



**CabinetOffice**

# Central Government Shared Services

April 2008

Guidance for Customers and Providers

**Making  
government  
work better**

## Commercial Approach

### Introduction

This section provides guidance on establishing and operating robust, good practice and pragmatic commercial arrangements between a public sector provider of shared services and a public sector customer.

The approach to contracting is heavily dependant on the selected delivery model. The guidance in this chapter focuses on a public sector organisation contracting with a public sector shared service organisation operating as an Arms Length Body.

Ideally, the agreement between public sector providers and customers should comprise the same principles and be of similar robustness as a commercial contract between a Government organisation and a private sector service provider. However in practice, given that unlike a legal contract, this agreement will not be enforceable, the style of the agreement and associated documentation is likely to be more collaborative in nature.

### Principles

The following principles should underpin the commercial arrangements between public sector organisations:

- The principle of "Indivisibility of the Crown" means that there is no option for Government Departments and agencies to enter into contracts which are legally binding and enforceable in courts
- Government accounting rules mean that Government Departments are not allowed to make a profit out of the provision of services to another Department
- A simple approach to documentation is recommended. This should include a Memorandum of Understanding (MoU) or Heads of Agreement (HOA) setting out the relationship during the migration framework and a more detailed Service Relationship framework of Service Level Agreement (SLA) for the operational service.
- The SLA should include detailed descriptions of each element of the service, associated performance levels, frequency of reporting and roles and obligations of both the provider and customer.
- The provider and customer should be aware that, as the agreement between them is not legally enforceable, there is a need to have key stakeholder sponsorship and commitment at the highest appropriate level.
- Invoicing and payment terms must be agreed and approved between the provider and customer.
- There should be transparency of service offering and charges.
- The charging structure should be as simple as possible and based on the most appropriate unit of service consumed, for example per user or per transaction.
- There should be flexibility built into the charging to allow for changes in the cost and customer base. The mechanism for agreeing such changes and implementing them must be defined.
- The method of charging must be in accordance with the prevailing Public Accounting Rules.

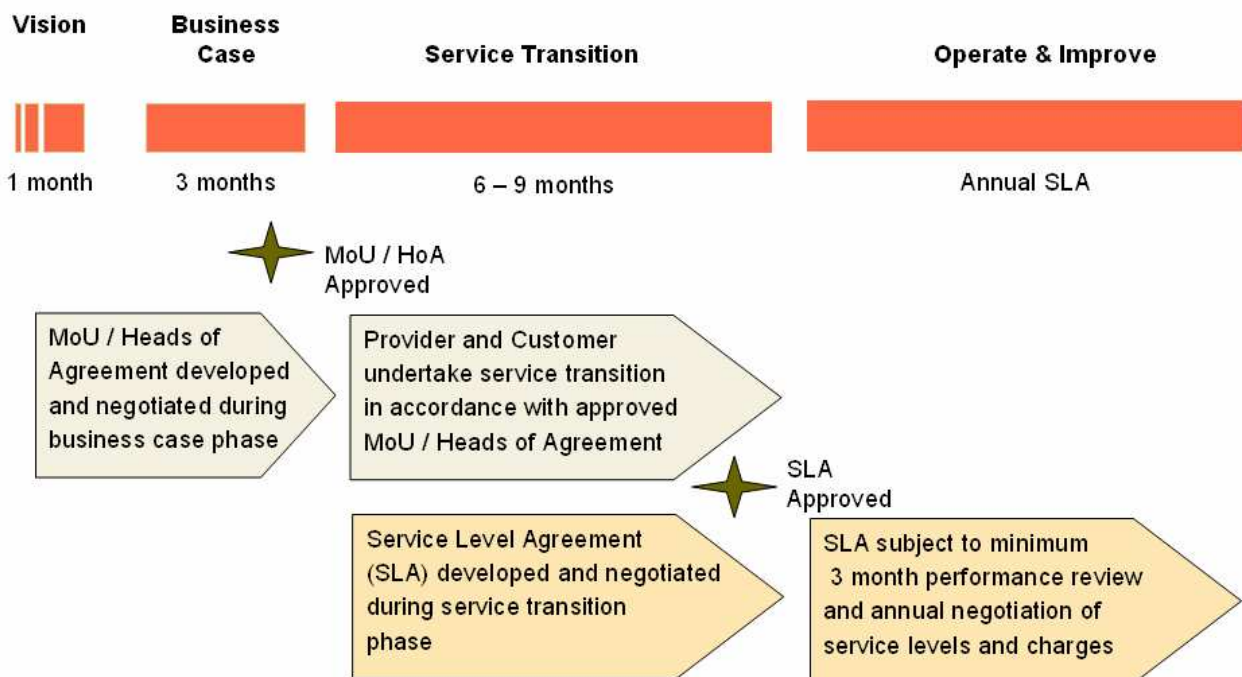
- The customer should provide projected volumes and based on these the provider should give projections on operating costs going forward.
- The liabilities of the provider and customer(s) should be set out and agreed, along with any costs associated with them.
- Risk Ownership and Transfer must be identified and agreed between the provider and customer.
- The approach to benchmarking of charges and efficiencies in terms of how they compare to the marketplace should be agreed between the provider and customer.
- Documents should have clear owners and be subject to change control. The SLA should be

reviewed and performance levels agreed at the beginning of each fiscal or contract year.

- The duration and notice periods for the agreement should be agreed and clearly stated.
- The customer should have a responsibility to provide accurate current and forecast information regarding volumes e.g. number of users/average number of transactions per user.
- The provider and customer should consider what exit strategies and plans they need to have in place.

The following diagram illustrates the timing of development and duration of commercial documents between providers and customers.

### Development and Adoption of Commercial Arrangements



## The Memorandum or Understanding or Heads of Agreement (MoU/HOA)

### Overview

The purpose of this section is to set out the principle terms of the agreement between the provider and customer of a shared service and covers the period before the shared service goes live. It should be produced as soon as a customer has completed a feasibility study into service delivery options and selected a service provider. This is likely to be after the customer's initial business cases which identify long and short lists of options resulting in a chosen provider, but before work commences to develop and agree the service specification and a final business case is produced.

Typically the MoU or HOA will include the following sections:

### Purpose

The reason for needing the MoU, for instance to set out the agreement between organisation x and organisation y with the specific intent of supporting the migration phase of the shared services migration programme.

### Background

The context within which the MoU fits. This may include the programmes key objectives, e.g. improving efficiency and effectiveness by migrating administrative functions to shared services, transforming the retained functions, implementing an ERP solution including employee and manager self service.

### Scope/Provisions

Set out the:

- key principles for working together and the provision of the shared service;
- key objectives and indicators of success; and
- a high level description of the shared service.

### Out of Scope

Clarify service components that are agreed as being out of scope of the shared service. For example this may include parts of HR that are out of scope such as strategy and policy.

### Terms of agreement

Include roles, responsibilities, accountabilities and obligations. For example they may include the customer's obligations to provide a team with the appropriate skills during the transition for testing etc and to cleanse legacy data before extract and migration.

Also set out expected activities and key deliverables during the initial exploration, design and migration phases phase and milestones for their completion.

### Governance

Explain how the project will be governed, e.g. who is the senior responsible officer, what are the terms of reference and membership of the Project Board and how often will they meet? Will there be other forums and what will be their role?

It may also be useful to set out an agreed series of key checkpoints during the exploration and design phase, at which both organisations can agree whether to proceed to the next phase.

#### Dispute Resolution

Arrangements for resolving any disputes, e.g. escalation procedures, accountabilities, independent arbitration.

#### Termination

Set out the criteria and process for termination during the migration period.

#### Status

Set out the status of the MoU. Arrangements between Government Departments do not have a legal status. This section could also provide details of any confidentiality requirements.

#### Supporting Information

The MoU should also include:

- a glossary of terms
- A list of the assumptions on which the MoU is based
- A list of key risks and the risk management process.

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## The Service Relationship Framework or Service Level Agreement (SLA)

### Overview

An SLA or service framework is a document which defines in detail the relationship between the provider and customer and its parameters.

Its development should start during the service design phase after the service specification or design blueprint has been produced and its approval should be a pre-requisite to go-live.

It is an extremely important document for both the customer and provider and an appropriate level of resource should be assigned to its production.

The SLA should include; a detailed description of the service; measurable service levels, frequency of reporting; the roles, responsibilities and obligations of BOTH the provider and the customer; issues resolution process and the approach to continuous improvement and service development.

It should be revisited at the end of each fiscal year or contract period, or when a significant change in service requirements occurs (managed via the change control arrangements set out in the SLA).

Although not exhaustive, typically an SLA will include the following sections:

### Introduction

This would set out the background and purpose of the SLA.

### The Agreement

This would set out: the statement of intent; the parties involved in the agreement; signatories; period of operation; the principles of partnership working; terms of the agreement; obligations; document sign-off and security.

### The Service

This would include services in scope and a description of the service. For example services in scope may be listed as follows:

Finance and Procurement	
<b>Procure to Pay</b>	
	Manage policy, contracts & quotes
	Manage suppliers, materials & catalogues
	Raise purchase requisition
	Raise purchase order
	Receive goods and services
	Manage stores and inventory
	Process invoices
	Process expense reimbursements
	Make payments
<b>Order to Cash</b>	
	Enter, process and track
	Manage customer balances and credit
	Invoice customers
	Process receipts
	Manage collections
	Manage adjustments
<b>Record to Report</b>	
	Perform accounting
	Manage period and year end
	Perform budgeting and forecasting
	Perform reporting
	Perform fixed asset accounting
	Manage programmes
	Manage bank accounts
	Manage cash

Finance and Procurement	
	Activity recording and charging

HR & Payroll	
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Planning and Policy	
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	Employee Diversity
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Source and select	
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	Manage unsolicited applications
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	Manage vacancy
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	Process applications
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	Appoint employees (external & internal)
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	Manage non-acceptance of offers
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	Manage feedback and appeals
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Develop and Counsel	
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	Manage performance
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	Learn and develop
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	Industrial and labour relations
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Reward and Retain	
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	Establish work pattern
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	Record time
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	Record activity based costing
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	Manage time approvals
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	Process worked time
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	Submit absence applications
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	Approve leave applications
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	Manage changes to approved leave
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	Manage leave resumption
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	Manage pay details
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	Payroll processing
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Redeploy and Retire	
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	Manage voluntary terminations
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	Manage involuntary terminations
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	Manage personnel death
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	Manage career breaks
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	Employees outplacement services
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Manage Information	
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	Manage Organisation structure information
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	Manage job and position information
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	Manage personnel details
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	Management reporting
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Service availability should be included. E.g. 8.00-18.00 Monday to Friday plus any out of hours provision.

Detailed service schedules should be annexed. These will include a detailed description of each element of service and the roles and responsibilities and obligations of both the provider and customer in delivering it. For example payment of invoices to the agreed performance levels are dependant on customers correctly following the acquisitions process and recording receipt of goods on the system; timely and accurate payment of overtime is dependant on the employee inputting the data in a timely and accurately manner via self service and the line manager checking it and approving it promptly.

Performance

This would set out the performance levels for each element of the service. This may be included in the schedules described above, e.g. all invoices paid within 30 days, all overtime claims entered before x date paid with that month's salary.

It would also pull out the Key Performance Indicators (KPIs), i.e. the performance metrics to measure the 'key' process drivers for the performance of both parties.

Frequency of reporting, performance report formats and performance management roles and responsibilities should also be described.

Governance

This section should set out all bodies that are involved in governing the shared service, their terms of reference, membership, frequency of meeting, standard agenda items and papers, e.g. performance reports. It should also describe the interrelationship between these bodies. This is likely to include a Shared Services Executive Board, a Shared Services Management Board, a Customer Board and a Change Control Board.

It may also be helpful to describe arrangements for communications and liaison outside of the formal bodies. For example, should all communication between the customers be channelled through a customer account manager on the provider side and “contract” or commissioning manager on the customer side? Should there be direct liaison between the Service Line Heads and Heads of the retained functions?

Volumes

Customers would be expected to provide current and expected volumes. These would be detailed here. For example the customer would provide information about numbers of employees, suppliers; volumes of overtime payments, expenses claims and supplier payments.

It would also set out any tolerance levels and what happens if volumes exceed these tolerances.

Charging and Payments

This section should set out charges. These should be simple and transparent, e.g., per unit, or per transaction and type of transaction.

Linked to volumes there should be reference to volume tolerance levels and the impact on charges if volumes go above or below tolerance levels, e.g., will lower volumes lead to an increase in unit price and by how much.

Details should also be provided of how non standard services and requested changes to the service or solution scope will be priced.

Payment process, timescales and accountabilities should also be described.

Issues Management

Describe the definition of an issue, how issues are captured, categorised, resolved and timescales for resolution. It should also include the issues management process and roles and responsibilities.

Disputes and Resolution

Arrangements for resolving disputes between parties involved in the provision of the shared services including: definitions, roles, timescales, escalation routes and independent arbitration. This should be linked to the governance arrangements.

Audit Rights and Processes

Describe audit processes and the rights of auditors working on behalf of the customer and provider. This should list recognised internal and external audit bodies and roles and responsibilities in relation to the development of an audit plan, agreeing audit reports and responding to weaknesses.

Change Control

Types of change, change control processes, timescales, roles and responsibilities, decision making and prioritisation. Again this should link to the governance arrangements.

Service Development including Funding and Risk and Benefit Sharing

Development plans including planned technical upgrades, scope expansion and process review and improvement. How developments will be charged and funded and how risks and rewards will be shared across the customer base.

It should also set out the approach to continuous improvement including the customer's role in this.

Compliance with Statutory Requirements, Regulations and Organisational Policies

The statutory requirements and regulations that all parties must adhere to, for example, Data Protection Act, Equal Opportunities Act. It should also set out any organisation specific requirements, e.g. around security accreditation of systems or security clearance of individuals.

Confidentiality requirements, conflicts of interest and arrangements for preventing, assessing and dealing with suspicion of fraud would also be covered here.

Other examples include adherence to UK and organisation finance and HR practices.

Intellectual Property Rights

This section would set out the ownership of systems and documents etc. The systems themselves will in all probability be the property of the shared service provider. However customers will wish to satisfy themselves that any of their data which is present in the systems, along with customer-specific processes will remain their own intellectual property.

Disaster Recovery and Business Continuity

Describe the disaster recovery and business continuity arrangements including priority processes, priority system users, priority customers, procedures and accountabilities for revoking plans, communications and timescales for service restoration.

Considerations need to include:

- What is required from IT providers?
- Will a percentage of users be given IT access first, and if so who?
- Payment of employees and suppliers are usually priority processes does this determine the priority users?
- Will self service be suspended? if so how will information get to the payroll team or will you simply pay a flat rate?
- What happens if the building floods?

Incentives and Penalties

It is recommended that service penalties and credits should be avoided and the focus be on working in partnership.

However, clear governance arrangements, reporting arrangements and escalation procedures need to be in

place for when performance falls below accepted levels on either side. It may also be useful to document what constitutes an acceptable level of performance, e.g. 5% below the agreed performance level.

#### Termination and Exit

Describe the arrangements for termination and exit. This would include reasons for termination, notice periods, roles and responsibilities, process, charges.

#### Annexes

Annexes are likely to include detailed service descriptions, performance levels, volumetric schedules, charging schedules and a glossary of terms and definitions.

### DWP Approach

DWP Shared Services currently has in place a single Service Level Agreement for the deliver of services to all customers within the DWP family.

An MoU/HOA is currently in development to describe the relationship between itself and the Cabinet Office. A detailed SLA will develop as part of the transition project.

### HMRC Approach

HMRC has agreed a set of service principles with the Valuation Office Agency (VOA) and are working towards sign off of a full SLA. The VOA also has a direct agreement with HMRC's IT partners for software support.

### Other Examples of Good Practice

Supporting tools and examples to assist in design of the commercial approach and development of SLAs can be found in Cabinet Office Shared Services Toolkit at:

[http://www.cio.gov.uk/shared\\_services/toolkit/tools/design.asp](http://www.cio.gov.uk/shared_services/toolkit/tools/design.asp)

The example documents include the Flex shared service IT contract guide and a service relationship framework paper and template service level agreement based on the commercial arrangements agreed between the Defra Shared Service Organisation and customers.

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