House of Commons

Committee of Public Accounts

Shared service centres

Twentieth Report of Session 2016–17

Report, together with formal minutes relating to the report

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The Committee of Public Accounts

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Committee reports are published on the Committee's website and in print by Order of the House.

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The current staff of the Committee are Dr Stephen McGinness (Clerk), Dr Mark Ewbank (Second Clerk), George James (Senior Committee Assistant), Sue Alexander and Ruby Radley (Committee Assistants), and Tim Bowden (Media Officer).

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Summary

In 2012, we reported on the Cabinet Office's attempts to reduce costs by sharing back-office functions and, at that time, identified the need for the Cabinet Office to learn from past mistakes, show strong leadership and get buy-in from departments. Yet four years later, the Government's latest attempts are failing for much the same reasons: a failure of governance and leadership by the Cabinet Office; departments acting independently rather than collaboratively; the absence of a realistic business case; a failure in the management of the transfer of risk to suppliers and a failure to develop standardised processes. The result is that the two shared service centres considered as part of this inquiry have only delivered £90 million of 'savings' in the first two and a half years of operation but at a cost of £94 million and, therefore, a net cost to the taxpayer of £4 million. The Cabinet Office now estimates that the centres will deliver savings of around £484 million in total by 2023–24, which compares unfavourably with the anticipated £300 million to £400 million a year savings set out in the Next Generation Shared Services Strategy in 2012. The Cabinet Office acknowledged that the programme had not gone well but stated that the ambition to create shared services across government remains intact.

We recognise the recent positive changes introduced such as the appointment of senior individuals from the finance and HR professions to design standard processes within their professions. There needs to be an agreed set of standard processes as soon as possible. We also expect the Government to produce a realistic, and complete, business case for the centres and to set out clear governance procedures by the end of 2016. It is essential that, for the success of this and other cross-government programmes, the Cabinet Office demonstrates effective leadership to ensure departments are signed up and act collaboratively.

Introduction

Central government has long pursued shared service centres as a way to reduce costs while at the same time freeing up resources from back-office functions to provide better front-line services. The principles of reducing costs through using shared services are straightforward and widely understood, combining two key elements: standardised processes and services, and the outsourcing of operations to an organisation which can offer the service at a lower cost through benefiting from economies of scale. Cabinet Office's Next Generation Shared Services Strategy promoted the setting up of two independent shared service centres to provide back-office functions for up to 14 departments and their arm's length bodies. It was intended that the centres and the introduction of single operating platforms would achieve £128 million of savings a year and that further efficiencies would allow benefits to increase to between £300 million to £400 million a year. The actual savings delivered after two and half years of operation are £90 million, less than the £94 million estimated total investment costs of the programme to date. Furthermore, only 2 of 26 organisations that planned to adopt single operating platforms by April 2016 had done so. The previous Committee of Public Accounts examined this topic in 2012 and reported that: shared service centres had provided poor value for money in the past; the Cabinet Office had not provided the strong leadership required to get buy-in from individual departments and that most departmental customers had not streamlined or standardised their back-office processes, leading to overly tailored services and complex systems.

Conclusions and recommendations

1. **The failure at the outset to set up effective governance has had long-term consequences for the programme.** From the outset, the Cabinet Office did not have effective governance in place and did not have leaders with appropriate shared service experience. For example, whilst the Cabinet Office managed the framework agreements between government and suppliers, departments had individual call-off contracts with the suppliers. As a result, the Cabinet Office did not always have clear authority as to when and how it could step in to resolve problems when they arose. Also, weak governance meant that departments had insufficient opportunities to express their concerns with the programme, governance boards failed to take appropriate strategic decisions in a timely manner and board minutes were not satisfactorily agreed. Five different senior responsible officers have overseen the programme so far and often they have not held relevant experience in shared services. Although the programme has delivered savings of £90 million, these are less than the £94 million spent and significantly less than the £300 to £400 million a year forecast in the Cabinet Office's Next Generation Shared Services Strategy.

   Recommendation: ***The Cabinet Office should demonstrate how it has learnt from its previous experience and set out what steps it will take to make sure it has, by March 2017, effective leadership and sufficient expertise in place.***

2. **The absence of a realistic business case undermined the programme's chances of success.** There was no overall business case for the two shared service centres. There were various partial business cases for each of the shared service centres but they were either incomplete, out of date, or both. As a result, some important aspects of the programme, such as governance and how funding would be shared and benefits monitored, were not properly set out. The costs borne by some individual departments ended up being out of proportion to the benefits they received. Without a strong, clear, compelling business case it became difficult to incorporate all of the different business objectives of the departments. The Cabinet Office had not recognised that earlier benefit forecasts were overly optimistic and has revised down the benefits forecast to £484 million over the lifetime of the programme.

   Recommendation: ***The Government should produce a realistic and complete business case for the centres by March 2017. It should be updated if there are any future significant changes.***

3. **The Cabinet Office, once it had decided not to make it compulsory for departments to join the programme, did not secure sufficient buy-in from departments.** The Cabinet Office did not create an environment of collaboration among the departments at the outset of the programme which contributed to a lack of buy-in from them; there were some reports from departments that they felt pressurised to join. Furthermore, the Cabinet Office did not intervene in a timely and effective manner when things began to go wrong with the programme, in part because it had no clear mandate, for example, to instruct departments to keep to the migration timetable but, also, because it did not see this as its role. The Cabinet Office asserts that the structures of accountability in government make it inherently difficult to undertake cross-government programmes.

Recommendation: ***The Cabinet Office needs to define what levers it requires to ensure that it can secure the commitment of departments to cross-government programmes, particularly if it decides to allow departments to choose whether to opt in.***

4. **It is too easy for departments to pull out of the programme and put at risk the significant benefits that shared services can deliver.** All departments receiving services from the two shared service centres have saved between 20% and 25% on the cost of back-office functions. However, some departments have pulled out of the programme and sought other arrangements to protect their own interests. The lack of commitment to the overall programme by some departments is, in part, because they had assessed that any benefits from participating in the programme would only be marginal. They had not been persuaded by the argument that remaining in the programme would generate benefits for the whole of government. Without the appropriate leadership and governance structures in place, there was nothing preventing them from leaving the programme.

Recommendation: ***Departments should explicitly sign up to the revised business case produced by the Cabinet Office and verify that they are clear on the benefits and are fully committed to delivering shared services.***

5. **Government failed to manage effectively the risk of delays and poor supplier performance, leading to increased costs for the taxpayer.** The suppliers had only managed to transfer 2 of the 26 organisations onto the single operating platforms by April 2016. The risk of departments failing to migrate to the single operating platforms lay contractually with the suppliers. However, in practice, this risk was not fully passed on to the suppliers, who argued that some of the reasons behind the delays and requests for changes were down to the departments. The Cabinet Office was ineffectual in managing this risk because of its inability to force departments to take crucial decisions and an unwillingness to hold the suppliers to account as delays arose. The business models of the suppliers, offering reduced prices, were only sustainable if the migrations occurred. Moving the departments onto a single operating platform would allow suppliers to further reduce their costs through: increasing automation, streamlining processes and, in the case of Shared Services Connected Ltd (SSCL), the ability to move part of its operations offshore. As a consequence of not achieving planned changes negotiations between the Government and the suppliers to get the programme back on track will lead to the taxpayer covering additional costs as part of a commercial settlement with suppliers.

Recommendation: ***Renegotiations and future programmes should set out clearly whether suppliers or government bear the risk of delays and additional costs and be clear about potential costs to the taxpayer. Where the risk sits with the supplier, the supplier should meet the cost of the failure to manage the risk.***

6. **The failure to develop standardised processes led to delays to the programme and increased costs.** The single operating platforms did not have a clear design at the start of the programme. As a result, departments submitted excessive numbers of change requests both to tailor processes and to maintain existing systems. The process to manage these change requests has been cumbersome and slow, further

contributing to delays in the programme and increasing the costs to both government and suppliers. The Government has recently appointed senior individuals from the finance and HR professions to identify and map out standard processes within their professions. This work is at an early stage and still to be completed.

Recommendation: ***We expect the Cabinet Office and Heads of Professions to agree a set of standard processes by March 2017.***

1 Governance and collaboration

1. On the basis of a report by the Comptroller and Auditor General, we took evidence from the Cabinet Office, the Department for Transport and the two companies running shared service centres, arvato UK Ltd and Shared Services Connected Ltd (SSCL) (which is a joint venture, 75% owned by Steria UK Ltd (later becoming Sopra Steria) and 25% owned by the Cabinet Office).[1]

2. Central government has long pursued shared service centres as a way to reduce costs and free up resources from back-office functions to provide better front-line services. The principles of reducing costs through using shared services are straightforward and widely understood, combining two key elements: one element is to standardise processes and services so that they can be provided in a consistent and repeatable way, in high volumes, by a single provider on a common operating platform; the other element is to outsource operations to an organisation that can specialise in providing a service and, through economies of scale, can offer the service at a lower cost.[2]

3. The previous Committee of Public Accounts reported on the Cabinet Office's attempts to reduce costs by sharing back-office functions in 2012. The Committee concluded that "shared service centres have provided poor value for money in the past" and noted that the Cabinet Office had failed to implement fully the recommendations from the Committee's 2008 report *Improving corporate functions using shared services*.[3] The Committee's 2012 report also concluded that the Cabinet Office did not provide the strong leadership required to get buy-in from individual departments, and that most departments had not streamlined or standardised their back-office processes, leading to overly tailored services and complex systems.[4]

4. The Cabinet Office published its Next Generation Shared Services Strategy (the Strategy) in December 2012.[5] This document set out how central government would implement, operate and manage back-office shared services across government. It included establishing two independent shared service centres to provide back-office functions for up to 14 departments and their arm's length bodies.[6] The Government signed contracts with two companies (arvato and SSCL) to operate the two centres, initially known as ISSC1 and ISSC2.[7] The Cabinet Office had framework agreements with both of the suppliers and departments signed individual call-off contracts with the suppliers.[8]

5. The Strategy predicted that the successful set up of the centres and the introduction of single operating platforms for their customers would achieve up to £128 million of savings a year, and that further efficiencies would allow benefits to increase to between £300 million to £400 million a year.[9] At the time of our evidence session in June 2016, the shared service centres had been in operation for two and half years and the savings

1 C&AG's Report, *Shared service centres*, Session 2016–17, HC 16, 20 May 2016
2 C&AG's Report paras 1-3
3 Committee of Public Accounts, *Improving corporate functions using shared services*, Eighteenth Report of Session 2007–08, HC 190, 31 March 2008
4 Committee of Public Accounts, *Efficiency and reform in government corporate functions through shared service centres*, Third Report of Session 2012–13, HC 463, 9 July 2012
5 HM Government, *Next Generation Shared Services: The Strategic Plan*, December 2012
6 C&AG's Report para 2
7 C&AG's Report paras 9
8 C&AG's Report para 1.18
9 C&AG's Report para 1.4

delivered were £90 million. That is, £4 million less than the £94 million estimated total investment so far. Only 2 of 26 organisations that planned to adopt single operating platforms by April 2016 had done so.[10]

Governance

6. The Committee's 2012 report noted that under the new Strategy, the Cabinet Office would not be mandating arrangements for departments to use the shared service centres and we therefore recommended that the Cabinet Office appoint a suitably empowered Senior Responsible Officer and seek the authority to ensure that all departments use shared services. The Cabinet Office acknowledged that at the start of the latest programme it did not have the right governance set-up or appropriate specialist experience in its team, and that it "did not set about this in a way that would have led to success".[11] The Cabinet Office told us that it had set up a 'framework authority'; but that the problem was that the framework authority was unable to step in to resolve problems between the departments and the suppliers unless an issue had been escalated, but departments had not escalated anything.[12]

7. Where governance structures were put in place, they were not used effectively. The Major Projects Authority highlighted in 2014 that governance arrangements had not been robustly applied.[13] Departments did not feel that there were sufficient opportunities to express their concerns with the programme, governance board minutes were not satisfactorily agreed and boards did not make decisions on a sufficiently timely basis.[14]

8. We asked the Cabinet Office whether it had needed a Senior Responsible Officer (SRO). The Cabinet Office told us that a named SRO would have helped and that it has now taken action through hiring "the chief executive of one of the most successful local authorities to come and run the programme".[15] Five different SROs have overseen the programme so far and they, and others in key programme roles, have often not held relevant experience in shared services.[16]

Business case

9. The Cabinet Office told us that there was no overall business case for the two shared service centres.[17] It went on to explain that there was an initial business case for the purchase of ISSC1 providing services for the Department of Transport alone, and an initial business case for ISSC2 and that the Government should have updated the business cases as departments joined and left the shared service centres.[18] Through the lack of comprehensive business cases, the Cabinet Office had no way of bringing together important aspects of the programme including how the governance would work, how funding would be split between departments and how the programme's benefits would

10 C&AG's Report paras 10–11
11 Q 3
12 Q 88
13 C&AG's Report para 3.19
14 C&AG's Report paras 3.16, 3.19
15 Qq 30, 89
16 C&AG's Report para 3.17
17 Q 4
18 Q 5

be monitored.[19] Some individual departments ended up bearing costs out of proportion to the benefits they received. Benefits were not accrued equally between customers and some departments had business cases for joining the shared service centres which were financially marginal or negative.[20]

10. The Department for Transport told us that without a strong, clear, compelling business case, it proved impossible to get collaborative buy-in from the other four organisations that joined ISSC1, since they had different business objectives and were in different situations with their existing software systems. The Department for Transport went on to say that this is "why the integrated business case is so important".[21]

11. Neither individual business case included all customers that were to join that centre. HM Treasury, the Department for Culture, Media & Sport, the Department for Communities and Local Government and the Civil Nuclear Constabulary planned to receive services from the arvato centre but did not form part of the business case. The Home Office and Ministry of Justice joined the SSCL centre after its formation and similarly did not form part of its business case. Some individual departments produced business cases for their own transfer to shared services. However, no revised business cases were produced for the programme as a whole or, for either centre, to bring together the cases for different departments.[22]

12. We noted that the Cabinet Office had revised the benefits forecast down to £484 million (approximately £60 million a year over the next 8 years) and asked whether this was now a realistic forecast.[23] The Cabinet Office replied that the original estimates had been far too optimistic in their pace of delivery given the complexities of the programme and that the £484 million in total was now "very realistic".[24]

Buy-in and collaboration

13. The previous Committee reported in 2012 that the Cabinet Office should seek the authority to ensure that all departments and their arm's length bodies use shared services and stop providing back-office functions. The Committee noted that when shared services were first introduced it was not mandatory for departments to sign up. As a result, the shared services ended up with fewer users than anticipated and therefore had not delivered the expected economies of scale. The Committee stated that the programme required the Cabinet Office to get buy-in from departments to be effective.[25]

14. We asked for the views of the Cabinet Office and the Department for Transport on whether mandating departments' transfer to the shared service centres would have led to better outcomes for the latest programme.[26] The Cabinet Office told us that the role of the centre is to judge when to come in more strongly and when to create an environment where

19 C&AG's Report para 3.3
20 C&AG's Report para 3.10
21 Qq 8, 18
22 C&AG's Report para 3.2
23 Q 32
24 Qq 32–33
25 Committee of Public Accounts, *Efficiency and reform in government corporate functions through shared service centres*, Third Report of Session 2012–13, HC 463, 9 July 2012
26 Qq 22, 29

collaboration is better. The Department of Transport told us that individual departments had their individual objectives and did not see sufficient evidence of what the greater good would be.[27]

15. The Department for Transport told us that it would advise against programmes that are founded on mandation and that the Government is much better off getting the real buy-in of departments so that they can credibly see the greater good to be achieved.[28] However, departments varied in the extent to which they believed in the merits of the shared service centres and some reported feeling pressurised to join.[29]

16. Suppliers believed that the Cabinet Office would play a greater role in ensuring that customers bought into the programme and acted collaboratively. The Cabinet Office did not identify the need for such a role as it was not a contractual requirement, and it did not have a clear mandate to act on behalf of customers.[30] The Cabinet Office asserts that the structures of accountability in government make it inherently difficult to undertake cross-government programmes.[31]

27 Q 20
28 Q 22
29 C&AG's Report paras 15, 3.10
30 C&AG's Report paras 16, 3.5
31 Q 3

2 Performance and risk to the programme

Departments pulling out of the programme

17. The Cabinet Office told us that all departments in the programme have made cost savings of between 20% and 25% by moving their back-office functions to one of the two independent shared service centres.[32] Despite the savings on offer, some departments have exited their contracts with the supplier. UK Shared Business Services (a partner organisation of the Department for Business, Innovation & Skills) exercised its right to terminate the contract to transfer services to Shared Services Connected Ltd (SSCL) in 2015.[33] The Civil Nuclear Constabulary decided to sign with an alternative provider having formed the view that uncertainty over migration by April 2016 posed an unacceptable operational risk.[34] Commercial dialogue between the suppliers and government in 2016 led to the Department for Culture, Media & Sport, Department for Communities and Local Government and HM Treasury exiting their contracts.[35]

18. We asked the Cabinet Office and the Department for Transport to explain why departments had the option to opt out. The Cabinet Office responded that departments chose to leave the programme because of delays in transferring to a single operating platform and that the governance structure meant that the Cabinet Office was unable to force the departments to remain in the programme. The Department for Transport referred to the lack of an integrated business case, without which it proved impossible to get the "continued adherence and behavioural response" of other organisations.[36]

Managing the risk of delays and poor supplier performance

19. We asked the supplier witnesses to explain how suppliers were able to achieve a 25% cost saving for departments. SSCL said that it was possible by reducing its number of offices from 18 down to 4, streamlining processes and using methodologies such as 'lean' to revamp its processes.[37] arvato informed us that it had achieved savings through leaner working, by bringing in additional resources and skills from other parts of its organisation and by a certain amount of automation. SSCL also informed us that greater benefits would be found from moving all of the departments onto the single operating platform.[38]

20. The suppliers acknowledged that, notwithstanding efficiencies within their organisations, they had been operating at a discount. They expected to achieve further efficiencies as departments joined the single operating platform and as further improvements, such as more automation, could be implemented.[39] SSCL also told us that

32 Q 7
33 C&AG's Report para 2.13
34 C&AG's Report para 2.12
35 C&AG's Report para 4.5
36 Qq 6–8
37 Q 13
38 Qq 16–17
39 Q 25

it was looking to move part of its operations offshore which would provide further cost savings.[40] Only 2 of 26 organisations that planned to adopt single operating platforms by April 2016 had done so.[41]

21. We heard evidence on the reasons for delays and for changes to the design of the shared services platforms. Delays and additional costs were introduced as a result of changes required to the design of software platforms. Government departments made hundreds of requests for changes to be made to the platforms, with the biggest number coming from the Ministry of Justice—259 of its requests were outstanding at March 2016.[42]

22. Following the migration delays and design changes, government and suppliers began commercial negotiations on the future of the two shared service centres, which were ongoing at the time of our hearing. We asked the supplier witnesses to give their views as to why the commercial negotiations were necessary. SSCL replied that they were necessary because all parties had incurred additional costs related to both delays and changes to the ultimate design of the system that had been created.[43] We asked the supplier witnesses whether thay had lost money. SSCL replied "yes" and arvato said that it was "very challenging financially".[44]

23. We sought to clarify who was responsible in the contract for the risk of failure to move to the single operating platforms. SSCL replied that "the risk was with us" and arvato concurred that it was in was a similar situation.[45] We followed up this response by asking why the Government will have to pay money to the suppliers as part of the settlement. SSCL replied that "the delay and the changes were not necessarily down to us" since it "depends on whether it is an additional change". arvato explained that it had also had to deal with change requests and that, since the original contract was signed, technology had changed along with their client base.[46]

Standardisation of processes

24. A key principle of reducing costs through shared services is to standardise processes and services and then move customers to a common IT operating platform. SSCL acknowledged that there have been issues around the IT platform and that it would have greatly helped if there had been a clear design right at the start.[47] Departments that were provided HR or finance services in a different form to what they expected were likely to make requests for change.[48] We asked the Cabinet Office whether it was reasonable that the Ministry of Justice could ask for 259 such change requests, the number it had outstanding at March 2016. The Cabinet Office replied that without a commitment to a common process, customer departments will put in for change requests.[49] We asked whether it was clear that the department that raises these change requests, pays for them.

40 Q 28
41 C&AG's Report para 11
42 Q 96
43 Q 71
44 Qq 36–37
45 Qq 73, 76
46 Qq 74, 77
47 Q 10
48 C&AG's Report para 3.6
49 Q 96

SSCL replied that the department requesting a change would be responsible for paying for it but that very often you could change something for one department which then has a possible detrimental knock-on impact on another department.[50]

25. Standardising processes is a key element in reducing costs for a shared service centre, since it allows for processes to be provided in a consistent and repeatable way. Bespoke processes reduce the opportunity for a provider to benefit from economies of scale and to offer lower prices to the customer. It is therefore in the interests of both the supplier and customers to have an effective design authority for their centre that can manage the requests for change from individual departments.[51] SSCL had a design authority in place early on in the contract, although customer feedback and the level of changes suggest that it has not worked effectively.[52] arvato did not have a design authority until 2016 and told us that the change control process in the earlier days of the contract was pretty cumbersome and quite slow, with no real opportunity to prioritise, resulting in an inundation of change requests and delays.[53]

26. The Cabinet Office assured us that it now has HR and finance professionals collectively agreeing the processes throughout the system.[54] However, the National Audit Office reported that this work is at an early stage and that previous efforts in this area have not produced results. If effective, the ongoing work to identify and map out standard processes within HR and finance has potential to shape the design of single operating platforms and to offer further benefits. If standard processes are successfully introduced, it may also become easier for finance and HR professionals to move between government organisations.[55]

50 Q 98
51 C&AG's Report paras 3, 3.7
52 Q 102; C&AG's Report para 3.7
53 Qq 101, 106
54 Q 120
55 C&AG's Report para 4.4

Formal Minutes

Wednesday 12 October 2016

Members present:

Meg Hillier, in the Chair

Philip Boswell	Bridget Phillipson
Caroline Flint	John Pugh
Nigel Mills	Karin Smyth

Draft Report (*Shared service centres*), proposed by the Chair, brought up and read.

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

Paragraphs 1 to 26 read and agreed to.

Introduction agreed to.

Conclusions and recommendations agreed to.

Summary agreed to.

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

Ordered, That the Chair 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 till Monday 17 October 2016 at 3.30pm

Witnesses

The following witnesses gave evidence. Transcripts can be viewed on the inquiry publications page of the Committee's website.

Monday 27 June 2016

Question number

John Manzoni, Permanent Secretary, Cabinet Office, **Philip Rutnam**, Permanent Secretary, Department for Transport, **Debra Maxwell**, Chief Executive Office, CRM and Public Sector, UK and Ireland, arvato, and **John Neilson**, Chief Executive Officer, Shared Services Connected Ltd — Q1–131

Published written evidence

The following written evidence was received and can be viewed on the inquiry publications page of the Committee's website.

SSC numbers are generated by the evidence processing system and so may not be complete.

1 Cabinet Office (SSC0004)

2 PCS Union (SSC0001)

List of Reports from the Committee during the current Parliament

All publications from the Committee are available on the publications page of the Committee's website.

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HOUSE OF COMMONS

Public Accounts Committee

Oral evidence: Shared Service Centres, HC 297

Monday 27 Jun 2016

Ordered by the House of Commons to be published on 27 Jun 2016.

Watch the meeting

Members present: Meg Hillier (Chair); Deidre Brock; Chris Evans; Nigel Mills; David Mowat; John Pugh.

Sir Amyas Morse, Comptroller and Auditor General, Adrian Jenner, Director of Parliamentary Relations, National Audit Office, Paul Oliffe, Director, National Audit Office, and Marius Gallaher, Alternate Treasury Officer of Accounts, HM Treasury, were in attendance.

Questions 1-131

Witnesses

I: John Manzoni, Permanent Secretary, Cabinet Office, Philip Rutnam, Permanent Secretary, Department for Transport, Debra Maxwell, Chief Executive Office, CRM and Public Sector, UK and Ireland, arvato, and John Neilson, Chief Executive Officer, Shared Services Connected Ltd.

HOUSE OF COMMONS

Report by the Comptroller and Auditor General

Shared Service Centres (HC 16)

Examination of witnesses

Witnesses: John Manzoni, Philip Rutnam, Debra Maxwell and John Neilson.

Q1 **Chair:** Welcome to the Public Accounts Committee. We are here to discuss the National Audit Office Report, "Shared service centres", which I have to say makes pretty bleak reading. We are keen to have a brisk session today and to hear from all witnesses, honestly and truthfully, about what lessons can be learned to get the programme back on track. We also want—I am looking at Mr Manzoni in particular—to look at how lessons can be learned for other cross-Government programmes.

As I mentioned, this session will be quite brisk. You will appreciate that it is a busy day in Parliament, so we are going to try to be succinct in our questions and hope that you can be in your answers, too. We are briefed, so we do not need to hear every bit of background. It would be helpful if questions could be answered briskly.

Welcome to our witnesses. We have John Neilson, the chief executive officer of Shared Services Connected Ltd, which is one of the companies that is running shared services for Government; John Manzoni, the permanent secretary at the Cabinet Office; Philip Rutnam, the permanent secretary at the Department for Transport, which is a client of arvato, the other company providing this—the only client at the moment, I think, but we will get into that; and Debra Maxwell, the chief executive officer, CRM and public sector, UK and Ireland arvato. Is that your full title?

Debra Maxwell: It is.

Q2 **Chair:** It sounds quite complicated.

Mr Manzoni, this was rather beset with failures. Do you think its ambitions of the programme were over-optimistic from the outset?

John Manzoni: I don't think the ambitions were over-optimistic; the timescale in which the original strategy was written was over-optimistic, to be frank, but the ambition of a programme to create shared services across Government remains intact and is not over-ambitious. It is something we ought to be able to do, and indeed can see ourselves doing.

Q3 **Chair:** So was it a failure of planning?

John Manzoni: No. As with all these matters we have learned multiple things. The structures of accountability of Government make doing these things particularly complex. Almost every time these things are implemented out in the private sector, where accountabilities are clearer, they run into some or other issues. In Government structures of accountability it is particularly hard, the first time, to try to create the cross-departmental things that are required. Frankly, we did not have the governance set-up right and we did not have appropriate experience in the team—I am big on experience, as you know, and in this case we needed specialist experience, which we did not have in the first instance. I think in retrospect that we did not set about this in a way that would have led to success. Having said that, it is not for naught, and as we look forward this is an extraordinarily valuable thing to have done.

Q4 **Chair:** We are going to discuss a forward strategy a little later. There was no business case, which puzzles us. There was a very clear ministerial direction and focus from a Minister who was very focused on this agenda, and there was a strategy, but there was no business case. Why was that?

John Manzoni: Well, there was no overall business case for the two shared services centres. Should you chose to do so, we can have a conversation about whether that would have been appropriate. It is not clear to me that it would have been, even there. There was a business case for the purchase of ISSC1, and there was an original business case for ISSC2, so there were two independent, individual business cases. The world has moved on and in both cases we probably should have gone back to rewrite both of those business cases, but we didn't.

Q5 **Chair:** When you say go back to rewrite them, what would have been the sequence of events?

John Manzoni: For instance, as new Departments joined the ISSC1 platform, because the original business case was for the purchase of the first for DFT alone, and as some Departments left ISSC2 and other Departments joined it, we should have gone back and rewritten a business case for that. Having said that, we did have a business case for ISSC2. In this case, though, the issues of governance and collectivism probably would have outweighed even the best-written business case.

Q6 **Chair:** You have touched on an issue that I think David Mowat will pick up on later: why was it that Departments were not required to go into this programme and had the option to opt out? You just touched on some of the changes that are well documented in the NAO Report.

John Manzoni: I will allow Mr Rutnam to talk for himself—he is still in—but, as you know, each Department makes its own value-for-money assessment.

Q7 **Chair:** That's fair enough on one level, but in something like this, the whole benefit was about sharing and collaborative commissioning.

John Manzoni: First of all, on the BAU basis, on the business process outsourcing, this was, continues to be and will be very successful. All the Departments in the programme have saved between 20% and 25%, which is right up there with the best of the private sector benchmarks. The piece that is business as usual has been and continues to be successful. The bit that got into trouble was founded on common back-office processes. That was never put in place a priori and should have been. Subsequently, because of the delays of that and because of the construct and the governance, which to some degree the Cabinet Office was not sufficiently front-footed to enforce—that's true, too—it then became less and less valuable to the individual Departments that subsequently chose, in some cases, to say, "Okay, we're not going to do this. We're going to do something else."

Q8 **Chair:** Mr Rutnam, from your point of view at the head of the Department for Transport, what was it like?

Philip Rutnam: I agree with what Mr Manzoni has said. The history of this was that we had a DFT business case for a DFT shared service centre. That then became a cross-Government shared service centre in 2013-14. At that point, there was a missing piece, which was the integrated business case you talked about. Without that strong, clear, compelling business case, in truth, getting the continued adherence and behavioural response of the other four organisations that joined our shared service centre in principle proved in the end to be impossible. So we have now reverted to a DFT-focused shared service centre, which continues to be a positive experience with a positive business case—not as positive as it was back in 2012, but none the less, it is fundamentally a positive experience.

Q9 **Chair:** Debra Maxwell and John Neilson, you are the other side of this coin, so to speak. Why do you think the expected benefits were not delivered, from your perspective?

Debra Maxwell: Fundamentally, to make shared services work you need to have a number of key factors in place. Without those being specifically in place, it is very challenging to deliver a full programme with so many different interested parties trying to come to one conclusion.

Q10 **Chair:** So it is back to this lack of planning and a clear business case—about mutual expectations.

Debra Maxwell: Yes.

John Neilson: I think the programme would have been greatly helped if we had had a clear design right at the start. We have had issues around the IT platform. That is perhaps not unusual; even private sector companies have that from time to time.

Q11 **Chair:** You were dealing with the bit that is mainly not Oracle—no, mainly Oracle.

John Neilson: Wholly Oracle. The service transformation part of the programme, as John said, has been very successful. I think that that has gone better than most people anticipated it would, and we have been delivering the contracted savings from day one as a result of that.

Q12 **David Mowat:** Just so I understand this fully: you just called it the service transformation part, but this all started off by taking an existing system, a legacy system, and moving it into the shared service company, and then doing a recharge on that. You said, Mr Manzoni, that that succeeded in reducing costs by 25%-ish.

John Manzoni: Correct.

Q13 **David Mowat:** Which is great for the Department that is paying, because they have got rid of all the people who are TUPE-ed across, but it leaves the issue in the shared service organisation, which over time can only be solved by getting common operating procedures, and that is the bit we failed to do. The first question is: how did you achieve the 25%? There is a way of looking at this that says you just had a pricing thing—you decided to charge less so that the Departments could claim a victory—but you still have the issue within the shared service company, which you are now trying to negotiate your way out of by all sorts of contractual means. How did that first 25% arise?

John Neilson: The bulk of the first part of the saving came from the service transformation—the business process outsourcing. We have reduced the number of offices we serve from 18 down to four. We have streamlined processes. We have introduced methodologies such as lean to revamp the processes that we operate. We will gain further efficiencies from—

Q14 **David Mowat:** For clarity, you did that for an existing Department's processes.

John Neilson: We took their processes and we have brought them together. They were dotted around the country, with different IT systems and different processes. We have collapsed 17 offices into four.

Q15 **David Mowat:** And was that done in the shared service organisation or the Department?

John Neilson: That was done in our organisation.

Q16 **David Mowat:** And is it the same in the other one as well?

Debra Maxwell: Not quite on the same scale from an office perspective, but certainly we gained the majority of our efficiencies through working leaner, bringing in additional resources and skills from other parts of our organisation to try make things more efficient and effective and deal with them quicker, and a certain amount of automation as well.

Q17 **David Mowat:** You call it "working leaner". An element of that is business process simplification, isn't it? You may not be the common operating model, but it is not just headcount reductions; it is actually restructuring and trying to do it differently. What you have not been able to do is get some kind of commonality across Departments. That is where it all got stuck.

John Neilson: It is made a lot simpler if your IT system is also aligned to the processes. Moving everybody into the new IT system makes that significantly easier. That is why we need to get everybody on to the same platform. That is where you get the longer term, bigger benefits that are over and above the savings that are currently stated.

Q18 **Chair:** Getting everybody on to the same platform is where we get into this issue around behaviour and the benefit to Departments. Mr Rutnam, your Department is already in there, but I don't know if either of you can talk about how other Departments reacted to that. Was it a behavioural issue or a finance issue? Was it just, "This is too much hassle. Bend over, here's the Cabinet Office again telling us what to do"?

Philip Rutnam: Shall I comment on that? It has to start with the business objectives of that organisation. To take ISSC1—the one we are involved in—each of those four organisations that were coming in had a different set of business objectives. They had existing systems that needed upgrades or were coming to an end at different points. You have to start with a really good understanding of their business objectives. Then you have to look at whether there is a way of either fitting those exact goals or varying what they are trying to achieve that helps to build a greater common good. All that has to be done in a way that is transparent with the partner Departments, so they have to buy in to the analysis and buy in to the strategy. That is why the integrated business case is so important.

In my experience, different Government Departments are very capable of acting collaboratively for the common good, provided they agree the analysis and understand where it is coming from. Of course, sometimes you may need a financial reconciliation process, but fundamentally, if you are doing something for a greater good, you should be able to overcome those problems of co-ordination and the mismatch of benefits and disbenefits.

Q19 **Chair:** You should be able to.

Philip Rutnam: You should be able to, and provided that it is transparent, credible and parties buy into it, you can overcome them.

Q20 **Chair:** But they didn't in this case.

Philip Rutnam: In this case, you actually had individual Departments with their individual objectives and we did not see sufficient evidence of what the greater good would be to allow the Department—

Q21 **David Mowat:** But isn't that the problem? You are calling these things business objectives—

Philip Rutnam: Yes.

David Mowat: But with shared back-office service outsourcing, those things are by definition not necessarily intrinsic to a business objective and therefore can be done in a common way by different people. If you do not believe that, it will never work. If everybody says, "Our HR objectives are so fundamental to how I run Transport"—or the DWP—"that we just have to do it this way. Any mitigation of that is going to fundamentally mess up the business objectives of my Department," you cannot have a shared service environment. I suspect that might be what the people on either side of you—

Philip Rutnam: I am not disagreeing with you. I am saying that in ISSC1, the starting point—and to be honest, the finishing point—for the discussion was, "What is the business need of DCMS? It has a set of services and a set of systems that need change." That was where the discussion began and ended. Could this project meet their business need? Where we did not get to was, in truth, a kind of alternative future in which all these Departments—or perhaps some other Departments—changed their business process in some more fundamental way, for a greater good.

Q22 **David Mowat:** You will only get to that if somebody is telling you to do it: if somebody is saying to you from the centre—Mr Manzoni talked about the private sector experience—"Look, guys, at the end of the day, this is finance and HR. There must be ways of doing it in a common way without threatening the whole aegis of my Department."

Philip Rutnam: I'm not denying that there may need to be an element of mandation. I wouldn't disagree with that. I would advise against programmes that are founded on mandation. You are much better off getting the real buy-in of Departments so that they can credibly see the greater good that is going to be achieved. That is my first observation in relation to how to run these things.

Q23 **David Mowat:** Yes, I agree with you, it is always better to get buy-in; but sometimes that greater good will mean that in an individual Department, it may not be better than it was before. It is a cost.

Philip Rutnam: I agree, but they need to see—

David Mowat: And that requires leadership.

Philip Rutnam: They need to see the greater good. If you rely entirely on a sum of individual objectives across different Departments, you won't succeed. If you rely entirely on mandation—instructions coming down from the top—my prediction is that you won't succeed. You need something that brings both together and you also need attention to the detail of the customer's needs. You need to respond if something is not working. Those are the two observations I have on how to make these things work.

Q24 **David Mowat:** If you go into it with that as your mindset—I am not talking about buy-in, but that the customer has the ability to change more or less anything because the business objective could be compromised—you will never make a shared service organisation work. There may not have been the organisational discipline in the civil service to make this work. That is what has happened and it might still be the case.

Philip Rutnam: And to be clear, that was not what I was suggesting—that every customer should be able to bespoke. That is a route to disaster. I am just pushing back on the suggestion that it should all rely on mandation. If you rely on mandation as the principal means of making things happen, you are unlikely to succeed. You need an element of mandation and you need buy-in. You need people to see the future that is better for the whole, and it needs to be credible. That is no different between Departments than within my own Department.

Q25 **Chair:** We will come back to Mr Manzoni on this subject. I just want to bring in the Comptroller and Auditor General.

Sir Amyas Morse: I just want to catch up on something in Mr Mowat's earlier questioning. Notwithstanding that you took out people and saved money by doing that, you were still operating at a discount initially, weren't you? So it wasn't all that; even allowing for the cost reduction, you were operating at a discount because you expected to make that back later. You got into the business at a discount. That is true, isn't it?

John Neilson: That is true.

Sir Amyas Morse: What was the assumption that was going to make it break even?

Debra Maxwell: Around the whole shared services centres programme, it was about getting our clients on board on the technical platform on time and within the migration timelines that we had agreed. It was about getting the processes to a level of standardisation so we could drive further efficiencies. It was the technology being able to allow us to drive greater automation, as an example, and also ensuring that we could implement further improvements to the way that people operated in order to drive the bigger picture.

Q26 **Chair:** You mean behavioural change, effectively.

Debra Maxwell: To a degree, both in our own organisation, because the same sits within the retained shared services organisation, but also a change in the way that the organisations that were on the delivery end of the shared services operated as well.

Q27 **Chair:** Which is perhaps not under your control. We will come back to Mr Manzoni.

Debra Maxwell: Correct.

Q28 **Chair:** John Neilson, on the same point the Comptroller and Auditor General made.

John Neilson: There are a number of factors. First of all, a lot of the costs, particularly related to the IT, were at the start, and they obviously don't continue. Secondly, you don't just change and improve your processes once. That has got to be a lifetime activity, as you go forward. Thirdly, when you do get everybody on to the platform, that allows a further level of automation and efficiency, and greater standardisation around that. From our point of view, we were also then looking to apply offshoring, which can provide a further benefit as well. That combination of factors gave us confidence that the model would work.

Sir Amyas Morse: So at some point the next tranche of savings was going to go to you primarily and then start going back to the client. That must have been how it worked.

John Neilson: The way the model is set up, we have a revenue and billing arrangement that reflects—I think you have a very good graph in here that shows the model. Those things happen over a period of time. We account for it in a particular way that allows us to manage ourselves through that process.

Q29 **Chair:** Mr Manzoni, on the issue of mandating—or not mandating.

John Manzoni: I think Philip just described my job to a T, really. The balance and the judgments about when to come in more strongly, when to create an environment where collaboration is clear, that is the job of the centre. I don't think we did it well enough, frankly, but I am confident as we go forward, where we are today, that we can do it. In fact, that is what I do, right? This is just an example of a future that is going to need more collaboration across Departments in all sorts of ways, and we have talked lots of times before. It is that balance: that balance of when do get a bit further—

Q30 **Chair:** It is interesting. If you reflect on what local government is doing, there are a lot more shared services that probably most members of the public would not even realise are happening. When they ring their local council they are probably ringing a group of shared services working for a number of councils. That seems to have worked. Have you looked at any analysis there or overseas? An academic paper was submitted to us in evidence that was quite interesting about overseas examples. Did you do any analysis and are you doing any now when you are looking forward?

John Manzoni: I have done better than that. I have hired the chief executive of one of the most successful local authorities to come and run the programme—sitting behind me. Yes, I think we are fully embedding the experience.

Q31 **Chair:** Okay. So you have hired him. What is he saying is the way to win hearts and minds and show benefits?

John Manzoni: Exactly how we are set up now. The basic lesson, in my view, if we don't agree a common process, is that we are not going to take this to the next place. I am completely confident from this point about governance structures, experienced people, the right conversations, the transparency that Philip has been talking about—all of that stuff—because the prizes are enormous here, if we get this collaborative behaviour right.

Q32 **Chair:** You say the prizes are enormous, but you have revised the benefits forecast down to £484 million over the next eight years—£60 million a year. So was it just wildly over optimistic at the beginning? Is this now a realistic benefit forecast?

John Manzoni: I think this is very realistic, because 90% of it is the BAU—the process outsourcing that we have just been talking about; 90% of it is that. We will then get to some more benefits. There are possible upsides, which are not embedded in these numbers. You have got to get to this platform to give you access to the next prize. When you get to the next prize, there is an enormous amount of upside on these numbers still to come.

Q33 **Chair:** So you think this estimate could not—

John Manzoni: I believe these estimates are—first, the original estimates were, frankly, far too optimistic in their pace of delivery given the complexities. What we are building here is one of the largest shared services organisations across Europe. This is not trivial.

Q34 **Chair:** Can you talk about that? When the Minister set the vision, which was very clear—the strategy—was there a ministerial view about what money should be said? Was there a target set then? There was no business case. Where was that figure for potential benefit from?

John Manzoni: There was a business case for ISSC2. There was not a combined business case for the two shared services centres, but I was not here, so I do not know.

Q35 **Chair:** Well that's an easy job—you might want to write to us on that. May I turn to John Neilson and Debra Maxwell? Given that the forecast is down at the moment, does that mean your profit will be down? I'm picking up on what the Comptroller and Auditor General was asking. Will you be taking less profit out of this—

John Neilson: We will be in a difficult financial position because of the delays and additional costs that have been incurred.

Q36 **Chair:** You've lost money on it.

John Neilson: Yes, and that is not very comfortable; however we have bought in to this, and the way in which this is operating, to operate this deliberately as a joint venture, because we believe in the partnership approach. We have applied the same approach into the NHS with NHS Shared Business Services, which has been a very successful organisation and delivered £350 million of savings. We believe we can do the same thing here.

Q37 **Chair:** So you are biting the bullet and taking the hit now, feeling confident that you will—

John Neilson: Absolutely. As John said, the savings that are here from our side in the main are guaranteed built into the pricing savings; the prize beyond that is very significant.

Debra Maxwell: Almost the same perspective from our point—very challenging financially, but again we continue to work alongside, in particular, the DFT.

Q38 **Chair:** This was quite a new business for you, wasn't it?

Debra Maxwell: From a central Government perspective, correct; but we have got significant experience in both the private sector and the public sector with local authorities and delivering shared services on a bigger and global scale.

Q39 **Chair:** So will you be doing more with central Government again, or does this put you off?

Debra Maxwell: No, we would hope to do more business with central Government.

Chair: There you go—there is a bid to Mr Manzoni as he is sitting next to you.

Q40 **David Mowat:** Mr Neilson, I just want to probe this joint venture a little bit—yours, Ms Maxwell, is not a joint venture. One problem with joint ventures is that they can enable fudges to be easier as well. That is the downside—everybody likes collaboration and partnership and all the rest of it. How does the nature of this joint venture manifest itself in the day-to-day running of your company?

John Neilson: I don't think that we have seen the full benefits of the joint venture today, because we have been going through this quite challenging period. As part of the lessons learnt and the discussions we are having with the Cabinet Office, one of the things that we are looking at is how we strengthen that. What I would say—

Q41 **David Mowat:** Yes, the day-to-day running—you are the CEO of the company. How many staff do you have?

John Neilson: Two thousand, two hundred.

Q42 **David Mowat:** And they are all employed by the company.

John Neilson: Yes.

Q43 **David Mowat:** As you take over a department or business, they are TUPE-ed in and that is how it is.

John Neilson: Correct.

Q44 **David Mowat:** So operationally that is not a joint venture. You are the CEO and you are in charge.

John Neilson: Of the company, but the way in which it is run and also the partnership spirit that is in the organisation, the connection from the people inside the business—it means quite a lot in terms of motivation and morale, that people still see themselves as being connected to serving the public as well as trying to be part of a successful company. We make a lot of play around that and I think it makes a difference to our performance.

Q45 **David Mowat:** Okay, and the other way that you are a joint venture is that you are 25% owned by the Cabinet Office. Is that right?

John Neilson: Correct.

Q46 **David Mowat:** How is that worked out? In theory, do they give dividends? Do they do cash calls?

John Neilson: We would like to be in a position to pay dividends— it is a bit tricky at the moment. Ultimately that is one of the benefits that the Cabinet Office would get from the company. In some ways, it is about getting the balance between a stand-alone company with its own entrepreneurial spirit and the support of an organisation—or two shareholders—that opens doors for us and supports a growth agenda. It is important to think of this as a situation for growth, as opposed to a delivery contract.

Q47 **David Mowat:** That's the reason people talk about joint ventures, isn't it—because of the possibilities of a commercial opportunity later?

John Neilson: Absolutely.

Q48 **David Mowat:** Presumably you have not got to that part yet in this life cycle.

John Neilson: We have. We are ahead in terms of the revenue for the company, because we have won additional business with the MOJ and the Home Office.

Q49 **David Mowat:** Is that the police?

John Neilson: We also now have the Metropolitan police, which has taken us into that market. We have done that sooner than anticipated.

Q50 **David Mowat:** So even though your company is loss-making in terms of its initial objective, you have got a commercial wing, as it were.

John Neilson: Absolutely, and we are very committed to continuing to grow that.

Q51 **David Mowat:** Are they eventually all going to end up in your common operator model?

John Neilson: We will have a separate model for the police from that for central Government, because there are some key differences between the two, but with that exception, yes. In fact, they are already there. We have already integrated the MOJ.

Q52 **David Mowat:** From a business model point of view, I can imagine that when this was being thought through on a piece of paper in the Cabinet Office at the start, the reason they wanted 25% was to buy into the upside.

John Neilson: I would hope that it was because they wanted some skin in the game and to feel a connection to it. In fact, we would have been happier with 50%.

Q53 **David Mowat:** Okay. It is because there is an objective for this thing to make money outwith the Government.

John Neilson: Correct.

John Manzoni: Not only that. Of course, a classic 25% holding is a way to benefit from some subsequent growth, and that would have been in people's minds when they set it up, but it also gets a partnership to do as John has said. It is a partnership about serving the public and doing shared services for the public sector, so there is a partnership element to it, as well as just benefiting financially.

Q54 **David Mowat:** Yes. You can make a partnership work without having ownership. The other one is presumably a partnership as well. You'd say that you are working in a collaborative way as best as you can, so the fact that you have not got the ownership does not matter with that.

John Neilson: True.

Q55 **David Mowat:** Just on the other one, are you the chief executive of that as well?

Debra Maxwell: Of the whole of arvato in the UK. This is one of the contracts within that.

Q56 **David Mowat:** So you have someone working for you who is the chief executive of the actual joint company.

Debra Maxwell: It is not a chief executive role; it is a senior leadership role that sits on my board.

Q57 **David Mowat:** How many people are in that company?

Debra Maxwell: It is 197-odd, so it is much smaller.

Q58 **David Mowat:** It is one of your staff who leads that.

Debra Maxwell: One of my team leads that, yes.

Q59 **Chair:** Overall, John Manzoni, what do you think the cost has been to the taxpayer of the delays and problems in this programme?

John Manzoni: I think it is quite hard to put numbers on this. It is certainly true that we have not delivered to the original business case, but as we have already discussed, the business case has changed and morphed quite a lot. We are now operating in an environment that does not look like the original business case in the first place.

Q60 **Chair:** Is that a missed opportunity? Have you not put any value on that missed opportunity?

John Manzoni: We are in a discussion now. I am not at liberty to talk about that, because those are commercial conversations that we have yet to conclude. It would be nice if we had not had to pay those things between us, but the truth is that you either pay for the common process up front or you pay for it after you start. Now we are paying for it, and that was not contemplated in the original business case.

What we see now is a benefit, as you said, of close to £500 million, excluding the Metropolitan police, for a total cost of around £160 million for ISSC2. We still see a very positive business case going forward. When we have all washed up, we might be able to then say, "We might have done it for this," but the truth is hard to tell. Could we have done this any differently? I am not sure. I am actually of the view that we may have had to have this sort of breakdown in order to have the breakthrough to get this done—

Q61 **Chair:** It is a very expensive way to force Departments to change culture.

John Manzoni: Well, except it is still enormously valuable for the taxpayer today.

Q62 **David Mowat:** We have not made money yet.

John Manzoni: That is true.

Q63 **David Mowat:** We have clearly heard you say that the £484 million is achievable—clearly if it is not, we will talk about that in the future—but to date, you have actually lost money.

John Manzoni: Of course, because there has been an investment phase. We are basically at break-even.

Q64 **Chair:** Mr Manzoni, you are very good at putting the positive on things.

John Manzoni: I have to.

Q65 **Chair:** We are here to call a spade a spade, and I am going to bring in the Comptroller and Auditor General, who can do that very well.

Sir Amyas Morse: I am just coming in now because I am a glass-half-full person, as you know. Just to check, what critical dependencies do you still have in terms of Departments? Does not the "bright" result still depend on Departments either staying in or coming in? What level of risk is there over that?

John Manzoni: As I said, I need to check the numbers but between 80% and 90% of the value that we see going forwards is the BAU services. That is relatively straightforward. The rest depends on a collaborative set of behaviours going forward. I sit here, now, very confident. The truth is that it has taken a year and a half, or thereabouts, to get us to a place where we can look forward from this point with a new governance, with new teams, new process and a new outlook, but there has actually been remarkably collaborative behaviour already in settling the commercial discussions with our partners, which is a great sign. There is now completely renewed commitment, with the transparency that says, "We can get this done." If we do this well, the prize is a lot bigger than is written in the Report.

Q66 **David Mowat:** I want to talk briefly about the commercial discussions you have been having and why they were necessary, but just on collaborative behaviour, is UK Shared Business Services the organisation that has just terminated the contract?

John Manzoni: Yes, it is.

Q67 **David Mowat:** So people have the ability to do that. Do they not want to be collaborative? You have given us this sort of nirvana of a collaborative future, yet a chunk of BIS has just terminated their contract and will not be joining.

John Manzoni: That’s a really tiny piece of this whole deal. On the other hand, we have had come into the deal the Home Office and the MOJ, which are way bigger than any of that.

Q68 **Chair:** Sorry, I cannot find the figure—can you remind me how much it was?

David Mowat: It doesn’t say the amount. It’s at paragraph 2.13 in the Report.

John Manzoni: Personally, I believe that if we do this well there will be more in future that come on to this platform.

Q69 **David Mowat:** But in terms of your role of providing more central direction, okay, they might be tiny, but it also might start a trend. Did you have discussions with them? Are you satisfied with the rationale of why they are doing it and that it isn’t going to undermine the bigger picture and so on?

John Manzoni: I actually believe they never received services from the shared services centre. Yes, I have had discussions with them as part of the commercial negotiations we have just had, but they were actually never properly in.

Q70 **David Mowat:** They’re certainly not going to be in now.

John Manzoni: They may come back later. I’ve been talking about that.

Q71 **David Mowat:** Okay. Perhaps we could talk a bit about the commercial discussions you have been having. I understand that the numbers may be confidential and whatever, but could you go first, Mr Neilson, and explain why they were necessary?

John Neilson: Well, they were necessary because all parties have incurred additional costs related to both delay and the ultimate design of the system that has been created. There are costs related to those two things and related to delay. The biggest single cost relates to the continuation of existing legacy systems.

Q72 **David Mowat:** And these are things on which you would have expected the Government or the Departments to have performed differently. I presume you have made a claim against them—there is money involved—so presumably your view is that they didn’t perform as they should have done.

John Neilson: There are various discussions about who is accountable for what part of the delay. There are normal commercial discussions related to that.

Q73 **David Mowat:** Okay, so in this contract the risk of failure to move to the common operating model because of commonality of business was with the Government.

John Neilson: No, the risk was with us.

Q74 **David Mowat:** Okay, so why do the Government have to pay money because it hasn't happened?

John Neilson: Because the delay and the changes were not necessarily down to us.

Q75 **David Mowat:** That doesn't sound like the risk was with you.

John Neilson: It depends on whether it is additional change.

Q76 **David Mowat:** Is it a similar set of situations on the other side?

Debra Maxwell: I think it's similar. It has been several years since the original contract was signed, so technology has changed, and other changes have also come about that need to be taken into account, and obviously we have different clients.

Q77 **David Mowat:** Why do technology changes give you a claim against the Government?

Debra Maxwell: I'm not necessarily saying that they do, but they do change the construct of the commercial contract and the way it is made up. There have been some changes and new decisions being made about how the contract looks. Again, like John said, around the delays and the changes—

Q78 **Chair:** Sorry, we have two Johns here.

Debra Maxwell: Sorry, John Neilson.

Finally, from our perspective as well, I think our client base is now different, so volumes are lower, volumes are different, and that leads to a change to the way that the projects—

Q79 **Chair:** Can I just make sure about the client base? The DFT is in, but are any of the other Departments going to come in at any point, or are they completely out?

Debra Maxwell: No, as far as we know right now, they are not coming in.

Q80 **Chair:** But they could come in, John Manzoni, in future, if the hearts and minds are won, as well as—

John Manzoni: I believe that if we stabilise the platform, and Philip is going to—

Q81 **David Mowat:** Just to be clear, volumes being lower is also a risk to the Government, not to the partner companies—let's call you that. Is that right?

Debra Maxwell: Well, you get economies of scale from volume—

Q82 **David Mowat:** No, I understand why. It is a question of—it hasn't happened, those economies of scale. I'm just trying to understand where the balance of risk is as a result of that, but from what you're both saying it sounds like the risk was with the Government or the taxpayer.

Philip Rutnam: I would distinguish between volumes being lower and the thing that had unquestionably changed and that we needed to recognise in the negotiations, which was the fact that the original intention was to have four customers—four other Departments or public sector organisations coming along—but they were departing the scene.

From my perspective, what we were doing through the commercial negotiations we had with arvato was recognising the reality that the strategy put in place from the Government office was framework authority at the end of 2013, early 2014, with four Departments coming in—

Q83 **Chair:** Just to be clear for the record, that was DCLG, the Treasury—

Philip Rutnam: It was DCLG, DCMS, the Treasury and the Civil Nuclear Constabulary, and all of them were leaving the project, so we needed to recognise that. That was one thing. The second thing was that we agreed, from our business perspective and with arvato, that we should be simplifying the programme, so that instead of it being anchored around a migration from SAP to the Agresso platform, which was another platform, we should focus on SAP as the principal solution of the platform.

So there were some real changes, if you like, in the business environment that we needed to recognise through these negotiations.

Q84 **Chris Evans:** Basically, what I want to go back to, Mr Rutnam, is the business case. You said there was definitely a business case. I am looking at paragraphs 3.2 and 3.3 of this Report. Paragraph 3.2 says, "However, the government did not develop an overall programme business case. It did not, for example, reconcile the departments' individual savings cases to its overall savings figure." Would you agree that the failure was already at the beginning, because several different Departments were operating on several different business cases, rather than there being an overarching strategy?

Philip Rutnam: Just to be clear, I agree with the point in the Report that there was a failing in relation to not having an integrated business case across all the Government customers for ISSC1. However, there was a business case for the DFT component; what we did not have an integrated business case for was the addition of DCMS, DCLG, HM Treasury and the Civil Nuclear Constabulary—

Q85 **Chris Evans:** That is what I'm struggling to understand. This is a shared service, but you seem to have several different business cases—left, right and centre. If you'd had one set business case, we probably wouldn't be sitting here talking about this issue now.

Philip Rutnam: To be clear, there was a business case for the ISSC2 programme; there was a business case for the DFT component of ISSC1. The gap was the integrated business case for the other components of ISSC1. That is a gap and that definitely needs to be reflected on. However, I wouldn't be quite as optimistic as you in saying that if that had been put in place, then the programme that followed would undoubtedly have been a success—

Q86 **Chris Evans:** But it would have been easier, surely.

Philip Rutnam: It would definitely have been a better start—I completely agree with that—but I think the fundamental issues really lie in the conversation that I was having with Mr Mowat about leadership and followership.

Q87 **Chris Evans:** You must have seen that going wrong quite early on, then. Did you just carry on and turn a blind eye to it?

Philip Rutnam: Well, at that stage we were a customer of the project, alongside the other four Departments. We obviously want to see an integrated business case, but we were a customer.

Q88 **Chair:** Just be clear, the SRO was the Cabinet Office, but how many SROs were there over this time to deal with the five Departments going into arvato?

John Manzoni: This is one of the problems. What actually happened is that I think the Cabinet Office put in place something called the framework authority. That is why I say the governance was not quite right. The issue with the framework authority is that it was unable to step in unless anything was escalated. Nothing was escalated because the individual Departments were basically doing their thing and therefore there was a sort of "do loop" that basically resulted, frankly, in the failure of the common process or the failure of sufficient—

Q89 **Chair:** So you needed a named person? A named SRO?

John Manzoni: That would've helped. In the end, all of these things are behavioural. A business case would've helped.

Q90 **Chair:** You keep saying all these things are behaviour, which is a fair point and we would probably agree there is a large element of that, but surely that is part of the role of the Cabinet Office? For heaven's sake, did you not have a nudge unit, which was about behaviour, to change the behaviour of the Government Departments you were working with, as part of the preparatory work to get shared services off the ground?

John Manzoni: It is hard to disagree with that, but in order to do that you have got to have sufficient experience in these particular issues.

Chair: I go back to local authorities. They seem to do it—I suppose driven by the imperative of saving money.

John Manzoni: They also don't have accountability structures in the same way as central Government.

Q91 **Chris Evans:** In terms of the contract—the only thing I want to talk about is the contract you signed—when targets were being missed, were there any financial penalties put in place? That is it, really.

Philip Rutnam: There were. For example, in our relationship with arvato, as of today we have a regime for things known as "service level credits". If we don't get the service from arvato that is contractually specified, there is a service level credit and money changes hands as a consequence. I hope Debra would agree that arvato are under very clear financial incentives to deliver what we have specified. Indeed, on the discussions that we talked about earlier, we have further strengthened our service level regime and expectations of arvato.

Chair: Thank you very much, Mr Evans. Mr Evans has to leave—leaving me lonely on this side.

Chris Evans: I apologise; I have to leave.

Q92 **Nigel Mills:** Coming back to the commercial dialogue, I guess I have a couple of concerns about that. Mr Mowat was quite generous in saying that perhaps you could not disclose how much money we were talking about, but I think it would be useful to know, how much of a bill have we racked up by not getting this right at first? John Neilson and Debra Maxwell, could you give us any idea how much this compensation is looking like being? How much was your claim?

John Neilson: I think, as John said earlier, this is a matter of some commercial sensitivity. Maybe the deal isn't done. It may be better that we write separately to provide that sort of information, if that is all right?

Debra Maxwell: I don't think arvato would be comfortable with me saying that.

Q93 **Nigel Mills:** Just while we are on that topic, is this a dialogue where you are trying to resolve it forever? Or is this going to be one of those things where there will still be the right in two years' time to say, "Actually, this model is still wrong. We are still not making the right money, so we will have another claim"? Is this meant to be a once and for all reset to get it on to the right path?

Debra Maxwell: In my experience, particularly with contracts of this length, I think there will always be—we would be naive to think otherwise—healthy, robust discussions if anything changes. The reality is that things change over a contract of this period. However, from our perspective, these commercial arrangements that we are discussing set the future sound for arvato to work much more effectively around the shared services programme.

Q94 **David Mowat:** Things do change, as you say. You both used the word "partnership". The issue, commercially, is what that change was and whether or not it is reasonable for organisations like yours to have expected a degree of change or not. Obviously I am sure Mr Manzoni does not want to get into a situation where he has suppliers who win work and then make the thing profitable based on change requests and things of that nature. That is a lose-lose for everybody. I am sure both of you would agree with that, would you not?

John Neilson: Absolutely. One of the reasons I come back to my joint venture—through the joint venture all of these things and all of our actions are absolutely transparent to the Cabinet Office and Government representatives that sit on the board. All of our actions are transparent in that sense.

Q95 **David Mowat:** You have used the phrase "joint venture" quite a lot. One of the characteristics of a joint venture is a risk-share on the downside as well as the upside. There is something to be worked through to understand how—I guess there must be a contract; you will have commercial people on both sides discussing that—that works with the ethos of a joint venture all the time. Sometimes you can have a joint venture when it is convenient and a contractual relationship when that is convenient and play it both ways, can you not?

John Neilson: You can. Clearly we operate as an independent entity as a company, and that is the organisation that has the interaction, the dialogue, with the clients. With regard to "Is this a line forever?", actually this will draw a very significant line in the sand. It is one that we should have confidence in, in as much as I think when the Report was issued we had one client sitting on the system. We now have 12 different Government organisations sitting on the system. We have plans for the remaining six, which means they will be on the system by May next year. We have plans, which I think there is a high level of confidence in, that they will move forward. So I think there is a very important chapter that is coming to an end; but I think, as Debra said before, life happens and you need to be able to react to life. Things may occur in the future, but I think this chapter is coming towards a close.

Q96 **Chair:** Talking about change and things happening, if you look at figure 9 on page 28 in part 2 of the Report, it is quite shocking really. The Ministry of Justice tops the league—this is requests for changes, by Department, outstanding in March 2016. I cannot quite see how the Ministry of Justice, Mr Manzoni, was allowed to get away with asking for 259 changes. I know it has a complex system to run. Do you think that was reasonable, and what was done to try and control that?

John Manzoni: I think this is an example of some of the issues that Philip was talking about. If we don't have that commitment to common process, then everybody is going to say, "Well, I just need this," and "I need this," and if the ramifications and implications of that change, that change and that change are not clear, then of course they are going to carry on doing it. This, by the way, is one of the things that racks up the costs.

Chair: Absolutely. It racks up the costs, but not to the costs of the Department. The Department gets away scot free.

Q97 **David Mowat:** It might, actually; who pays for their change lists?

John Manzoni: Well, that's part of the settlement in the end. What I will say to you is there are obligations on both parts.

Q98 **David Mowat:** Sorry—we started off by talking about the difference between the centre of Government and the baronies in the Departments. In terms of these change requests, which we are asking about, is it clear that the Department that raises them pays for them?

John Manzoni: Actually, historically—

John Neilson: Yes. It's not quite as simple as yes or no, though. So if it is a Department change for that Department, they absolutely would pay for it. However, very often you could change something for one Department that has a knock-on impact that another Department doesn't like. We therefore have a design authority that has to approve and manage that process. That is one of the points of tension, and the lessons learned is one of the areas that we need to improve. We have got to get this balance. You were talking about standardisation before. There are some things—processing an invoice—that should be absolutely the same for everything. We should also recognise there are special needs. A prison officer is different to somebody sitting—

Chair: In a desk in Whitehall.

John Neilson: Yes, in a central Government Department.

Q99 **Chair:** Talking of Whitehall desks, the Department for Transport, in note 2 on that same chart, Mr Rutnam: "For arvato in March 2016, there were 211 change requests remaining open"—made by your Department—"or its arm's-length bodies". Do you think there are too many? Was there any control over those requests?

Philip Rutnam: There was certainly control. Was it too many, or more than I would like? Yes, certainly. Are we reducing the number? Yes; we have been reducing the number all the time since March.

Q100 **Chair:** Do you know how much it costs the taxpayer that you made all those requests for change?

Philip Rutnam: I am afraid I don't have a figure. I don't know whether Debra is able to comment on that. However, I can assure the Committee that the number has come down significantly. The number I am aware of, the last time I looked, was around 100.

Q101 **Chair:** So that means you just accepted some of them wouldn't happen—you decided not to ask for them. You got rid of those change requests—or they were dealt with.

Philip Rutnam: Well, there are a range of responses. Some of them you reject. You consider it and then reject. Some of them you consider and decide to progress. Some of them may be actually interconnected, and you need to think about whether there is a better solution; but Debra may want to comment.

Debra Maxwell: There is no doubt that the change control process, certainly in the earlier days, was pretty cumbersome and quite slow, with no real opportunity for us to prioritise, so there was quite a big inundation of change controls, hence the higher volumes. I think from our perspective that has improved significantly. We have got a design authority that has been in place now for several months and is already making a significant difference, and starting to drive those volumes down; and we are seeing a lot more practical application and prioritisation of the change controls that we have at the moment. As far as the exact cost of those is concerned, I do not have the numbers to hand, but I am sure we can provide them.

Chair: That would be very helpful.

Q102 **David Mowat:** You have both said you have had design authorities in place for the last few months. Having a design authority for a common application like this is not rocket science, is it? What did you have before?

John Neilson: The design authority has been in existence since pretty much the start of the contract.

Q103 **David Mowat:** Okay—I think you said that, Debra.

Debra Maxwell: Not for arvato. Our design authority is relatively new. I think retrospectively we all look back and agree that a design authority from an earlier date would have made a difference.

Q104 **David Mowat:** What a design authority does is this. When someone raises something, they will not necessarily think it is a change. They will just say, "That's what I always wanted." They will say that's what they want, and the design authority says, "Are you sure? It's going to cost this much and it's going to mean we affect these other Departments." That is what you are talking about, isn't it?

Debra Maxwell: That is correct.

Q105 **David Mowat:** And you did not have that before.

Debra Maxwell: We did not have a proper process that allowed for those decisions to be made at a single point.

Q106 **David Mowat:** Right. So what happened then—just chaos? People raised stuff and there was no—

Debra Maxwell: I would not call it chaos. I would call it more challenging. We certainly had a lot of change controls. From our perspective, what it led to is delays, because if you have a change control—certainly in our situation, it quite often needed to go through all of the Government Departments to get approval from them individually, as far as the change control was concerned. That also led to why we look like we are behind in particular on change controls. It is almost impossible to process them within the KPIs we had.

Q107 **John Pugh:** Can I ask some slightly geeky questions about software? I was struck by paragraph 14 on page 9, because it seems to imply that at the point when the contractors were signed up, it was not obvious to you—you said you did not have the capability—that there would have to be the design and implementation of a single operating system. Am I right in assuming that? That is what it says.

John Neilson: I do not think that is correct at all.

Q108 **John Pugh:** You do not think the paragraph is correct?

John Neilson: No.

Q109 **John Pugh:** Or my understanding of it? It says: "contractors for both centres did not have the capability in-house to design and implement the single operating platforms." That is a major point of a key subcontractor. Was that obvious at the point when—

John Neilson: I absolutely disagree with that paragraph.

Q110 **John Pugh:** You do?

John Neilson: Yes, I do.

John Pugh: That is very important.

John Neilson: Sopra Steria, in bidding for this work, would have had the capability to do this. As is mentioned elsewhere in the Report, the actual introduction of the IT system as part of the package was done very late in the day. The reason we chose to partner with Fujitsu was not that we did not have the capability ourselves. It was because the most effective way to de-risk this situation, where there was a very limited opportunity for due diligence, was to partner with the organisation that already had 80% of the user base sitting on systems that they were managing. We were able to use that system base as the core architecture for the rest of the project. It was a major de-risk decision. It was not a lack of capability decision.

Q111 **John Pugh:** I want to ask about arvato as well. Were you clear from day one of the contract that this was part and parcel of delivering the contract?

Debra Maxwell: Are you talking about the partnering arrangements?

Q112 **John Pugh:** I am talking about developing a single operating platform, either in-house or by sub-contraction.

Debra Maxwell: There was always an intent to build a single operating platform, and our intent was always to partner. We partnered with Unit4, which were the experts in—

Q113 **John Pugh:** That's all right. Mr Manzoni, it was clear when the contractors were appointed that that was what they were going to do.

John Manzoni: As far as I understand, it was. I was not here and I did not deliver the contract. As John Neilson said, the requirement for the additional Departments on ISSC2 came relatively late in the day, partly driven by the recognition that many of them were running out of road on their existing contracts. I think that that then forced this back into our suite of contracts.

Chair: The more you speak, the more it sounds like it was made up as it went along.

Philip Rutnam: Can I clarify one point? In relation to the arvato arrangement, from the very outset they were not intending to have the capability to do this in-house. They were intending from the very outset—in procurement, it was clear—to do it through a commercial arrangement with a company known as Unit4, which was acceptable.

Q114 **John Pugh:** That leads me on to my second question. I refer you to paragraph 1.12 on page 16 and paragraph 1.16 on page 17. In both cases, the major contractor—the lead contractor—appoints a subcontractor, who then uses specific software. In one case, it is the Agresso software, which is described in the text as "a simpler and cheaper system"—I don't know whether cheap is better in this context—and Oracle 12 is identified as being used in the SSCL centre, and that version is "newer than the version used by some customers". I don't know whether those are good things or whether they're bad things, but what I really want to find out, Mr Manzoni, is whether the civil service as the client, as it were, was actively involved in those choices or whether it was left entirely to the lead contractor to decide how to implement it.

John Manzoni: No, I think the contracting process was actively involved in those choices. There was a conversation about the Agresso platform and there was certainly a conversation about out-of-date software that was unsupported, which is one of the things that we have now benefited from. These platforms that we are now on are now fully supported, fully up to date and all of those things, whereas the previous ones were not. We had a sort of burning platform, if you like, which forced us—we were very conscious of this. As Philip has just said, they have made a subsequent decision to go back on to an SAP platform. So there was awareness.

Q115 **John Pugh:** I'm just aware that, going back to NHS IT systems of the past, in some cases a subcontractor was left to get on with things like the Lorenzo system and nobody back at the civil service really knew what was going wrong. You were well aware what the software was. It was your choice as well, and it was conducted with client hands on—

John Manzoni: So far as I'm aware.

John Pugh: Okay.

Q116 **Chair:** I will just bring in the National Audit Office on this issue around page 9, paragraph 14.

Paul Oliffe: The Report is agreed, so just for clarity, in both instances there was a delivery partner used for the IT component. John, I think you are saying that the description we have in the agreed Report is incorrect, in that it wasn't capability that drove you to make that decision; it was capacity and convenience.

John Neilson: Well, it was a de-risk strategy, because they had 80% of the user base already, so it was the most sensible thing to do to build from their architecture—their platform—and that is what we have done.

Paul Oliffe: So they had the more relevant experience.

John Neilson: If we'd had longer to go with this, we might have done it differently, but we didn't. We had the time, we had to make a decision in that time period, and that's what the decision we made was.

Q117 **Chair:** It's just helpful to clarify that so we can reflect it in our Report.

Mr Manzoni, we obviously had a very big decision by the British public last Thursday. Have you yet had a chance to analyse what will happen when you are letting contracts like this in the future? We have an OJ process now for bidding for contracts across Europe. Presumably that will all be swept away. Have you had an official position from the Cabinet Office yet on this point?

John Manzoni: No, because as we all know, we are in a period of transition and that is yet to be resolved and determined. We are of course putting in place processes and structures to allow us to do that in the proper way, but no decisions have been made. Actually, by the way, until we're out, we're in.

Chair: Perhaps, as the Prime Minister said, but nevertheless, it is always good to be prepared.

Q118 **David Mowat:** Just one final observation. However we look at this, it is not a brilliantly happy story, notwithstanding all the valuable lessons that have been learnt. Mr Manzoni, at the start, one of the words you used was "governance"—that governance wasn't right. As we go forward, this isn't going to work unless governance is right. Are you absolutely convinced now that the Cabinet Office is in a position to provide the leadership that doesn't seem to have happened in the past few years?

John Manzoni: I think the answer to that question is that I am very much more confident today. It is not just governance, because in the end it is individuals and skills. We have changed the individuals—

Q119 **David Mowat:** Okay. I still think, though, it is occasionally about forcing people in Departments to do something that is suboptimal for them because it is going to save money for the taxpayer, and if they don't accept that, sometimes they have to be moved—or worse. That is how it works.

John Manzoni: Of course, but as Philip said, in general, when the greater good is made transparent and clear, and people are confident in its achievement, people actually behave in the right way.

Q120 **David Mowat:** They might at the management level. I just make the point again, though, about the guy who is going to have to put up with the worst business process for the common good, because that is what it means in practice. To avoid getting a change request, you say, "No, you're going to have a worse business practice. It doesn't actually cost any money; your job is just a bit worse." Sometimes you have to do that. That is part of management at the Cabinet Office and the—

John Manzoni: I agree. Actually, just to give you some comfort, we now have governance structures around the HR processes and the finance processes, independently, with HR professionals and finance professionals collectively agreeing those processes all the way down the system.

Q121 **David Mowat:** The other thing that has been patently missing from the programme up to now is a sort of Government shared service guru, or lead, or programme director, or whatever it is. You're telling me now that you have recruited that person?

John Manzoni: Mr Andrew Smith, chief executive of Hampshire County Council, who has done this for years and years.

Q122 **Chair:** We look forward to having him in front of us next time. There's an invitation for you.

Can I touch on this issue of governance? Philip Rutnam, we were talking earlier about what was happening with the Department for Transport and the framework approach. Why did no one call out the facts? We have heard Mr Manzoni's description about things going around in a circle. Why didn't you call out that there was a problem with the framework contract? Who? Why didn't somebody call that out?

Philip Rutnam: I think there were many, many discussions, in truth. Mr Mowat understandably emphasised the importance of leadership from the top and the potential role for mandation. I agree with that, though I would echo that leadership needs to be accompanied by building followership. In my experience, if you just do things down from the top, they are more likely to fail, unless you build and get buy-in.

May I add one other point about the importance of responsiveness? In any shared service centre, you need to build credibility with your customers by hearing, responding and engaging. Ultimately, it is all about delivery: credibility of the plan and the vision, and delivery in real time.

Q123 **David Mowat:** I don't disagree with any of that, but I would caveat it by saying that sometimes you do need leadership to accept that something will be a bit worse for the greater good. It is not just a question of raising a change request.

Philip Rutnam: I have that conversation every day—every week is perhaps more accurate—with the chief executives of my agencies.

Q124 **Chair:** But as Mr Mowat pointed out, it is not just that. You can have ministerial buy-in and Cabinet Office buy-in. You can get a lot of chiefs who might buy in, but a lot of these processes are about those individuals on the ground who will see their jobs going or TUPE-ed over, and processes that are more complicated for them. The academic paper submitted as evidence suggests that people then find work-arounds, which means you don't always make the savings, because you get duplicated processes. Did you look into all of that when you assessed whether the whole shared services approach was the right way to save the money that was predicted, but that has not materialised?

John Manzoni: I'm sure they did a very thorough analysis.

Q125 **Chair:** You sound unconvinced. Have you done it since? Will you be doing it as it goes forward?

John Manzoni: Personally, I have had a lot of experience of shared services in multi-dimensional organisations. The person we have now got in charge and his team have a lot of experience. I don't need to go and do it all myself; I am very confident in the team we now have in place, and I think the system has learned a great deal through this.

Q126 **Chair:** That is great, but the taxpayer has lost as well. Can I ask briefly about the MOD shared services approach, which I am sure we will look at at some point? I had not realised until we had a submission on this how massively complicated it is. It includes much more than what we are talking about today. What are you doing as a result of what has happened from this experience to learn about that? Have you done a detailed analysis of the sort I have just described of whether it is actually the best approach to outsource shared services?

John Manzoni: We haven't done a detailed analysis of the MOD process. As you say, it is quite big and complex, and it is actually quite efficient. When you look at the benchmarks, the cost per user and so on say that it is a very efficient service, so there is no burning platform there.

Q127 **Chair:** Are you talking just about the HR and payroll stuff, or are you talking about all the other things like managing the covenant and—

John Manzoni: They are expanding it as we speak. We have to fix our own house, and then we can have a conversation with them about their house.

Q128 **Chair:** But that expansion brings with it certain risks. You are dealing with a much more complicated area.

John Manzoni: Yes, of course it brings certain risks, but they start from a good place.

Q129 **Chair:** Right, we will come back to that, I am sure. Mr Manzoni, you have been very positive, as ever, that the future is going to be bright. Perhaps not all of us feel that, if I can make my Europhile point for a moment. Can you tell us what you think you will have achieved in this area in two years' time? We will want to have you back and hold you and Mr Smith to account on this. What will you have achieved?

John Manzoni: I think in two years, first of all, we will be successfully transitioned to an SAP platform here in ISSC1, and will be delivering sustainably the benefits embedded in that contract. In ISSC2, in two years' time we should have got MOJ and DWP on it. We should have agreed a future strategy, which goes beyond what we see written here.

Q130 **Chair:** That will be just a strategy?

John Manzoni: It will be a strategy, and if we can create the environment in which we have then a stable platform with all the current partners in ISSC2, we will be enjoying these benefits that you see written in front of you. They will be sustainable, and then we will be well positioned to begin to articulate—I think by two years from now—what is possible from there. That is the position we should look forward to. The key date is that by May of next year we should have both of those—MOJ and DWP—on this platform, which will be a big deal.

Q131 **Chair:** Okay. You have laid out on the record—in *Hansard*—what we will be holding you to account on in future. Thank you very much for your candid evidence today. As we recognised at the beginning, this was not a good story. We like to be positive too, but we think there are still some issues ahead, so we will be holding you to account in future.

Our transcript will be up on the website, uncorrected, in the next couple of days. Our Report may well not be out now until September. We can lay reports only when the House—no, well, we can publish during the summer. We will see how it goes, but don’t bank on it before September. I do not want to raise your hopes. Thank you very much indeed.