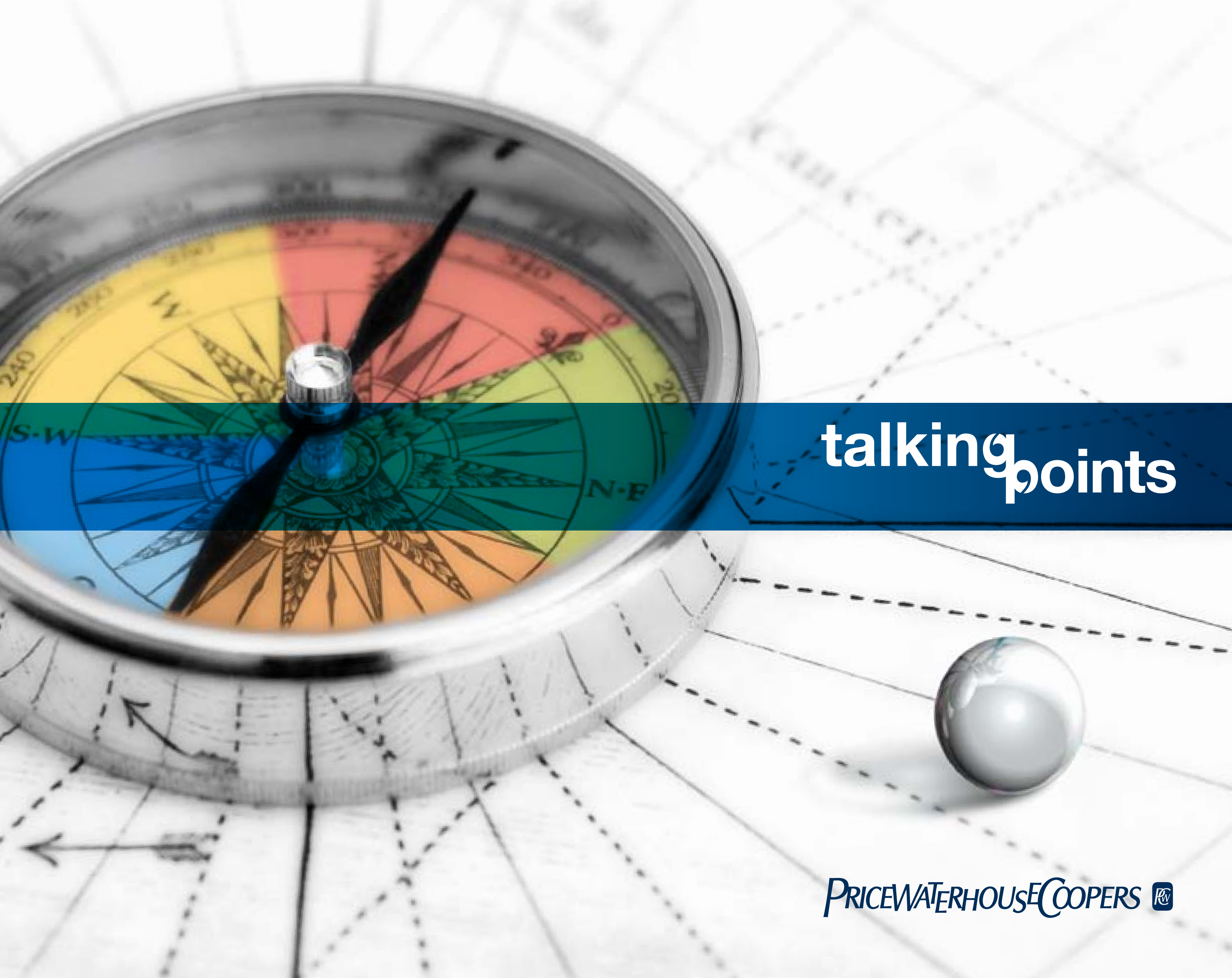
Freeing the Front Line

Where next for corporate shared services in the public sector?

a PwC Public Sector Research Centre publication



talking points

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Introduction

> An overall vision is urgently required for shared services across the public sector
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The Cabinet Office's shared services team has done much in recent years to promote and support shared services initiatives, primarily in central government departments. Similarly, progress has been made in devolved government, local government and healthcare, with several organisations having implemented, or planning to implement, some form of corporate shared services model.

However, because of the sheer breadth of the public sector, progress to date has been achieved in spite, rather than because, of an overarching vision. Much work remains to be done to yield the benefits that could be achieved if a more joined up approach to shared services were adopted, and if public sector performance levels were to be brought into line with those in the commercial sector.

With the current pressure on public sector finances[1], we therefore feel that now is the right time to stimulate the debate on where next for shared services in the public sector.

We believe a refreshed overall vision is urgently required for shared services across the public sector.

Without such a vision, progress will inevitably be patchy and money will not be spent as wisely as it could, nor will the desired benefits be delivered. In addition, there needs to be a further shift in mindset in the public sector so that it focuses on what really matters to the public; that is, the effective and efficient delivery of front line services.

This will require structural change within and across public sector organisations in the way corporate services are delivered; and we challenge whether the progression of shared services would be better achieved by adopting more commercially based models.

In this opinion piece, we start by challenging government on its vision and setting out a routemap for shared services. We then recap on key recent developments in corporate shared services in the public sector as well as highlighting the lessons that can be learnt from the commercial sector. We conclude by setting out a way forward for the public sector, along with some of the key challenges.

1 See 'Dealing with debt: Reforming public services and narrowing the fiscal gap', PwC's Public Sector Research Centre, March 2009

Vision and a routemap for shared services

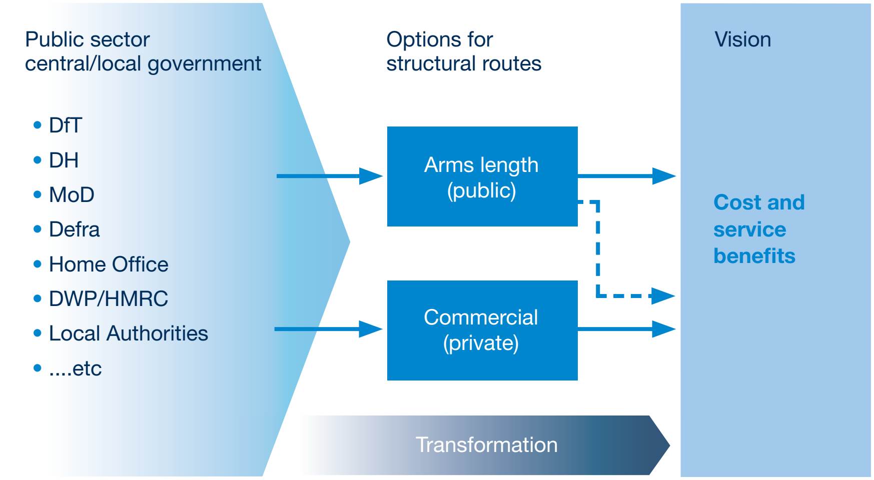
The public sector is under increasing pressure to deliver better front line services for the money spent. Delivering first class front line public services in schools, healthcare, welfare, justice and so on requires first class provision of the supporting corporate (shared) services. An efficient and effective shared service will deliver better value for both its users and the taxpayer and critically permit more resources to be focused on key front line priorities.

Our response to the recent HM Treasury Operational Efficiency Programme suggested that up to £8bn p.a. potential revenue spending savings could be generated through bringing the public sector up to the standards of the commercial sector in the provision of shared services[2]. This level of benefit, however, is unlikely to be achieved without significant change.

We believe the public sector should increasingly focus on the provision of front line services leaving the "back office" services of finance, HR, procurement and so on to be provided elsewhere.

Public sector back office services should increasingly be delivered by a small core of value added in-house service providers supported by arms length public sector agencies, whose primary purpose is to provide

Figure 1: Route map for shared services market development



corporate services on a more commercial basis. They should be open to operate in parallel with a complementary private sector market providing back office services to the public sector.

The debate needs now to move from the political – what should the role of the commercial sector be in the provision of shared services to the public sector, to the structural – is the current departmental structure in central government an enabler or a hindrance to greater sharing?

In Figure 1 we set out a long range route map for market development. We believe the government should be thinking in terms of a vision to 2020 for corporate shared services, although clearly there is no single "right" vision. Ultimately it will be a compromise between the scale of the ambition and the ability to manage the journey.

In the absence of a clear vision, it is difficult if not impossible to say whether the moves and plans in place now are the right ones.

2 'A Response to HM Treasury Operational Efficiency Programme – Prospectus' PricewaterhouseCoopers, 2008

Shared services in the public sector today

The Gershon Efficiency Review initiated the transformation of the public sector by setting challenging delivery targets for government. The current credit crunch and the consequent pressure on public sector finances has only served to bring into even sharper focus the need to deliver public services more efficiently. One response to the desire to improve efficiency has been the move to develop shared services across government departments and public sector organisations more generally.

Various Whitehall initiatives over the past few years have resulted in progress being made across a number of central government departments, including the establishment of in-house shared services at, inter alia, DWP, DfT, HMRC, Defra, and HM Prisons. Each of these has required major change and investment over a number of years, involving the implementation of new corporate computer systems and the establishment of new organisation structures, processes and changes to behaviours both for the people providing and receiving the services.

At the same time, other delivery models have been used, for example, the Department of Health has established a joint venture with Steria (formerly Xansa) for the provision of shared business services and elements of the supply chain have been outsourced to DHL.

These arrangements have brought access to skills and capability that were otherwise not attainable in the public sector.

Similar progress has been made in local government with both in-house models and direct engagement with the private sector, such as IBM's South West One joint venture with Somerset County Council and Taunton Deane to provide council services.

We are beginning to see the adoption of a number of models embracing varying degrees of commercialisation. Notwithstanding such progress, the provision of standardised services is not commonplace at present and sharing across public sector organisations is the exception rather than the rule. While some progress has been made, there remains much to be done if public sector corporate service performance levels are to be brought into line with the high performers in the private sector.

This applies equally to departments setting out on the journey to shared services and to those with more developed operations.

Despite the largely common processes inherent in the provision of a corporate service – after all, paying an invoice should be a fairly standard process from one department or organisation to another – implementations to date have largely been undertaken in isolation from each other, and with no regard to a larger cross government picture.

In response to this, moves are now being made to share the investments that some of the larger departments have made in their standardised systems and processes with smaller departments. The furthest ahead is DWP with advanced plans to share its finance, HR and procurement process service with the Cabinet Office this year, followed by DCSF thereafter.

However, this will bring its own governance and ownership challenges that will need to be resolved as new "customers" are introduced to the service. The shared service will increasingly need to operate and behave more akin to a private sector commercial entity in a competitive environment, marketing its services to customers. Ultimately, this could be achieved by moving to a more arms length publicly owned commercial entity or by direct transfer of ownership to the private sector.

What can be learnt from the commercial sector?

Over the last 25-30 years, organisations in the commercial sector have focused increasingly on what really matters to them – their core business – leaving the rest to others to provide. Operating models have developed that challenge the notion of what is really core. Thirty years ago it would have been unthinkable to outsource the provision of accounting services. Now it is increasingly accepted.

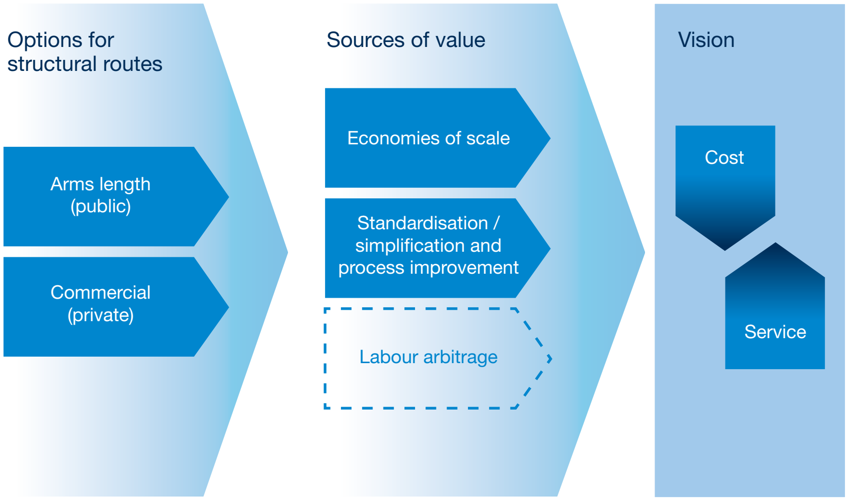
The benefits of shared services in the private sector have come from three sources, as shown in Figure 2: efficiency through standardising the way things are done; economies of scale through consolidating activity from multiple sites into a single or fewer sites; and lower labour costs through a combination of off-shoring and/or outsourcing. The achievement of such benefits tends to come in the form of progressive steps, with any decision to engage with a third party coming early or late in the process, often driven by the opportunity to achieve transformation.

A material element of the cost benefit that is available to the private sector occurs through the off-shoring benefits of labour arbitrage, whether through direct ownership of dedicated sites or leveraging third party capacity through an outsourcing arrangement. Such benefits are accessible to the public sector and have already been achieved where policy has permitted.

For example, the Department of Health's SBS Joint Venture permits a degree of access to Steria's off-shore operations in India. We recognise that the cost advantages of off-shoring are likely to be politically difficult, if not impossible, to achieve in the public sector, at least in the current climate. However, over the long term, for the public sector to deny itself similar benefits would be to limit the full potential of shared services and the competitive advantage of the UK in a global economy.

Similarly, the opportunity to transfer operations to a third party through partnering or outsourcing type arrangements is common place in the public sector. Issues associated with the transfer of staff to the private sector are not insurmountable, and precedents exist across government where this has been successfully achieved.

Figure 2: Prime sources of value from shared services



A way forward for the public sector

While there is much that can be learned from the experience and innovations of the commercial sector, the sheer scale of the public sector in the UK is a fundamental difference, which makes it unique. There is no precedent for how support services should be shared across the public sector.

In our response to HM Treasury's Operational Efficiency Review we state our vision that in future public sector back office services should increasingly be delivered by a small core of value added in-house service providers supported by arms length public sector agencies, whose primary purpose is to provide corporate services. We also envisage the development of a complementary private sector market providing back office services to the public sector. This market would be characterised by providers offering a range of delivery solutions that would include in-shoring, near-shoring as well as some off-shoring options.

In future we see that where one set of public sector organisations is providing shared services to other public sector bodies, it will increasingly be delivered by stand alone specialised bodies, whose primary purpose is the delivery of fit for purpose shared services to a range of public sector organisations. This would enable the standardisation of services, which is a pre-requisite for achieving economies of scale.

In the public sector a wide range of corporate forms exist that permit the provision of services to third parties – for example, non departmental public bodies, trading funds, arms length bodies and so on. Which corporate form is appropriate will depend on specific circumstances, including governance requirements, need for investment and access to resources.

In addition to yielding substantial financial benefits, such a transformation should increasingly free up public sector organisations to focus on what we believe their primary purpose to be – that is the delivery of front line services.

A logical next step on the journey would therefore be for public sector organisations that have already developed in-sourced shared services to assess the benefits, costs and practicalities of transferring those activities on a more arms length basis to a stand-alone publicly owned body. The objective would be to enable greater freedoms to develop as a more independent commercial entity. This is likely to be particularly relevant where it is proposed to extend the service offering across a broader range of public sector clients.

To yield the benefits from the service, however, would require appropriate incentives and enforceable sanctions to be in place, something which under current public sector rules is likely to be problematic. To make the model work, therefore, rules and practice would need to change.

More ambitious still would be to consider the role of the commercial sector in the provision of public sector shared services, either in partnership with the public sector or independently. While such a move might meet with greater resistance than a purely public sector model in the short term, this would need to be weighed up against the ability to bring about the desired changes, to attract better talent, to invest, to contract commercially and to risk share.

Challenges

We recognise that there are likely to be a number of very real challenges to the changes proposed in this paper. These will almost certainly include:

- How to overcome the structural issues associated with a different model of corporate services provision;
- How to address the emotional debate between public versus private sector provision, particularly in the light of the current economic climate;
- How to resolve tax and legal issues particularly on VAT; and
- How, and from where, to fund the changes.

We are aware of the problems of moving forward if these challenges are not addressed. However, in the long term, none of these issues are insurmountable, particularly if the political will exists to overcome them. The purpose of this paper is not to provide the answers to these challenges, but instead to present a vision of the future, which we believe should be sufficiently compelling to take the debate forward.

Conclusion

While progress has been made in the development of shared services across a number of central government departments, local authorities and other public sector bodies, this marks only the beginning of a journey. Substantial sums of public money have been spent without an overall game plan in mind. It is not surprising, therefore, that the development of public sector shared services in this country has been somewhat haphazard, with instances of waste and failure. The challenge now lies in defining more clearly a vision for corporate shared services across the public sector and a plan of how to get there.

This will require certain fundamental principles to be agreed, not least of which is the role of government and the commercial sector in the provision of public sector shared services.

In our view, government should refresh and communicate its vision and work with the wider public sector and commercial sector to develop a strategy to ensure a sustainable, competitive supply market for corporate shared services over the long term.

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Our people combine deep specialist expertise with a genuine understanding of the public sector. Our Government and Public sector practice now comprises of approximately 1,300 people, over half of whom work in our consulting business, with the remainder in assurance and tax.

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About PwC Public Sector Research Centre

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