chairman: Thank you, Mr Wheatley. John Pugh?

Q19 Dr Pugh: When we went there yesterday and discovered you were not just doing back office functions in terms of shared services, you were also in partnership with the NHS offering procurement possibilities as well, in other words stepping into the same territory that NHS Logistics and OGCBuying.solutions and people like that were already in, do you not think it is slightly odd to have a number of government bodies providing NHS trusts with catalogues competing on price and using public money to do so?

Mr Coates: They are not competing on the procurement piece. What they are offering is access to NHS trusts through their own ledgers to the existing procurement catalogues offered by the various DHL contracts that are available to the NHS. They are not offering a procurement service as such, they are trying to interface this.

Q20 Dr Pugh: I see, so all they are offering is a way to get to NHS Logistics rather than in direct competition?

Mr Coates: That is correct.

Q21 Dr Pugh: Thank you for that. As I understand the arrangements, when a trust signs up for shared services they pay a fixed rate and that is adjusted each year, for various understandable reasons such as inflation but in predictable ways so they know what they are paying. They are not guaranteed a saving though, are they?

Mr Coates: The contract they sign with Shared Business Services is based on a baseline of costs on their existing costs and their new costs and that new baseline cost is 20% guaranteed less than their existing levels.

Q22 Dr Pugh: But it is not an unconditional guarantee, is it? As was explained to me yesterday, it is a guarantee that if they do what it is recommended for them to do, they will make that sort of saving?

Mr Coates: That is absolutely right in the sense that the savings will only fall out if the trust makes the changes to its systems necessary to generate the savings. You do not just take the old systems and replicate them and charge 20% less.

¹ *Note by witness:* The NHS SBS offering is a partly configured and partly bespoke system built specifically for NHS organisations. DH is a central government department with different accounting and HR requirements, and the NHS SBS standard system did not offer the extent of functionality that DH needed to manage its business.

Cabinet Office, Department of Health & HM Prison Service

Q23 Dr Pugh: In a sense, they are offered an opportunity. If they do not take that opportunity up they will not be considered to have made best use of the deal, but it does give the opportunity for the shared services outfit, as it were, to say it is their fault that the savings were not made?

Mr Coates: Yes, but we also work with the trust in terms of assurance programmes to help them realise the savings that are projected for them, so we do not leave them to it.

Q24 Dr Pugh: I have come across the figure of a net saving of £250 million. Is that a net saving of £250 million to trusts or to the NHS?

Mr Coates: That is from the taxpayers' perspective. You are talking about table 7 on page 18?

Q25 Dr Pugh: Yes, and how is that composed?

Mr Coates: That is composed partly of savings to the trust and partly cash coming into the department in the way of payments and dividends and such like.

Q26 Dr Pugh: So it makes presuppositions about dividends?

Mr Coates: Yes it does.

Q27 Dr Pugh: And if those dividends do not arise you do not make that saving?

Mr Coates: That is absolutely right, yes.

Q28 Dr Pugh: And how much money have Xansa made in dividends so far?

Mr Coates: The same as the Department, which is nothing.

Q29 Dr Pugh: Which is nothing, so it really depends on this profit-sharing deal working in some way, does it not?

Mr Coates: Yes.

Q30 Dr Pugh: Clearly what is absolutely crucial for their business now is to get more people in the deal, is it not?

Mr Coates: Yes.

Q31 Dr Pugh: And if they do not get more people in the deal there will not be very much profit?

Mr Coates: The break even point for them is another 22 customers, as I understand, 22 clients, before they are breaking even.

Q32 Dr Pugh: So if Xansa carry on with the same number of clients they will put their capital in and they will just be bumping along at break even point, will they not?

Mr Coates: Yes, they are bound for five years into the contract to keep delivering their service to the JB.

Q33 Dr Pugh: So in order to engineer these savings the NHS really need more people in the deal, do they not?

Mr Coates: We do, yes.

Q34 Dr Pugh: Is there going to be any coercion put upon NHS trusts to actually sign up for this given that the NHS itself needs them to do so?

Mr Coates: There will be no coercion on trusts. Trusts will be persuaded and incentivised to join but they will not be coerced.

Q35 Dr Pugh: There has been some resistance from the foundation hospitals, has there not?

Mr Coates: There has been resistance. There are some foundation trust clients, but foundation trusts and acute trusts generally are more resistant.

Q36 Dr Pugh: They value their financial independence, do they not?

Mr Coates: It is a perception, I think, rather than a reality but they do, yes.

Q37 Dr Pugh: It is the Government's intention to have more foundation trusts, is it not?

Mr Coates: It is.

Q38 Dr Pugh: So it will get more difficult rather than easier to get people in?

Mr Coates: That is possible, yes.

Q39 Dr Pugh: You have got NHS Professionals in already. Did NHS Professionals put out on open tender and Shared Business Services apply in this case, or were NHS Professionals subject to a degree of arm-twisting?

Mr Coates: They were persuaded.

Q40 Dr Pugh: They were persuaded.

Mr Coates: But the tender for shared services in the NHS covers the entire NHS and any NHS body can join SBS without a tender process.

Q41 Dr Pugh: What would have happened if NHS Professionals said, "No, we want to go with a private institution that does shared services for us rather than SBS"?

Mr Coates: There have been many trusts who have made investment decisions since SBS have been operating and decided not to move across, and there are also trusts—

Q42 Dr Pugh: NHS Professionals do not quite have the same freedom as a foundation trust, do they?

Mr Coates: No, they do not.

Q43 Dr Pugh: Migration costs—I looked at diagram 7 which is on page 18, and clearly the more these go up the less profit everybody will make all round and, encouragingly, as you project towards the future and you get more and more institutions joining, the migration costs, for some bizarre reason, go down even though the actual cost, if you have got more and more people signing up, have gone up; is that optimism?

Cabinet Office, Department of Health & HM Prison Service

Mr Coates: I cannot explain the individual lines in this because they were agreed independently with the NAO. I hesitate to say that probably the number of customers or clients joining flattens out over time so that has caused a flattening of the numbers.

Q44 Dr Pugh: Why would that be?

Mr Coates: Because we will generate fewer numbers of clients on a *per annum* basis over time.

Q45 Dr Pugh: But you are hoping to generate more numbers, are you not, to stay in profit?

Mr Coates: Yes, but our curve is bound to go in that way.

Q46 Dr Pugh: At some point you have got nearly everybody signed up and no further customers coming in?

Mr Coates: We have to be realistic about this.

Q47 Dr Pugh: So the projection for 2010-11 indicates that you are not expecting many people to sign on then, and fewer the following year, and even fewer the following year, and so on?

Mr Coates: I am afraid I do not know the genesis of those individual numbers.

Q48 Dr Pugh: Right. The profitable enterprise depends very substantially upon the use of services in India, do they not, 40%?

Mr Coates: They do.

Q49 Dr Pugh: If that is the case, and you find you are not hitting that magic £250 million figure, the temptation must be to make greater use of services in India because that reduces your overheads?

Mr Coates: That is right. We have already agreed to an increase in service levels in India. When the tenders were accepted from Xansa the cap was 40% and it has now moved to 60%.

Q50 Dr Pugh: Right, so when push comes to shove you have no objection to moving more of those services across to India?

Mr Coates: We have discussed them with clients and the clients agree that they are happy for the service to be provided in India, yes.

Q51 Dr Pugh: Are clients in a position to judge whether they are?

Mr Coates: Yes they are because they talk about what services are going to be provided from India and whether they are content that that happens.

Q52 Dr Pugh: They might be deterred if you said that 80% of the services were to be provided in India?

Mr Coates: There may be some, but there are things you cannot transfer to India and things we would not want to transfer to India.

Q53 Dr Pugh: For example?

Mr Coates: You cannot transfer the postroom, for instance, and you cannot transfer—

Q54 Dr Pugh: Right, but then as you move more and more on to electronic invoicing the postroom becomes more redundant, does it not?

Mr Coates: Yes absolutely.

Q55 Dr Pugh: The software being used predominantly is an Oracle package which is bespoke and adjusted for need. Are you fairly confident that in years to come, should Oracle want more money than you are prepared to pay or it affects substantially your overheads, that you can find an alternative supplier?

Mr Coates: The contract we have with Oracle covers the entire NHS and it runs for ten years with a five-year option to extend at the same price as the ten-year term so we have got it until 2017.

Q56 Dr Pugh: Just two shorter questions really now. There is a high cost of processing at the moment compared with some private shared services, and I think you have owned up to that and that is fair enough, and the explanation for that is there are an awful lot of small invoices within the NHS and that is an explanation of why you have not hit some of your anticipated figures. Did you not know that?

Mr Coates: We were aware of it at the time, yes, but it is the business of the NHS and we have to work with the NHS to—

Q57 Dr Pugh: But in terms of your business plan, you knew exactly that that was going to happen and therefore you cannot use that as an excuse afterwards as a reason for why things have gone wrong.

Mr Coates: I think the number of low-level invoices relates to the cost per transaction rather than the property business itself. That generates a high unit cost compared to the best in the markets.

Q58 Dr Pugh: My last question is I read some of the horrible phrases, that there has been a step change—I hate that phrase—in the robustness of processes, and basically that means that some invoices are not being fielded as accurately or as efficiently as they might be, and in fact some invoices are being paid almost by dead weight without being authorised and so on. What is your perception, and I would like you to be as candid as possible here, of the current robustness of the invoicing systems within the NHS outside of shared services?

Mr Coates: In what context? I am not trying to evade the question.

Q59 Dr Pugh: I am saying if there has been a step change in the robustness of processes you are really saying by implication that the current way of processing invoices in the NHS is pretty dire.

Mr Coates: The use of payable orders that are matching to orders at the time they are placed is relatively low in the NHS, but I think the way forward for that is trying to move to electronic invoicing as much we can as quickly as we can.

Dr Pugh: Thank you.

Cabinet Office, Department of Health & HM Prison Service

Chairman: John Pugh and myself were particularly struck by the amount of work being transferred to India. We thought it would be a strange reversal of fortune and an irony if ever increasing amounts of our Civil Service were transferred to India! In any event, Keith Hill.

Q60 Keith Hill: Chairman, I thought I would ask Mr Wheatley some questions about the Prison Service, partly because I have Brixton Prison in my constituency and partly, I confess, because I find irresistible the concept of 'customer satisfaction' in the Prison Service! Let me ask you about tracking, Mr Wheatley. The NAO tells us that it is difficult for the Prison Service to substantiate its planned cuts in staff because you are unable to track every individual affected by the programme. Why is the tracking system apparently so poor?

Mr Wheatley: We can track the money because the money is being removed from the operational budgets of governors. We deliberately set out to reduce our admin staffing in establishments. We gave governors, who were grant budget holders for their establishments and managers of their establishments, advance knowledge of what we were planning to do. Governors were encouraged, and most have taken this opportunity, when permanent staff left their admin function to replace them with temporary staff or fixed contract staff ready for the budget reduction that we advertised was coming their way, and indeed it did come their way this year, and there will be a further budget reduction next year if you take the money out where the staff are no longer needed. We have not tracked individual members of staff and indeed some of them we planned to move to take other vacancies in admin, so we have not moved all our admin working to the shared service centre, for instance, the admin work around prisoner sentencing and calculating release dates remains in establishments. We have replaced staff who were leaving in those sorts of functions with staff who were leaving from the admin and HR function. We have done that in order to reduce the risk of large redundancy costs because the Civil Service redundancy scheme is quite pricey and we were anxious to reduce the risk of making staff redundant with the high costs associated with that in order to make sure that we got the real business benefit out of this.

Q61 Keith Hill: I understand why you did it but do you acknowledge that there have been some problems in tracking?

Mr Wheatley: To be perfectly honest, personally I did not see the need to track each individual member of staff. I was much more interested, having taken the money out, to track whether we were continuing to get the proper service in establishments. That seemed to me to be the key thing and to build an elaborate system to track individual members of staff, which would have itself involved expense, did not seem to make sense. It means that I cannot answer the question perfectly but I have probably saved money.

Q62 Keith Hill: That is pretty good. Let me ask you about technology. Apparently, the Prison Service initially under-estimated its technology costs and then you have been hit by a failure of the electronic purchasing system in late 2006. Why were there these problems in the management of technology in the Prison Service?

Mr Wheatley: We were doing something that was new and we were doing something that was complex that we have not done before. We were working with our IT partner, which is EDS, who were offering us some advice on the amount of bandwidth that we needed and the sort of technology that we needed to implement with. We knew there were some risks around that. Doing something novel and large-scale and doing it quickly in order to get savings often carries some risks. We built some of those risks into the business plan. We did not allow ourselves to run with a business plan that was just optimistic. We ran into difficulties with the purchase and pay system as we went up to full strength and it began to overwhelm the available system; it began to freeze and not do the job properly, which is when we aborted the roll-out until we had solved that problem. We needed more technology capacity, more bandwidth in the system and some additional processing capacity, which we got. There were some faults with the system because of the way it was configured—and I am not an expert so do not ask me to explain the IT behind it—and it was generating more messages than it needed to, so there were messages flying up and down the system that were rather greater than you would have needed because of the way it had been programmed, and that program has been adjusted. We have got proper deployment of the EDS expertise and Oracle expertise.

Q63 Keith Hill: How has it been doing since the breakdown?

Mr Wheatley: It is performing well. It is now performing properly. For our purchase and pay system we have one complaint per 3,000 transactions, and we have got up to 77% transactability, so as things come in we can transact them promptly because everything matches and we are doing it well. We are driving up transactability. We have an 80% target which we are near to and we want to go beyond that because in an ideal world one manages to do more than that, and if we get eventually to 95%, which is the sort of target that a mature shared service centre should be able to meet, I will be well pleased with it. At the moment we have got improvement, it is working well and the purchase and pay stuff is particularly good. We are not at quite the same stage with HR because we have not rolled it out throughout the whole of the service, and we are rolling it out slowly and deliberately in order to make that we can spot the problems arising and solve them rather than go for a big bang approach which, in my experience, is very risky with large IT-enabled schemes.

Cabinet Office, Department of Health & HM Prison Service

Q64 Keith Hill: I think that experience elsewhere seems to bear that out, does it not? Let me ask you about transaction costs then. Again, why is your performance well below private sector benchmarks? Let me give you an example. An accounts payable transaction costs £2.12 in the Prison Service compared to a private sector average of £1.45?

Mr Wheatley: Because, as I think the Report indicates, this is a relatively immature shared service centre we are rolling out, we are just completing it and we are driving up performance, we know that we can reduce the cost if we go for a more technologically based solution, in other words we make the IT do more and the people do less with fewer people sitting there processing things and more being done simply by the IT system. We also need to be careful because we are paying small invoices that we have not got on over-elaborate system for verifying them which is beyond the risks involved in paying them. Most of the private sector systems will pay very small invoices with very little checking. We must produce accounts that are signed off by the NAO with all the proper high standards of government accounting, but we can probably move to rules that allow us to pay more invoices with less checking before payment and more checking after the event to make sure that nobody is committing fraud on small invoices. Those are the changes that we will make that drive down the cost and I expect will get us to the private sector benchmark or below, and we need to be efficient. Running on tight funding in the Prison Service, I need to get as much to the front-line as possible.

Q65 Keith Hill: Okay. In your answer to an earlier question by the Chairman, you robustly pointed out that the figures on customer satisfaction and performance were now somewhat out-of-date but, nevertheless, it is still relatively early days in this shared services exercise. Are you confident that this is the right moment to begin supplying corporate functions to the Home Office?

Mr Wheatley: Yes is the answer to that, providing we approach the additional Home Office work which will bring down the overall cost per transaction because it shares the overheads. It is another way of bringing down the cost per transaction. Provided we plan for it carefully—which we have done—we take it on and, again, we roll into it and we do not immediately say that we are going to do everything straight away and we manage it carefully with a management team, who have done well during this roll-out and are competent and now much more practised, so I expect it to be successful if we do that carefully, which we are doing, and reduce the cost per transaction in getting value for public money.

Q66 Keith Hill: Your caution is admirable. Let me take you on finally to another area where caution is desirable and it is to pick up a question which our Chairman raised which is the issue of the centralisation of data through these shared services, which is obviously an especially sensitive issue in the

Prison Service. You do have a great volume of sensitive personal data brought together in one place. How securely is that held?

Mr Wheatley: It is held securely is the answer. This is information on staff. Not that information on staff is not sensitive— it is sensitive—but it is not our most secure information which is information on prisoners, which is not held in the shared service sector. This is information about staff mainly and accounts and bills which we have. I do not mean we should be casual about it—we should not—but it is not intelligence information or any of the most sensitive stuff we hold. We are following what we believe to be all the best practice in making sure that we have got a system that is secure. We are conscious of the need to keep that information secure and not to share it with anybody we should not share it with or release it in any way to people.

Q67 Keith Hill: How do you transfer it? Do you use TNT?

Mr Wheatley: We are not using TNT to the best of my knowledge. We are using the appropriate methods for passing information on. Our bills are not sensitive issues and we do not give our bills unnecessary security.

Q68 Keith Hill: You do not have salary and pay information on the system?

Mr Wheatley: We have information about the staff. This is not where we pay our staff from. We are paying our staff from a central system which is the old Home Office system which we have been on for nearly as long as I have been in the Service, not quite as long as that but certainly since the late 1970s.

Keith Hill: Thank you, Chairman.

Chairman: Thank you, Mr Hill. Richard Bacon?

Q69 Mr Bacon: Ms Cleveland, this figure of £1.4 billion, presumably that is just derived from your estimate of the cost of corporate services being £7 billion and then you have just taken 20%?

Ms Cleveland: Correct.

Q70 Mr Bacon: But it is clear from paragraphs 4.11 and 4.12 that the £7 billion itself is a fairly rough figure.

Ms Cleveland: It was the best estimate but I could not put statistical competence limits around it.

Q71 Mr Bacon: How long did it take to come up with the £7 billion figure?

Ms Cleveland: I do not know how long. I know when it was produced, I do not know how long it took.

Q72 Mr Bacon: It would be quite interesting to know how long it took. Was it done following a fairly detailed survey across the whole of the public sector in central government or was it done in the Dog and Duck and written up on a beer mat?

Ms Cleveland: It was certainly not the latter.

Q73 Mr Bacon: We had a space shuttle on which the Government spent £45 million that was designed on a beer mat.

Ms Cleveland: I was not aware of that.

Q74 Mr Bacon: So that is why I am seriously asking how much effort went into getting this £7 billion figure?

Ms Cleveland: There was a piece of work that was undertaken which sought to gather as much information as we could from departments and across the wider public sector. In some departments they were able to provide the information and others not, and so this information was then taken and grossed up sector-by-sector to say this is what we think the prize could be in terms of shared service.

Q75 Mr Bacon: Although I am not aware in any way from an area of the Report or elsewhere that breaks it down, you did have that individual line item with a number attached to it so the department was able to supply you with that information before you grossed it up?

Ms Cleveland: My understanding of that was, and it will not surprise you that prior to this hearing I spent quite a long time trying to get to the detail of that information, and we have not been able to track down the actual workings of that £7 billion figure.

Q76 Mr Bacon: What? My next question was going to be can you send it to us, please. You have not got it?

Ms Cleveland: We have not been able to track down the details.

Q77 Mr Bacon: So for all you know it was done on a beer mat?

Ms Cleveland: I know it was done through a survey process—this is what has been reported to me—and that this was then used to produce this figure.

Q78 Mr Bacon: There must be emails. This is extraordinary, you have got no way of finding out—this is what you are saying—how you got the £7 billion figure?

Ms Cleveland: I do not know how we got the £7 billion figure.

Q79 Mr Bacon: What you have just said is confirmed by paragraph 4.12 which says: “The Cabinet Office found it impossible to obtain such a baseline figure.” What I find really interesting about this is here we are in 2007, the Financial Management Initiative took place in 1982, Next Steps came next. We have seen, just as we have in every area of public life, whether it is the Health Service (which has had, notoriously, 25 reorganisations in the last 25 years) or wherever else that there has been huge effort to improve the quality of management and management information, and yet on two very basic corporate functions—finance and human resources—you cannot say for a big swathe of the public sector in the different departments and agencies and non-departmental public bodies what it is that they are spending on HR or the finance function?

Ms Cleveland: Not on a common definition across all departments, no.

Q80 Mr Bacon: What has been going on for the last 30 years? To give an example of the Immigration and Nationality Directorate, which I happen to know about because there was a notorious affair involving the Immigration and Nationality Directorate and a report from the NAO on failed asylum seekers, and there was a chart in there that said that the Immigration and Nationality Directorate had 14,500 staff and that 540 of them worked in the HR department—fairly simple, pin-downable information. Why can all departments and agencies not come up with similar figures?

Ms Cleveland: I think people can say the number of people they have got working in their HR departments. What you miss from that is the total number of people that are working in HR-type functions. They may not be badged as HR people, they may be badged as business support people, sitting out in operational areas across businesses where they are undertaking HR-related work. If we just took the number of people who were in HR functions across the piece I think you seriously underestimate the amount of work that is actually put in.

Q81 Mr Bacon: It is a pre-condition of improving what you have got that you know what you have got.

Ms Cleveland: I agree.

Q82 Mr Bacon: It sounds to me that you do not really know what you have got.

Ms Cleveland: What we are getting already from the evidence of the work where we have shown a spotlight on this, which is where we are in producing the shared service arena, is showing what the baseline was and therefore the savings that we are making. We have already covered some examples of that during the hearing today.

Q83 Mr Bacon: On page 32 there is a note at the bottom, note 20, which says that the cost of your team was £2.2 million in 2005-06 and £1.8 million in 2006-07, a total of £4 million over the two years, and in paragraph 4.3 it says: “The complement is now four full-time equivalents.” £4 million for four full-time equivalents for two years sounds quite a lot.

Ms Cleveland: It does and I would not mind being one of those four full-time equivalents if that was the cost. That covered a lot of the survey work that we talked about.

Q84 Mr Bacon: That you cannot find?

Ms Cleveland: Indeed.

Q85 Mr Bacon: So you spent £2 million on it but you lost it?

Ms Cleveland: We had a product from it which was not just the £7 billion; it was just the workings of that £7 billion figure that we could not find.

Q86 Mr Bacon: Was this £2 million spent on consultants or was it spent on in-house staff who joined the team temporarily and then left?

Cabinet Office, Department of Health & HM Prison Service

Ms Cleveland: It would be a mixture of the two.

Q87 Mr Bacon: How many people were in the team?

Ms Cleveland: I think I will be able to send you a note on that. I do not have that figure immediately to hand.²

Q88 Mr Bacon: How long have you been running this team?

Ms Cleveland: Three months.

Q89 Mr Bacon: Who was running it before you?

Ms Cleveland: Someone called Ian Watmore.

Q90 Mr Bacon: Who has gone off to be Permanent Secretary of the Department for Innovation, Universities and Skills?

Ms Cleveland: Yes.

Q91 Mr Bacon: Have you phoned him up to ask him where the workings are and all this stuff that you spent £2 million on and do not know where it is?

Ms Cleveland: I have not personally but my team have been trying to track it down.

Q92 Mr Bacon: I am sure they will have it in front of us at some point but it seems to me extraordinary that you do not know how many people have been involved in this for the £4 million that the taxpayers have spent on it. The other thing I find odd is that it says in paragraph 1.5 shared services are not new and it makes the point about BACS, the Bank Automated Clearing Service being: “a joint venture owned by 15 banks that has been processing financial transactions since 1968.” It goes on to say: “Federal bodies in the USA have provided payroll and financial services to other federal bodies since the early 1980s.” Why is it that it has taken so long to even begin to get this off the ground when it has been around for 40 years?

Ms Cleveland: I do not think we have been standing completely still over this period. Through the various initiatives that you have talked about, people have been doing things either within their payroll areas or within some of their HR functions. The concept of this new shared service is something that we have been picking up really only over the last two or three years. It is absolutely clear that this is not something that you can improve overnight, and if you look at some of the other private sector comparators it took BT ten years to roll out their shared service provision. Again, we were going slightly counter to this in the move to Next Steps agencies and such like where we were splitting things up and the HR and finance functions went from corporate things within departments out into agencies and NDPBs. I think that drove some efficiencies and some improvements in overall service through focusing on individual businesses, but I think there is now a general move across the Civil Service to actually try and develop something

once and deploy it many times and begin to look at having more standardisation again of our business processes.

Q93 Mr Bacon: When the Treasury, the OGC and the Debt Management Service developed their own shared service centre, did they use the repository of shared services methodologies and tools for the departments that your team created? This is bullet point five of that list in paragraph 4.3.

Ms Cleveland: We have certainly made these available to all departments.

Q94 Mr Bacon: No, that is not what I asked. In fact, that was going to be my next question. It says here: “building a repository of shared services methodologies and tools for departments to use”. How many departments have actually used them?

Ms Cleveland: We have shared them with HMRC and DWP. The department that is using them first as a new department going through to that is actually the Cabinet Office itself.

Q95 Mr Bacon: I would expect that since it created it. Hang on, when you say shared with, I could share my immortal prose with millions of people by emailing them; it does not mean they have actually used it or read it. How many departments have actually used the things that you have invented here in bullet point five?

Ms Cleveland: Some of the things we have pulled together have come through or we have taken them from examples in other departments, so some of the tools in there have been used. I am not claiming that we invented them in the Cabinet Office. We have actually learned from other departments in pulling those together into best practice for the wider Civil Service.

The Committee suspended from 4.16 pm to 4.28 pm for a division in the House.

Chairman: We are back. Mr Bacon?

Q96 Mr Bacon: Yes, thank you very much. It is a question for the National Audit Office. Sir John, I am very interested in this £4 million not because in terms of the amounts of money that we look at it is a huge sum—although frankly I would like to have it and I do not—but because it is not clear where it has gone. It has gone on staff to some extent, it has gone on producing this £7 billion of cost, although we are not clear where the workings come from, and it is presumably to some extent related (but it is not clear how) to this list of six or seven bullet points in paragraph 4.3. Could you possibly in time for our Report do a forensic audit of this £4 million and see where exactly it has gone because presumably it would help also answer the question of how the Department or the Cabinet Office got to the £7 billion cost figure in the first place?

Sir John Bourn: We will do that and of course share it with the Cabinet Office.³

Mr Bacon: Thank you.

² Ev 13-15

³ Ev 15-20

Cabinet Office, Department of Health & HM Prison Service

Q97 Chairman: Of course, Mr Wheatley, this question is borne out by paragraph 2.9, is it not, which you can find on page 19, where you do not actually know whether the staff savings are real because it says in this Report, to which you have agreed: “However, tracking every individual affected by the programme is incomplete, so it is difficult for the Prison Service to substantiate staff savings fully.” The truth is you do not know what has happened to staff whose posts have been removed, do you?

Mr Wheatley: I have replied to that already. That question has been raised already. I know that I have taken the money out of establishments and establishments are still performing and managing to maintain their operational performance to target, so that implies to me fairly strongly that we have managed to remove the staff and continue to deliver—

Q98 Chairman: It implies to you. I just do not understand why—and I am sorry to go back on this—it is so difficult to know what has happened to the individual members of staff.

Mr Wheatley: I would have to have had a list of all the staff I had working in the 128 establishments I have got of what precisely they were doing on a base date, and I would have to track their careers to see where they had moved to and why they had moved to make sure that they had actually left the job they were in at the right point for the right reason. I could have done that but it would have been an elaborate piece of work which would have involved expense.

Q99 Chairman: Perhaps I can go back to the National Audit Office to Mr Davis who has been working on this. Does this mean that you or they have never substantiated these savings?

Mr Davis: Certainly it means that it is more difficult to substantiate them if we cannot follow through individual staff members.

Q100 Chairman: So that answer we have had from Mr Wheatley is correct, basically, he has done everything he possibly can and there is nothing more that could be done?

Mr Davis: We have not looked in detail at what would be the costs of trying to set up the kind system that Mr Wheatley describes. I think to some extent standard human resource information would provide some of the answers. We have not looked at what additional costs might need to be incurred beyond that.

Chairman: Mr Bacon, are you now satisfied that the National Audit Office can in fact answer your question?

Q101 Mr Bacon: In relation to the £7 billion, I am hoping that the forensic audit of the £4 million that Ms Cleveland presumes it cost and where that has been spent will provide part of the answer. It surprises me that it is not relatively easy at the touch of a button to track somebody’s career using pretty much off-the-shelf HR software and for him to do that amongst quite a number of people.

Mr Wheatley: We will do now we have got them in the shared service sector. When we have completed the HR roll-out, you are right, it will be much easier to track individual staff and that is one of the advantages that comes from having a shared service sector and the really good electronic data system which we have not had previously.

Chairman: We are making progress slowly, thank you. Mr Wilson?

Q102 Phil Wilson: Just a few questions, Chairman. The first on a key fact, it says that the shared services in the NHS and the Prison Service are delivering savings and successfully tracking early problems of customer satisfaction. Can I ask Mr Wheatley and Mr Coates in turn, how did those problems manifest themselves and how did you resolve them?

Mr Wheatley: The main problems that we had with purchase and pay, aside from the IT problems—which I have already dealt with—were that as we began to make the payments centrally, the care about making sure that the invoice matched correctly so we could show that we had receipted the order, that the invoice had been correctly placed, that the right numbers were on the right invoice—often people asking for payment did not refer back to the order number—so some simple housekeeping things were not right to begin with. That meant the bills were paid slowly and that was a concern. As we have driven up transactability we have dealt with those fairly mundane problems. We also have to be careful that the receipting for goods received is accurate. To take an example, if we bought 359 washers and 357 turned up, do we pay the bill or do we not pay the bill because we have not got full delivery of it? Trying to make sure that we are not failing to pay bills for very small anomalies that we can sort out later and, on the other hand, we are not paying bills where there is a big anomaly or a deliberate attempt to somehow shortchange us. Getting those rules right has also been important to increasing transactability and those were the mundane practical issues that we worked away on problem-solving with in order to get the right answers that protect the public purse, keep the cost per transaction down and move things through smoothly so we have got suppliers who want to supply to us at a decent price.

Mr Coates: The SBS has similar problems. You cannot disguise the fact that when we first started the company there were problems over robustness of systems and reliability of systems and such like. It has taken a lot of hard work by the company to rectify this, to pay greater attention to response times, to queries, and to make sure that there is a big focus on customer care and customer satisfaction. I guess the answer to the question is how do we know it is getting better, how can we be sure that customers are feeling more happy with the service than they were in the past? Clearly graph 9 on page 20 shows that over time people get more accustomed to and more happy with shared services. I accept it could be simply the passage of time that makes people happier, but I guess we would also point out that we now have a large number of reference clients. These

Cabinet Office, Department of Health & HM Prison Service

are people who are willing to receive visits from potential customers to vouch for the quality of service. We have now got over 22 reference sites out of the 89 customers, which is nearly 20%. The second factor is that the business is still growing and people are coming across. The word-of-mouth message in the NHS is very powerful. If we were not really paying attention to quality and standards then we would always be pushing a snowball up a hill.

Q103 Phil Wilson: Thank you for that. I have three or four questions for Alexis Cleveland. The Cabinet Office estimates that there is scope to reduce the cost, this £1.4 billion figure. Is there a timeline over a period of time for how you are going to achieve that and how long it is going to take you to recoup that?

Ms Cleveland: We do not have a complete roadmap for the transition of every department onto that but within a particular programme from start-up it usually gets to the point where you have paid back your initial investment on a four or five-year timeline and after that you are in profit. However, to take that across every department and put them on to a shared service is going to take some time.

Q104 Phil Wilson: It is just the point about this £7 billion. This £1.4 billion is 20% of that, which is mentioned in the Report, but we do not know how we got to the £7 billion figure. Once we work out what that figure is, the £1.4 billion might be less than 20% or it could be more than 20%.

Ms Cleveland: What we are quite confident about is that there is at least a 20% saving.

Q105 Phil Wilson: But we do not know if there is actually going to be £1.4 billion so we are not too sure about whether it is actually £7 billion?

Ms Cleveland: That is the arithmetic, yes.

Q106 Phil Wilson: I have another couple of questions. Only the Cabinet Office and the Department for Children, Schools and Families have committed to buying their corporate functions from one of the designated selling departments. If that is the case, do you think you have largely failed to persuade departments to take on board the strategy?

Ms Cleveland: It is largely to do with the speed at which the selling departments can actually move from being a service that provides something within their own department to meeting some of the different requirements of other parts of the business, so within the Cabinet Office for example we are moving to the DWP shared service system. As far as possible we are going to take exactly their business processes, whether they are HR processes or whether they are financial processes, because they are pretty vanilla for the Oracle platform, but we do have some requirements that are different. For example, the security on the desktops in the Cabinet Office given the nature of the work we do is a different standard to those in DWP, so they are going to have to make some adjustments to their service in order to be able to supply us with that service.

Q107 Phil Wilson: According to the Report there is an on-going issue around VAT as well.

Ms Cleveland: I think VAT is a matter for the Chancellor. I would be very reluctant to say too much about it with the Treasury Officer of Accounts in the room.

Q108 Phil Wilson: You are obviously in liaison with Treasury officials about it?

Ms Cleveland: We are indeed. This really is not an issue for most parts of local government and many central government departments because VAT is recoverable. It seems to be an issue in some of the NDPBs.

Q109 Phil Wilson: It seems to me that if we could resolve this issue it would take the lid off all the things that you would want to do and you could expand the service and recoup some of the savings basically?

Ms Cleveland: Indeed, and that is why we have identified it as one of the barriers and we have made this known to Treasury colleagues.

Q110 Phil Wilson: One last point, the Report is peppered with remarks, on page 23 for example, "Performance lags behind leading practice comparators but there is a focus on continuous improvement" and there is an issue in here for example around invoices that are less than £100 where in the private sector they are just paid and in the public sector they are not. I know it is taxpayers' money but something needs to be resolved there. Also on page 9, paragraph 14 where it mentions: "Organisations receiving these shared services reported early problems. This is a common experience with large transformation programmes." Ultimately in the process that you are going through at the moment, do you see cultural change within the Civil Service as the one part of it that you are finding difficulty coming to terms with as an organisation?

Ms Cleveland: If I talk about the Cabinet Office there, because I think it is probably quite a good example of a new department moving on to this system, I have seen the challenges coming as to do with compliance with the process. I see this as a huge advantage because it will help us make sure that we have consistent processes across the whole of the business because there will only be one way you can do it. Where you have paper processes, custom and practice varies in some areas, so I think there are some big advantages in making those sorts of changes, but some of those are cultural changes. I think it is also the fact that because we want to take systems that are as vanilla and as unbespoke as possible so that it makes the on-going maintenance charges lower as we go forward, they are not necessarily the prettiest systems for people to use, and we expect some pushback from staff to do it. It also means that line managers have to take accountability for management and that is going to be important for us as well.

Q111 Phil Wilson: Would that be the same for the Prison Service and the NHS as well? Mr Wheatley, you can speak for the Prison Service and Mr Coates for the NHS.

Mr Wheatley: We think that we are reasonably well down the road of the shared service centre. We are determined to reduce the cost of transactions and I have already said that. We know we need to make changes and we think now we have got the system up and running we are in a position to move forward and do that. The crucial thing is to make it work. It does have the advantage of making sure that people have to follow the systems. It is much more difficult to cheat with an IT system, cut corners, introduce a slightly different system that is more complicated and more expensive but somebody feels happier with, and for me it means that we end up doing a more effective job at a lower price. I am sold on this as an approach and want to exploit it.

Mr Coates: It is a big cultural change going essentially from a paper-based system to a screen-based system. We have had to tackle several problems. The best example of cultural change I have got is it used to be the case that FDs in the NHS were paid based on the number of staff they had. Clearly one thing about shared services is that you destaff at a local level and it is a perverse incentive there if you think you are going to cut your own pay by reducing staff numbers, but that has changed now.

Chairman: I think Mr Bacon has one supplementary.

Q112 Mr Bacon: I did have one, I now have two actually, Mr Coates, because you have just reminded me that you are a financial director, and I always like to ask financial directors if they have a financial qualification.

Mr Coates: Yes, I am a qualified accountant.

Q113 Mr Bacon: Good, that is marvellous. So you are one of Ms Diggle's 91% rather than the 9% who do not?

Mr Coates: I presume so, yes.

Ms Diggle: It is actually 93%, Mr Bacon.

Q114 Mr Bacon: 93%? Even better, which makes the absence of the Ministry of Defence from that list even more worrying.

Ms Diggle: I am afraid so.

Q115 Mr Bacon: I would like to you ask you, Ms Diggle, about the VAT issue because Ms Cleveland pointed out that local authorities and central government departments were not affected and indeed it explains why in paragraph 4.6 where it says that 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—local authorities I presume—they can reclaim VAT, but of course non-departmental public bodies and higher and further education bodies cannot. The Treasury has been looking at this for a year and a half, since May 2006. When is the Treasury going to come to a conclusion about what to do about it?

Ms Diggle: It is not easy, Mr Bacon. This is a policy matter for the Chancellor first of all but secondly we have to keep within the European Directives which do limit what we can do.

Q116 Mr Bacon: In Italy they would just have reclassified education bodies as local authorities or something like that and got the job done. Is the Treasury serious about this policy of encouraging shared services?

Ms Diggle: Certainly.

Q117 Mr Bacon: It is a massive inhibition

Ms Diggle: We are doing it ourselves.

Q118 Chairman: Yes you are, but you are doing it with your own shared service centre; you are not outsourcing it, are you?

Ms Diggle: No, we are doing it ourselves internally, for the moment.

Q119 Mr Bacon: But it is a massive inhibition to outsourcing for people out there?

Ms Diggle: You are right, it is certainly a problem for some bodies and we would like to help solve it.

Q120 Mr Bacon: When do you think it will be solved?

Ms Diggle: I would have to look into that for you, I am afraid.⁴

Q121 Mr Bacon: Will you write to us?

Ms Diggle: Certainly.

Q122 Chairman: I have one last question for you, Mr Coates, in figure 12 on page 22, it says at the bottom of the second paragraph that 65% of invoices in Queen Elizabeth Hospital NHS Trust are backed by a purchase order (PO) compared with an average of 30% for all Shared Business Services customers. It is pretty devastating that only 30% of those invoices are backed by a purchase order, is it not?

Mr Coates: It does demonstrate poor management of the way a trust goes about issuing orders to its contractors, yes.

Q123 Chairman: It is more than poor management. As I understand the way the public sector works, you have a purchase order and then you know you have an invoice, it makes sense, does it not?

Mr Coates: I agree that—

Q124 Chairman: It is staggering that only 30% are backed by one.

Mr Coates: I agree but hospitals work in certain ways and there is little chance of mistakes or fraud because ultimately the PO is raised retrospectively rather than prospectively. In other words, once the order has been placed, the orderer has to then raise the matching PO, so it is a management issue rather than a process issue or a fraud issue.

⁴ Ev 20

Cabinet Office, Department of Health & HM Prison Service

Q125 Mr Bacon: Why does the NHS employ 300 people in the NHS Counter-fraud Security Agency if there is little risk of fraud?

Mr Coates: On this particular issue I was talking about, not generally.

Q126 Chairman: Does this answer stack up? Can I ask the National Audit Office, is this right that because of the way the NHS works that it does not really matter that only 30% of invoices are backed by a purchase order? That is what we have just been told.

Sir John Bourn: Basically of course it does matter because there would be no point in having both of them to compare unless it served a purpose. But of course, as Mr Coates says, you find different systems

occurring in different lines of activity. The whole question is whether you find something which is different and *prima facie* surprising, is it justifiable or does it need correction?

Q127 Chairman: Do you think it needs correction, Mr Coates?

Mr Coates: I think good practice would dictate that the numbers should be the other way round, yes.

Q128 Chairman: So does it need correction?

Mr Coates: We are trying to correct it by bringing in electronic invoicing to prevent POs being raised retrospectively.

Chairman: Thank you, lady and gentlemen, for your attendance and let us hope you find £7 billion. Thank you very much.

Supplementary memorandum submitted by the Cabinet Office

Question 87 (Mr Richard Bacon): *Cabinet Office Shared Services team*

The team was established in summer 2005. It initially was structured as follows:

- David Myers (former CIO at DEFRA)
- Two industry specialists—Chris Price (Alsbridge), and Barry O’Connell (Hewlett Packard).
- Jo Clift (civil servant)
- Andrew Budge (independent consultant)

David Myers left in January 2007 with his role being taken by a full time civil servant, Jo Clift (Head of Shared Services)

From mid 2005 to mid 2007 the team employed at various times a number of consultants on a variety of short and longer term contracts. The last consultant left in July 2007. It was deemed necessary to employ consultants in order to provide the Cabinet Office team with the external expertise (shared services are much more established in the private sector) and the capacity to take this project forward. The skills mix comprised functional expertise, initially in finance and HR, programme and procurement experts and discipline skills in shared services and outsourcing.

During this period several consultants were seconded to other departments to help them in the development of their shared service proposals. This work was charged to departments and paid back to the Cabinet Office. A team of five agency support staff was also employed.

The core activities undertaken by the team included:

- Delivering the strategic business case for shared services in the public sector. This including detailed work to assess the estimated amount spent by central, local and the wider public sector on HR and Finance (see separate entry below).
- Detailed work on a common solution framework for shared services across Government.
- Detailed work on tools, techniques and methodologies to assist shared services programmes in their implementation.
- Detailed work undertaken with the private sector to understand their vision of shared corporate services and how their experience can be used to best effect within the public sector.
- Work undertaken to understand how other international public sector models of shared services can inform us and provide valuable lessons learnt.
- Variety of special interest groups established eg charging, benchmarking, change management to assist practitioners in learning from each other and from private sector experts.
- Variety of fora set up to benefits public sector stakeholders to learn from each other. Some of these fora also involved the private sector stakeholders to ensure that lessons already learnt from private sector experiences were also shared.
- Specific work undertaken with central government sector to allow them to carry out an options analysis on whether to be a seller or a buyer and whether to buy internally or externally.
- Work establishing a web site (this has since had an annual average of 52,000 visits and 20,000 downloads).

The team is now focusing on the next stage of shared services which concentrates on implementation, monitoring and delivery. This work is undertaken by a team of four permanent civil service employees comprising one Senior Civil Servant and three Band As (Grade 7 equivalents).

2. ESTIMATE OF THE OVERALL COST OF HR AND FINANCE (£7 BILLION)

A key element of the business case work was to gauge the potential size of the market for shared corporate services in the public sector. This analysis, which was partly funded by the OGC, built upon earlier research undertaken for the Gerson Review.¹ It was a focussed study analysing corporate services in detail and involved accessing current published material but also collating new original data and gathering information from stakeholders.

The work was subject to regular scrutiny and review through a rigorous governance and project management structure headed by the Shared Service Programme Board chaired by John Oughton of the OGC. John Oughton presented an update on the OGC Efficiency Programme to the Cabinet on 6 October 2006 which included reference to the £7 billion.

The approach taken was to look at the most common and developed elements of corporate services, namely HR and Finance and estimate the total amount the public sector spent in these areas.

Source Material

The data used was drawn from a representative sample and covered a sufficiently wide range of programmes in terms of size, type (central departments and wider public sector) and function (HR, Finance and Enterprise and Resource Planning programmes covering both Finance and HR).

Quantified information was provided by MoD, DWP, Department of Health/NHS, Home Office (including Prisons, and Police), DfES, Department for Transport, Northern Ireland Civil Service, Transport for London, Cabinet Office / Treasury/ Office of the Deputy Prime Minister. Supporting information from HMRC, Defra, DCA and a wide variety of Local Government organisations was also used.

This material was complemented by views, facts and opinion from our involvement in Pathfinder projects, interviews and group workshops (eg Shared Services Forum, Finance Directors Meetings). Information was also obtained from the private sector.

We estimated that there are over 1300 individual public organisations responsible for definition and delivery of HR and Finance services. This includes all Departments, Agencies and Non Departmental Public Bodies (NDPBs), local authorities, NHS Trusts and Police Authorities.

The great majority of these organisations comprise less than 5000 employees and fall outside the traditional definitions of central civil government. This is significant when examining the nature of shared services. These smaller bodies can potentially reap considerable benefits, both financially and from efficiency gains, if they share corporate functions with other organisations.

Methodology

There are no definitive numbers available for the operating costs of HR and finance in Government. The following table and accompanying notes set out the approach used to getting an estimate for these numbers.

	<i>Central Civil Government</i>	<i>Wider⁸ Public Sector</i>	<i>Total</i>
Starting ratios—HR staff: No. of employees ¹	1:40	1:91	
Adjustments for average rather than median ²	1:33	1:85	
Using broader definition of HR ³	1:25	1:70	
Total employees served ⁴	550k	4500k	
Therefore HR employees	22k	63k	
Average costs plus on-costs ⁵	£45k p.a.	£42k p.a.	
Therefore total HR costs including advertising costs ⁶	£1090m	£3046m	
Total finance costs ⁷	£945m	£2381m	
Total HR and Finance costs (rounded down)	£2,000m	£5,000m	£7,000m

Notes:

¹ Ratios taken from the median of the EP-First (PWC—originally Saratoga) survey (this survey was used as it is the one most quoted by organisations in their plans).

² Adjustments made as the larger organisations in the EP-First survey showed considerably worse ratios. The average figure would therefore be much less than the median figure

¹ Releasing Resources for the frontline; Independent Review of Public Sector Efficiency, Sir Peter Gershon, July 2004.

³ Processes and activities such as pension administration, training, health and safety, payroll are not included in the EP-First. This is estimated to add about 20-30% to total staffing and costs

⁴ Taken from central statistics and cover England and Wales (Scotland and Northern Ireland are excluded)

⁵ Average costs from the EP-First survey with inflation from 2002–03 taken into account and then a standard 40% on cost for accommodation, systems and infrastructure

⁶ Recruitment advertising costs have been estimated by an Office of Public Service Reform report to be in the order of £0.5–£1bn p.a. The figure of £0.5bn has been used here, apportioned between Civil and Central Government and Wider Public Sector.

⁷ Figures for finance are generally less robust because there are no reliable benchmarks in the public sector covering operating costs. Estimates from the Police high-level data gathering and other sources suggest that overall Finance expenditure is slightly less than that on HR. However, figures from some of the larger Government Department show finance equal to or in excess of HR numbers. A figure of 90% of HR costs (excluding advertising costs) has been taken

⁸ The “Wider Public Sector” column comprises areas such as Local Authorities, Health, Education, Emergency Services etc. The ratios developed in this area were checked through a series of discussions with key stakeholders eg Local Authorities and Police.

The financial models for our outline business case were based on figures of around 150,000 employees and a reasonably conservative figure for total finance and HR expenditure of £7bn per year. This figure and methodology is in line with separate unpublished work undertaken by PWC.

Supplementary memorandum submitted by the National Audit Office

Question 96 (Mr Richard Bacon): *Running costs of the Cabinet Office Shared Services Team*

1. At its hearing on 12 December 2007, the Committee of Public Accounts asked the National Audit Office to analyse the money spent by the Cabinet Office Shared Services Team in the financial years 2005–06 and 2006–07. This note explains what our analysis revealed and how we conducted it.

SPENDING ANALYSED BY TYPE OF ACTIVITY

2. Figure 1 shows how the spending of the Shared Services Team was distributed across consultancy contracts, staff costs and other costs.

Table 1

BREAKDOWN OF SHARED SERVICES TEAM COSTS BY TYPE OF ACTIVITY

	2005–06 (£)		2006–07 (£)	
	<i>Detail</i>	<i>Totals</i>	<i>Detail</i>	<i>Totals</i>
Management consultancy costs paid by Cabinet Office	1,329,780		978,234	
Management consultancy costs paid by Office for Government Commerce (estimated)	126,000			
Management consultancy travel and subsistence	545		7,035	
MANAGEMENT CONSULTANCY		1,456,325		985,269
Salaries	88,703		216,018	
Bonuses	2,084		27,144	
National Insurance	9,597		27,897	
Pension schemes	16,787		40,082	
Fee paid staff	7,801		39,367	
National Insurance for fee paid staff	842		4,551	
Agency staff	34,366		70,353	
Travel and subsistence	537		5,945	
Training	945			
STAFF COSTS		161,662		431,357
Entertainment expenses	69		1,808	
Conferences	400			
Local purchases			1,597	
Stationery	121		85	
Publications			121	
Publicity			187	
IT equipment	176			
Hardware maintenance and support			382	

	2005-06 (£)		2006-07 (£)	
	<i>Detail</i>	<i>Totals</i>	<i>Detail</i>	<i>Totals</i>
Internet subscriptions	245			
Facilities management			9	
Administration			165	
OTHER COSTS		1,012		4,354
TOTAL		1,618,999		1,420,980

3. Staff salaries covered the core Shared Services Team of two people in 2005-06 and three people in 2006-07. In each year, one member of staff worked only part of the time on shared services work, so only that proportion of salary costs was charged. Bonuses were paid in line with standard Cabinet Office arrangements, the level of bonus depending on delivery against objectives. The Shared Services Team employed two fee paid staff: in one case where a suitable candidate was not available in the Cabinet Office and in the other where the person in question had significant relevant knowledge and experience. Fee paid contracts provided payment for each day worked and applied to one-person companies whose work had not been subject to formal tender. The Cabinet Office uses such contracts where it deems it inappropriate to employ a permanent civil servant or fixed term appointee. Agency staff provided support functions when appropriate members of staff were not available internally at the right time and the Cabinet Office considered that permanent recruitment to temporary posts was not justified. Entertainment expenses covered hospitality, such as hot drinks and working lunches, at meetings with external organisations.

4. Consultancy contracts represented the dominant costs in 2005-06 and 2006-07. Figure 2 breaks these down by contractor. Many of the contracts were for specific members of staff who joined the Shared Services Team to carry out short-term work on fixed aspects of the deliveries set out in the next section.

Table 2

BREAKDOWN OF SHARED SERVICES TEAM MANAGEMENT CONSULTANCY COSTS

	<i>2005-06 (£)</i>	<i>2006-07 (£)</i>	<i>Two year total (£)</i>
Computercenter (UK) Limited	202,174	13,333	215,507
Deloitte Consulting	179,716		179,716
Hewlett-Packard Ltd	198,700	-3,600	195,100
Mantix Ltd	556,129	150,279	706,408
PA Consulting Group	30,000		30,000
SCC Ltd	68,484	271,139	339,623
Commerce Partner	15,447	14,703	30,150
Alsbridge Ltd	40,500		40,500
Cornwell Management Consultants PLC	38,630	268,921	307,551
Atkins Management Consultants		70,505	70,505
Atkins (Services) Ltd		118,691	118,691
OGC-PACE		63,604	63,604
DCA		10,660	10,660
Accenture (estimated)	76,000		76,000
Orion Partners (estimated)	36,000		36,000
Curve Consulting (estimated)	14,000		14,000
Travel and subsistence	545	7,035	7,580
TOTAL	1,456,325	985,269	2,441,594

Notes: the negative figure for Hewlett-Packard in 2006-07 occurred because the actual contract cost was less than allocated to the 2005-06 accounts and the correction had to be made to the 2006-07 accounts. Costs of the contracts with Accenture, Orion Partners and Curve Consulting are estimated because the Cabinet Office has been unable to obtain firm figures from the Office of Government Commerce, who paid the costs [to be discussed with OGC].

SPENDING ANALYSED BY DELIVERY AREA

5. The Cabinet Office Shared Services Team divided its activities into five broad delivery areas in addition to overall programme management. Figure 3 shows how the Shared Services Team's funding was applied to delivery areas. The appendix lists the main outputs that the Shared Services Team delivered with this funding. The second delivery area, covering demand, includes £12,420 spent in identifying £7 billion as the total annual cost of human resources and finance services across government.

Table 3

BREAKDOWN OF SHARED SERVICES TEAM COSTS BY DELIVERY AREA

<i>Delivery area</i>	<i>2005–06 (£)</i>	<i>2006–07 (£)</i>	<i>Two year total (£)</i>
Programme management	125,094	278,481	403,575
Work with government users	452,329	557,777	1,010,107
Market development	223,662	356,114	579,777
Business engagement	89,191	105,451	194,642
Solution design	310,816		310,816
Support	417,906	123,156	541,062
TOTAL	1,618,999	1,420,980	3,039,979

OUR REVIEW

6. The key elements of our review were:

- analysing a breakdown of Cabinet Office costs drawn from the Cabinet Office's general ledger;
- seeking further evidence from the Cabinet Office to answer questions raised by our analysis of general ledger figures, including how the figures related to the key delivery areas of the Shared Services Team;
- seeking information about costs paid by the Office of Government Commerce but which related to work undertaken as part of the Shared Services Team;
- checking consultancy costs back to contract documents;
- resolving with the Cabinet Office all inconsistencies revealed by our analysis; and
- confirming with the Cabinet Office the accuracy of our presentation of figures in this note.

7. The Cabinet Office, in answering questions about the costs of the Shared Services Team, discovered that some of the £4.0 million declared to the Committee and the National Audit Office for the years 2005–06 and 2006–07 had been allocated incorrectly. In total, the Cabinet Office had assigned costs of £1.1 million to the Shared Services Team that properly related to other aspects of Cabinet Office activity.

8. Conversely, the Cabinet Office had excluded the cost of consultancy work that formed part of the activities of the Shared Services Team but had been paid by the Office of Government Commerce. The Cabinet Office was unable to obtain firm figures for the cost of this work but provided estimates based on budgeted figures. These estimates amounted to a total of £0.1 million incorrectly excluded from overall costs.

9. The net effect of these errors was that the Cabinet Office had previously overstated the cost of the Shared Service team by 1.0 million. The correct costs, analysed in this note, are £3.0 million. This error will not have affected the Cabinet Office's financial accounts for 2005–06 or 2006–07 because the accounts are not required to be broken down to such a level of detail.

APPENDIX

MAIN DELIVERIES BY AREA

<i>Area</i>	<i>Objectives</i>	<i>Outputs</i>
Programme management	Overall direction and management of the work programme.	<ul style="list-style-type: none"> — Overall programme management. — Programme plans. — Risk identification and management process.
	Senior stakeholder engagement.	<ul style="list-style-type: none"> — Risk logs. — Budget profiles.
	Implementing programme management mechanisms and running a programme management office.	<ul style="list-style-type: none"> — Monitoring and reporting mechanisms. — Governance arrangements for delivering the shared services programme. — Secretariat to shared services governance arrangements. — Material for Gateway Reviews. — Records management.

<i>Area</i>	<i>Objectives</i>	<i>Outputs</i>
Work with government users	<p>Identification and agreement by the shared service programme board to the sector-wide approach to shared services.</p> <p>Analysis and identification of sectors.</p> <p>Ensuring that all sector plans were written and approved.</p> <p>Producing and agreeing a resource plan to support the sector implementation plans.</p> <p>Documenting a demand side shared service approach.</p> <p>Creating a demand side briefing programme and briefing pack for shared service practitioners.</p> <p>Identifying cross-sector sharing challenges and issues.</p> <p>Developing a completed maturity matrix.</p>	<ul style="list-style-type: none"> — Analysis of central government leading to split of public sector into nine sectors for shared services. — Work undertaken to understand how other international public sector models of shared services can inform us and provide valuable lessons learnt. — Sector Plans. — Detailed briefing pack to enable departments them to make decisions of their strategy for shared services. — Analysis of options with central government departments to enable them to identify their strategy as (i) providers or buyers of shared services and (ii) where appropriate, buying from the external or internal market. This resulted in identifying the Department for Work and Pensions and Her Majesty's Revenue and Customs as the initial providers of corporate shared services, and the Cabinet Office and Department for Children Schools and Families becoming buyers of shared services from the Department for Work ad Pensions. — Facilitating over 20 workshops with government departments to enable them to determine their strategy. — Building on the above, developing a business case for the shared services programme. This included identifying the annual cost of human resources and finance functions. — Paper on procurement principles and strategy. — Business case for National Archive. — Procurement strategy for Cambridgeshire and Northamptonshire shared corporate services.
Market development	<p>Developing standards and best value from the private and public sectors.</p> <p>Developing and agreeing supplier market strategy with key stakeholders.</p> <p>Embedding the new requirements of the shared services market into government procurement policy and process.</p> <p>Identifying the necessary market capability and capacity to serve the public sector shared service demand and working with the market to ensure best implementation of shared service solutions.</p> <p>Facilitating collaboration between suppliers on shared service solutions and removing barriers.</p> <p>Encouraging a move towards convergent yet innovative shared service solutions, reducing product based differentiation.</p> <p>Working with senior supplier representatives to support them in developing their pan-government shared service strategy.</p> <p>Liaising with key supplier stakeholders and gathering market intelligence.</p>	<ul style="list-style-type: none"> — Detailed and in-depth work and research undertaken with the private sector to understand their vision of shared corporate services and how their experience can be used to best effect within the public sector, and making them aware of the specific challenged faced by government so that they could prepare appropriate business models and solutions. — Identifying the different delivery models for shared services: joint venture, trading fund, unitary. Producing guidance for use across the public sector. — Paper on market dynamics. — Improved understanding in supplier community of our aims through <ul style="list-style-type: none"> — monthly market briefings for suppliers (120+ registered suppliers) — shared services strategies assessed for 40+ suppliers — 70 hours of feedback sessions — site visits in UK and EU. — Supporting the Office of Government Commerce procurement initiatives. — Developing a market strategy and testing it through concept viability workshop. — Developing a market maturity model. — Identifying barriers to shared services in central government. — Business case for removing the VAT barrier. — Business case for removing the headcount barrier. — Analysis of options for governance of shared services. — Paper on EU procurement rules. — Developing operating models for corporate services in the public sector.

<i>Area</i>	<i>Objectives</i>	<i>Outputs</i>
Business engagement	<p>Stakeholder engagement and communications including central government, media, press office, political staff, trade unions, and suppliers.</p> <p>Developing communications strategy for shared services.</p> <p>Determining the map and goals for each stakeholder.</p> <p>Identifying and engaging resources, including events, to carry out stakeholder management.</p> <p>Producing the shared services newsletter.</p> <p>Designing and delivering supplier briefings programme and pack.</p>	<ul style="list-style-type: none"> — Stakeholder identification and analysis. — Stakeholder engagement, communications and marketing strategies and plans. — Engagement and relationship building with all key stakeholders. — Brand guidelines. — Setting up a variety of forums to enable public sector stakeholders to learn from each other. Some of these forums also involved the private sector stakeholders to ensure that lessons already learnt from private sector experiences were also shared. — This included shared services briefing forums bringing together central government to provide briefing and share good practice and avoid re-inventing the wheel. — Shared services website on the Central Office of Information website. This provided direction on the shared services in government, brought together private sector research and information about shared services, and provided examples of best practise from across the public sector. Its creation avoided the need for public sector organisations considering shared services to invest significant effort undertaking research into shared services. — Producing regular shared services newsletter. — Developing an introduction to Shared Services Leaflet. — Designing and facilitating a shared services conference. — Developing and delivering presentations on shared services to a wide range of audiences.
Solution design	<p>Developing the essential business rules for creating shared service solutions in the public sector.</p> <p>Explaining what transformation through shared services means and documenting the approach required of employees, customers and suppliers to support this goal.</p> <p>Documenting the solution roadmap, setting out the main issues and challenges for those implementing shared service solutions.</p> <p>Describing the client and supply side skills profile needed for the public sector solution to be delivered.</p>	<p>Developing a knowledge repository called the solution design, which comprises a complete manual for shared services. The solution design covers the following:</p> <p style="text-align: center;">Knowledge Types:</p> <ul style="list-style-type: none"> — Best practices — Benchmarks — Case studies — Solution deliverables — Methodology — Thought leadership and news — Background information and supporting material <p style="text-align: center;">Solution Components:</p> <ul style="list-style-type: none"> — Service (processes, process flows, control framework, service management framework) — Governance and organisation (roles, organisation design, location and facilities) — Technology (systems, applications, IT infrastructure, technology environment) — People and workforce (skills and competencies, performance management, culture, industrial relations) — Programme management (project planning, roles, risk management) <p style="text-align: center;">Lifecycle Stage:</p> <ul style="list-style-type: none"> — Feasibility — Strategy — Design — Build — Transition — Operate

<i>Area</i>	<i>Objectives</i>	<i>Outputs</i>
Support	<p>Development of a repository of tools including:</p> <p>Creation of a set of support service offerings and products.</p> <p>Definition of the expected standard of service to be delivered.</p> <p>Advice to shared service practitioners.</p> <p>Research into global shared service best practice.</p>	<ul style="list-style-type: none"> — Creating and facilitating a series of Special Interest Groups. — Facilitating the Special Interest Groups, building on their experience, to develop in-depth guidance and standard templates on implementing shared services in central government. This covered a broad range of areas including benchmarking, service level agreements, charging, and change management. — Developing a Shared Services Toolkit which included a repository of tools, guidance and example outputs to assist public sector organisations on their shared services journey. This was published on the Central Office of Information website. — Supporting public sectors organisations in gaining a better understanding of shared services including responses to queries, signposting to best practise material, presentations, briefings. — Delivering “webinars” every 6 weeks to offer support and advice to shared service practitioners across the public sector. — Researching global best practice on shared services and identifying benchmarks.

Source: Cabinet Office

Letter from Treasury Officer of Accounts to the Clerk of the Committee

Question 120 (Mr Richard Bacon): *VAT payments on outsourcing*

At the hearing, Mr Bacon asked me when the government’s work on VAT payments on outsourcing might reach a conclusion.

I am afraid I cannot add very much to what the NAO Report says at paragraph 4.6.

I understand that the Treasury has been working with the Cabinet Office to gather evidence on the scale of any VAT issue and then to consider how to address the implications for the take up of shared services. The Treasury has recently written to government departments to gain further evidence on the extent of current and potential service sharing and outsourcing among NDPBs. This information will be factored into the Chancellor’s decisions on tax as part of the budget cycle in the context of the overall budget package. You appreciate I cannot really add any more information about that.

It may be helpful to add that ministers would wish to ensure that any changes should not disturb the principles governing how government bodies are funded. For higher and further education institutions, which are charitable bodies, Ministers will wish to ensure that any changes are fair to the charitable sector as a whole and consistent with the conclusions of previous reviews of charity taxation.

I am sorry I cannot be more helpful

ISBN 978-0-215-51485-1

