

# Central Government Shared Services

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Guidance for Customers and Providers



**Making  
government  
work better**

# Up-front Investment

## Introduction

This section covers the funding of up-front investment costs for cross government shared services. The prerequisite for a customer migration to shared services is the development of robust business cases for both the provider and customer organisation for approval by their respective boards. In common with any other investment

decision, if there is not a viable business case with benefits exceeding costs with an acceptable pay-back period, there should be no migration.

## Considerations

### Required Up-front investment

The following table illustrates the types of spend required during the set-up phase for a customer migrating to shared services.

Investment type	Providers	Customers
Project	Dedicated migration team to explain core solution, regression test any changes against the existing solution, assess customer requirements, design and build customer solution, provide training	Dedicated project team to evaluate core solution against business needs, specify requirements, test the solution, manage business change, negotiate SLAs
Infrastructure	Additional software	Enhancements to infrastructure and PCs, Additional software
	Additional servers, infrastructure, network set-up	Systems de-commissioning costs
	Additional accommodation, office refurbishment	Extraction and migration of data into shared service
People	Take-on and train additional delivery staff	Additional staff during transition
		Redundancy and redeployment costs

Migration costs will fluctuate depending on:

- The scope of service to be provided, e.g. delivery of an ERP (Enterprise Resource Planning) solution to a full managed service
- closeness of fit of the service offering to customer requirements
- availability of software licences which have already been purchased
- shared service centre capacity
- people policies; and
- the mix of internal and external project resources.

However, even for a small Government organisation of say, 2,000 staff, adopting a standard managed service offering of finance, HR and payroll services, overall migration costs are likely to be in measured in millions of pounds.

### **Constraints over Funding**

Private sector shared service providers would recover the up-front investment costs through service charges over a 3 to 5 year period or longer depending on the customer contract. There is currently no financial regime that would allow Government shared service providers to spread investment costs over future years' service charges.

The HM Treasury guidance on Managing Public Money states:

“Shared services often need funding to set up infrastructure, e.g. specialist IT for procurement. This could be agreed in a spending review, or customers could buy in by transferring budget provision to the lead provider. Each of the Accounting Officers involved will need assurance that the project offers value for money for the public sector as a whole. The provider's charges should be at cost, following the standard fees and charges rules within Central Government:

“Charges within and among Central Government organisations should be made at full cost, including the standard cost of capital. To charge otherwise would risk creating unwarranted subsidies or distorting competition”.

There is currently no central funding available or facility that would allow a Government shared service customer to obtain a loan to help fund the up-front

costs and allow this to be repaid as benefits are realised.

### **Agreeing the Customer Investment**

As part of the initial feasibility study into shared services, the provider should supply the customer with a best estimate of the set-up costs for inclusion in the customer business case. As part of the business case approval and decision on whether to proceed, the customer and provider would need to agree the financial arrangements for the recovery of actual set-up costs during the migration phase.

The negotiation on solution requirements and set-up costs should consider if any of the required solution improvements / system changes would benefit existing customers or result in additional set-up and / or higher operating costs for existing customers

If there are additional benefits then it is reasonable to expect the existing customer base to make a contribution to the investment costs, for example pro-rata to the expected benefits.

If the solution / system changes would result in additional costs and not be of benefit to existing costs, then it would be reasonable for the customer requiring this change to meet the additional cost. This may result in the new customer changing its requirements, look at alternative solutions or potentially to decide not to proceed with the migration.

A similar process is required for the assessment and funding of solution improvements and new business requirements post go-live. Guidance on

this can be found in the Section on Sharing Benefits.

### Other Examples of Good Practice

Supporting tools and examples to assist in assessment the investment requirement and business case development can be found in Cabinet Office Shared Services Toolkit at: [http://www.cio.gov.uk/shared\\_services/toolkit/tools/biz\\_case.asp](http://www.cio.gov.uk/shared_services/toolkit/tools/biz_case.asp)

The example documents include a business case financial checklist and the Defra shared service business case.

*The information and opinions which this guide contains are not intended to be a comprehensive study and should not be relied upon or treated as a substitute for specific legal or policy advice concerning individual situations.*