# REINVIGORATION

## GOVERNMENT SHARED SERVICES
A FRAMEWORK FOR SUCCESS

**If you follow local and central government news, you will be aware that the introduction of 'shared service' operations has gained significant attention over the past few years. In this white paper we explore the important levers and considerations that affect the success of a 'shared services' approach.**

## WHAT DO WE MEAN BY 'SHARED SERVICES?'

'Shared services' typically refers to classic business support functions such as finance and accounting, HR / payroll, IT and procurement. Some organisations also include smaller support functions such as legal services.

The concept of 'shared service' supports the consolidation of these support functions into one place. In classic organisation design, these support functions are localised, meaning that there are many geographically dispersed teams that essentially supply the same support services to their own smaller location / site. This is particularly common in large multi-national (private sector) organisations, but also in multisite organisations within one country, including those that provide public services.

In addition to consolidation within the boundaries of a single organisation, there is also a more common trend these days for shared services to be created where multiple smaller organisations of the same type (e.g. local authorities) seek to bring their support into one central shared service.

## THE BENEFITS

Put simply, a shared services approach is usually commissioned with the primary aim of reducing costs by achieving economies of scale. A secondary benefit often quoted is to improve levels of service delivery by creating process expertise.

The widespread spending cuts that have affected public services in the UK in recent years are only set to continue.

Indeed, towards the end of 2015 we learned that the budget deficit has grown further[1], leading to further pressure to cut costs.

Given this ever increasing pressure on government funds, it is easy to see why both large and small government bodies are jumping towards the shared service model.

## WHAT HAVE WE LEARNED FROM GOVERNMENT SHARED SERVICES VENTURES IN RECENT YEARS?

The incentive behind the move to a shared service model for most organisations is a combination of reducing costs and delivering more reliable services. However, have the initial business cases delivered what they promised? We've certainly seen some shared service success stories highlighted in the press both in local authorities[2] and healthcare[3], but what about everywhere else?

A few years ago, the Public Accounts Committee issued a damning summary of government shared services, highlighting huge £1.4bn set-up costs – a £500m overspend[4]. The report immediately sparked heated public debates between supporters and adversaries of shared services as it quite clearly suggested that the financial benefits of such schemes were a rather large red-herring.

Just over 12 months later, another announcement from the UK Government took quite a different tone, announcing a new private-sector partnership and a bold forecast that **"the government's strategy to transform back office operations could help deliver between £400 million and £600 million a year in savings for the taxpayer"** [5].

Now, in the 2016 Finance Bill, we see that the shared services model is not only endorsed, but incentivised, in the form of VAT refunds. What has changed to give such increased confidence? Were these just more false promises to the public to disguise the Government simply offloading its efficiency challenges elsewhere?

When exploring the answer to this question it is interesting to immediately note the variety of shared services models that are linked to government services, all of which seemingly offer different financial and service-related benefits.
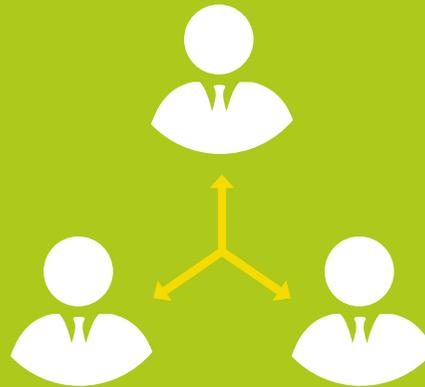
# SHARED SERVICES MODELS

## OWNED



**FIRST WE HAVE RETAINED SHARED SERVICES – THOSE THAT REMAIN FULLY 'OWNED' BY THE PUBLIC PURSE.**

These are typically found through the amalgamation of smaller local authority functions such as contact centres or planning departments.

## OUTSOURCED



**NEXT, WE HAVE THE OUTSOURCED MODEL WHEREBY A PRIVATE SECTOR PARTNER IS SELECTED TO MANAGE SERVICES ON BEHALF OF THE GOVERNMENT, ON A FULLY 'OWNED' BASIS.**

It is 'owned' in terms of full control of delivery, typically managed through SLAs (Service Level Agreements).

## BLENDED



**FINALLY, WE HAVE THE BLENDED MODEL, WHERE CERTAIN FUNCTIONS ARE CONSOLIDATED BUT MANAGEMENT OF THEM IS RETAINED, WHILE OTHERS ARE FULLY OUTSOURCED.**

While there are a variety of reasons why some functions may be retained, we typically find data security / sensitivity close to the top of the list of reasons to do this.

**There are a plethora of service providers in the market vying for a slice of the pie - Capita, Serco, Sopra-Steria (and subsidiaries), Accenture, Capgemini and CGI (to name but a few) - and all of these organisations have their own location strategies.**

The (part or fully) outsourced model is certainly most commonly used by the Government, but there are further derivatives on the model in the form of 'location strategies' used by the outsourced partner. There are four location strategies used by UK Government shared services:

**1** On-shore and retained in current location

**2** Near-shore (retained in the UK but moved to a cheaper location, e.g. out of central London)

**3** Off-shore (moved to a foreign location, typically Asia, Eastern Europe or South Africa)

**4** Multi-shore (moved to multiple foreign locations). The outsourced model and location strategy used are important because they can significantly affect the financial and service benefits realised.

Clearly, lower-cost locations offer lower ongoing fixed costs through cheaper labour and infrastructure, albeit set-up costs can be high. But what about service experience? Service 'difficulties' have been regularly linked with offshore service providers, which means there is also a need to consider 'true cost' as well as transactional cost.

Despits this, all four location strategies have proven to work very well and when selected and implemented correctly, will deliver both cost and service improvements.

**THE PITFALLS**

From our experience at Reinvigoration, the two greatest challenges that threaten to undermine the success of a shared services model are:

**1 Poor transition execution**
A poor transition execution from the Government to private sector partner will put the venture on the back foot before it starts.

**2 Poor management**
Once the shared service is in place, poor management will compound poor set-up practices.

## LEARNING FROM THE MISTAKES

In 2012 Margaret Hodge, chair of the PAC, commented: **"I welcome the Cabinet Office's ambitious new strategy for improving shared services, but unless it learns from the past it will end up making the same mistakes again."**[5]

There is plenty of evidence today that the Government's shared services ventures, irrespective of the service delivery model used, can indeed bank the benefits anticipated upon their inception – saving the taxpayers' money giving us a better service. However, success levels have been inconsistent and have often fallen short of their intentions.

## WHAT ARE THE LEVERS TO SUCCESS?

There are clear areas that shared services ventures can focus on within operations to move from a negative to positive cost position.

## 7 OPERATIONAL COST LEVERS FOR SUCCESS

While the individual characteristics of the shared services operation will ultimately dictate how much each individual lever can be exploited (and bearing in mind that not all levers can be 'pulled' in every instance), it is important to understand how each lever can positively affect cost and, potentially, service.

# 7 LEVERS OF EFFECTIVE SHARED SERVICES OPERATIONS

**1**
**CYCLE TIME REDUCTION**

*In other words:*
Getting things done in less time

**2**
**FAILURE DEMAND REDUCTION**

*In other words:*
Fewer complaints and less unnecessary work for other departments

**3**
**REDUCE OPERATIONAL RIGIDITY**

*In other words:*
Ensuring you have the right level of resources to meet demand

**4**
**OPTIMISE SPANS OF CONTROL**

*In other words:*
Ensuring your organisational structure puts resources where you need them

**5**
**PERFORMANCE MANAGEMENT**

*In other words:*
Meaningful targets that reflect your promise to customers

**6**
**RELOCATING TO CHEAPER LOCATIONS**

*In other words:*
A solution that requires careful consideration in relation to true costs and risks

**7**
**AUTOMATION**

*In other words:*
Investing in the right technology without compromising on service

## 1 | CYCLE TIME REDUCTION

In simple terms, cycle time reduction is lowering the amount of time taken to process an item of work. It is achieved primarily by identifying and removing waste from processes and working practices. Cycle time reduction starts with understanding the purpose of the process from the customers' perspective. Once this is understood you are then able to identify the activities that conflict with the purpose – the waste – and set about removing them. This lever also improves services levels as better delivery = happier customers!

## 2 | FAILURE DEMAND REDUCTION

One of the biggest opportunities to create capacity in any shared service organisation is to reduce failure demand, which is the term given to demand that we shouldn't receive, for whatever reason. This can be within either input demand (i.e. calls or queries received) or process demand (i.e. creating requests for other teams or departments). Failure demand typically accounts for more than 40% of all demand received in any service process and is completely avoidable once the root causes are understood.

It should be noted that reducing failure demand is entirely different to getting customers to shift their preferred channel of interaction. For example, moving to self-service will indeed reduce demand; however, this presents additional opportunities above and beyond failure demand reduction.

## THE HIGH-LEVEL METHOD FOR REDUCING FAILURE DEMAND IS AS FOLLOWS:

### MEASURE DEMAND

• Categorise demand types
• Design a measurement system to capture data
• Measure demand over a sufficient period

### ANALYSE TYPES

• Detailed data analysis to create buckets of demand types

### IDENTIFY & TACKLE ROOT CAUSES

• Analyse demand types to establish true root causes
• Categorise opportunities into ease / benefit
• Create business owners and begin initiatives to eliminate

### RELEASE CAPACITY

• Continue to measure and remove capacity as soon as demand drops (phased reduction)

# 3 | REDUCTION
## OPERATIONAL RIGIDITY

Operational rigidity is defined simply as the difference between resource and demand profiles. It exists in every service business due to the inherent variability in demand, but can be greatly reduced using the correct approach.

Typically, back office functions have higher levels of rigidity (10%-30%). Front office functions (e.g. call centres) are rich in data and are more comfortable with capacity planning techniques, thus typically offer less benefit potential.

This lever can also have a positive impact on service levels. Who likes queuing for service?

## REDUCING OPERATIONAL RIGIDITY -
## A CASE STUDY

### The Problem

• A large finance shared services procure-to-pay (P2P) function, which supports the NHS in the UK, had c.320 FTE split between two operations, one in the UK and the other in Pune, India.

• The business was organised to manage in functions rather than to manage the end-to-end flow of an invoice and there were often significant imbalances within functions, leading to even greater imbalances when the whole department was considered.

• This was measured in a range between 44–87 FTE, depending on seasonality, which was clearly a significant level of lost time

### The Solution

While the solution used several levers to establish the optimum operating model, operational rigidity was specifically targeted and reduced by:

• Multi-skilling team members across multiple functions

• Establishing a capacity planning support team, aided by the design and implementation of a P2P-wide capacity planning process and tool.

Following a programme of cross-skilling staff and once the new capacity planning process had bedded down, the solution reduced operational rigidity to levels of less than 20 FTE.

This additional rigidity will be tackled through continuous refinement and improvement.

## 4 | OPTIMISE SPANS OF CONTROL

Organisations typically operate with inconsistent spans of control, management layers and levels of support staff across their operations. This problem is amplified in organisations that typically employ lots of staff with long lengths of service, as historically staff are promoted on length of service, thereby creating a top-heavy structure.

The number of layers of support will depend on the size of an organisation. However, irrespective of this, common principles should be defined and implemented organisation-wide to keep the appropriate ratios.

You need accurate organisational charts, down to individual names, to start this exercise. Agreed ratios can then be applied to identify surplus or deficit levels of staff within the structures.
To add additional weight to this point, correctly arranged organisational structures provide better support mechanisms for frontline staff, thus enabling them to provide optimal service.

## 5 | PERFORMANCE MANAGEMENT

Most service organisations are typically lacking in good operations management practices, with one such practice being performance management. This is a lever that alone can deliver a 15% plus lift in productivity, if implemented correctly. Good performance management is more than just setting clear expectations of staff and holding them to account. It encompasses an operating system combined with other fundamental operational practices that when linked together drive effective performance.

But beware – 'targets' can often drive the wrong behaviour. You need to measure the things that relate to the purpose of your business from the customers' perspective.

Similarly, the operating system alone will fail without capable operational leaders. This is often the challenging gap to close and only through coaching support can you have any chance of success.

While this lever is typically used in high-volume, transactional environments (because it is easier to compare performance in these conditions), we have proven it to be equally effective within smaller operational team structures dealing with low-volume, high-discretion work. The challenge, however, in this instance can be the initial availability of data to assess the improvement potential.

## 6 | RELOCATING TO CHEAPER LOCATIONS

Although controversial, this option still needs to be considered. Relocating work to areas with cheaper resource and infrastructure costs has been a popular cost-mitigation strategy for services organisations for more than a decade. This includes near-shoring work (i.e. moving work to a cheaper location within the same geographic boundary) or offshoring to a new country.

A decision also needs to be made on whether the work is outsourced to a third party provider or retained in-house with new operational centres created in the new location.

One word of caution – be very clear on the potential impact of distancing your operation further away from the people that you serve, we've seen some horror stories!

**Important considerations:**
The business case for work relocation needs to look past the purely transactional cost (i.e. 1 FTE offshore is cheaper than 1 FTE onshore) and calculate the true cost (service and financial), considering:

• End-to-end flow – have we built delays, excessive handoffs and rework loops into the process? What are the implications?

• Process suitability. Can the process be easily documented and standardised ahead of moving work? Does it have high levels of voice interaction and will your customer base be happy with foreign interactions?

• Do you have effective performance measures in place to manage the process? Lack of a robust measurement system is typically a weakness of many offshore providers.

## 7 | AUTOMATION

Unlike the first six, the seventh lever is one that requires investment in technology. Automation and robotics can be solutions to enhance process performance while also reducing costs. However automation is littered with inconsistent results, so consider the 'what if the robot fails' scenarios very carefully before diving in. When used well, it can drive better service.

# CONCLUSION

## NUMBER OF SHARED SERVICES DIVISIONS IN UK LOCAL GOVERNMENT

The number of shared service examples has increased by **79,** from **337** in 2014 to **416** in 2015.

**416 in 2015**

**337 in 2014**

**329 in 2013**

**220 in 2012**
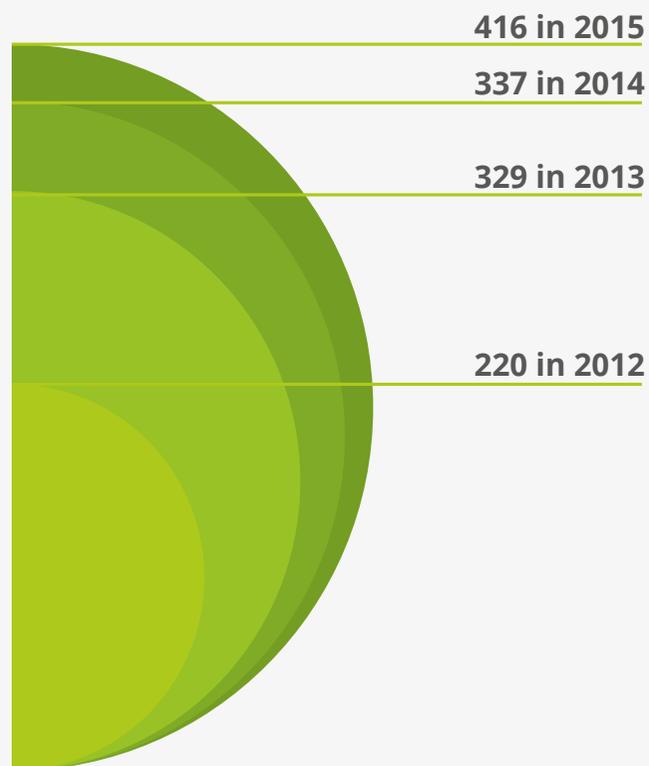
## IN SUMMARY

Given that the most recent Local Government Association reports[7] show there are now "416 shared service arrangements occurring between councils across the country, resulting in £462 million of efficiency savings", there is little doubt that this operational model is here to stay. The challenge remains, however, in knowing how best to assess, plan and manage the necessary changes effectively and efficiently. The seven key principles – or 'levers' – presented in this paper provide a structured framework for making these assessments and implementing change successfully within the public and private sectors.

Local Government Association (2015) Shared Services Infographic.
Available at: http://www.local.gov.uk/shared-services-map (Accessed: 05 May, 2016)

# CASE STUDIES

**For examples of how Reinvigoration has helped government departments and public services to achieve more effective shared service operations, take a look at our case studies at www.reinvigoration.com/case-studies**

## REFERENCES

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