



CabinetOffice

Central Government Shared Services

April 2008

Guidance for Customers and Providers

**Making
government
work better**

Delivery Models

Introduction

The purpose of this section is to provide guidance to providers of shared services in selecting the most suitable model for the delivery of those services. The Delivery Model is the method by which the provider legally establishes the shared services in order to deliver the Service Offering to its customers. Each Delivery Model will require a different level of time and investment to set up and implement, and will result in a different degree of overall control, accountability and risk ownership. These factors must be assessed and incorporated into the decision making process and business plan at the outset of shared services implementation.

The Delivery Model will determine the nature of the relationship through which the organisations sharing services will establish the means of working together effectively. The selected Delivery Model must be linked to the long term vision for the Shared Service, for example, future outsourcing strategy, and should also facilitate the appropriate long-term planning and continuous improvement desired.

The Delivery Model will also have implications for Shared Service Organisation employees, in particular around their terms & conditions of employment. These must be assessed, understood and assimilated into the provider and Customers' change management plans. Depending on the option chosen, early trade union consultation may be necessary, and plans for TUPE Transfer of Undertakings (Protection of

Employment)) transfer of employees may also be needed.

A number of different possible Delivery Models have been identified in this guidance, but there is no one size which fits all circumstances. The section on "Making a Decision" offers advice on how providers might proceed in arriving at the most appropriate option for the Shared Service. Potential customers of existing shared services may wish to consider these same issues when evaluating the "fit" of those shared services to their requirements.

This section addresses the characteristics of the following delivery models available to providers of shared services, with each successive option putting the delivery capability at increasing distance from the creator of the Shared Service:

- Creation of a Business Unit within an existing Central Government Department
- Creation of Public sector Arms Length Body (Executive agency, NDPB, Trading Fund, Public Corporation)
- Creation of a Joint Venture with a private sector supplier
- Outsourcing service delivery through the establishment of a framework agreement with a private sector supplier

Options

The following diagram illustrates the broad range of delivery options available to providers of shared services and some of the main advantages and disadvantages associated with them.

These options range from full 'In-house' public sector delivery through to full private sector outsourcing.

Options Consideration

<p>100% Public sector control</p> <p>Departmental Business Unit or Arms Length Body</p>	<p>50 / 50</p> <p>Joint Venture with Private Sector Supplier</p>	<p>100% Private sector control</p> <p>Outsource to Private Sector Supplier</p>
<p>Increased commercial characteristics and are increasingly at arms length</p> <p>Low barriers to entry in terms of time/cost with control retained by the public sector</p>	<p>Increased customer focus and continuous improvement, includes flexibility for government to influence and to share in risk and rewards</p> <p>Blend of public and private creates opportunity to maximise benefit from each ethos.</p>	<p>More straightforward contract as control within single entity</p> <p>Productivity and cost saving expected to be high</p>
<p>Treasury fees & charging rules apply, limits on performance related pay, some potential people issues, customer focus, commercial culture may take longer to establish</p>	<p>Will require public sector investment</p> <p>TUPE or secondment of staff could lead to staff concerns. Negotiations may be time consuming as levels of control between public and private partners are agreed.</p>	<p>Little prospect of sharing revenue unless negotiated in contract (see previous)</p> <p>Potential for concerns on change of employment circumstances</p>

It should be noted, however, that it is possible to migrate between the various delivery models, and it may be desirable to do so as the shared service becomes more mature.

For instance a period of operation as a separate Departmental Business Unit delivering shared services internally might be a sensible pre-requisite for a subsequent move to an Arms Length Body such as a Executive Agency or Trading Fund.

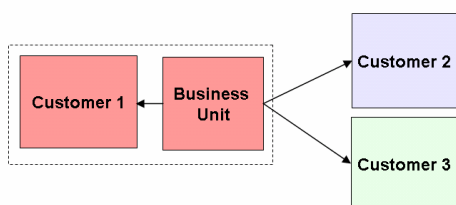
Once this Arms Length Body has proven its ability to trade successfully by providing services to other public sector

bodies, then the creation of a Joint Venture might offer a route to gaining significant additional investment and scale.

Central Government Department Business Unit

The most straightforward option available to shared service providers is to establish a separate Business Unit within the existing Department. This Business Unit will then be tasked with delivery of the shared services to all customers, both within and outside of the Department.

Departmental Business Unit



Advantages

- The public sector (and the Department creating the Shared Service) maintains full control over the management and governance of the service.
- This option will almost certainly be the fastest and lowest cost option to implement.
- No need for any transfer of employees (whether TUPE or otherwise) so little possibility of staff concern.

Disadvantages

- Potential customers may be put off by the lack of perceived independence of the Shared Service
- The lack of private sector involvement may mean a lack of commercial focus and entrepreneurial drive.
- The shared services organisation will be tightly bound by Government accounting rules,

particularly the ability to retain excess income from customers to provide for future investments and service improvements

- Due to the principle of indivisibility of the Crown there is no option for Government Departments and agencies to enter into contracts which are legally binding and enforceable in courts. Consequently any provider-customer service level agreements will not offer full commercial rigour
- The organisation will have no access to external funds for investment or to manage cash flow
- The delivery organisation will need to establish customer service capability
- Internal IT capability may be stretched
- Need capability to receive employees from joining Departments when TUPE will apply.

Examples of Departmental Business Unit providing Shared Services

The DfT Shared Service Centre is currently operated by the DVLA Business Unit. The Shared Service Centre provides Finance, HR and Payroll services to a number of DfT Business Units. A Memorandum of Understanding was agreed between DfT(c) and DVLA in September 2007 which sets out operations, budget and management arrangements for the SSC.

The HM Prison National Service Shared Service Centre located in Newport, Wales operates as a standalone business unit within the National Offender Management Service which is an executive agency of the Ministry of

Justice. It provides finance, procurement and HR services across the prison service and also provides managed corporate services to the Home Office.

HMRC, Local Authorities, DVLA, Legal Services Commission are customers of the DWP Customer Information System (CIS) which operates as a business unit within the DWP.

Public Sector Arms Length Body (ALB)

Where the shared services are to be delivered by the public sector itself rather than by a private sector supplier, it may be beneficial to allow the shared service provider to carry out its functions at 'arm's length' from its departmental sponsor and potential customers. This ALB could take the form of an Executive Agency, Trading Fund or an NDPB.

The degree of independence this arrangement offers may be appropriate for a variety of reasons. In particular, the shared services organisation will be able to focus on clear and specific functions and objectives around delivery of the shared services and will be able to operate with a greater degree of autonomy.

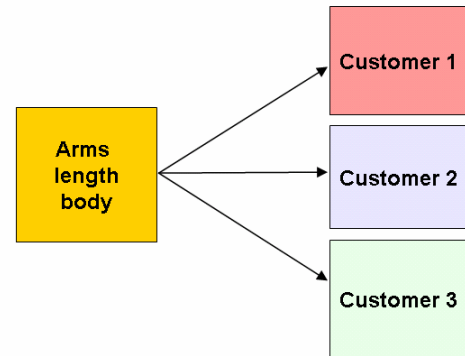
Depending on the particular vehicle selected, the Shared Service Organisation will be able to:

- Make autonomous decisions
- Enter into contracts with private sector suppliers
- Own and dispose of assets
- Employ its own staff
- Make its own funding and budgeting decisions

Comprehensive guidance on the various types of public sector bodies may be found at

<http://www.civilservice.gov.uk/about/public/bodies.asp>

Arms length body



Advantages

- The public sector would maintain full control over the management and governance of the shared service.
- The Arms Length Body will be seen by customers to be independent of an individual Department
- Each customer can have its own commercial relationship with a customer-focussed organisation responsible for providing the shared service, providing clear lines of accountability and helping to provide a more responsive service
- The provider will be able to focus on its core activities of delivering corporate shared services
- The above factors are likely to enhance additional customer take-on and thus efficiencies generated
- Although setup costs are higher than for a Departmental Unit, they are low when compared to Joint Ventures
- Staff would retain civil servant status, minimising the likelihood of trade union challenge, retaining existing skills and knowledge and avoiding the need for TUPE

transfer to a private sector organisation

Disadvantages

- Cost and elapsed time will be required to establish the ALB
- If future customer take-on is low, the necessary restructure costs may be incurred without any subsequent benefit
- The lack of private sector involvement may mean a lack of commercial focus and entrepreneurial drive.
- The organisation will not have access to external (e.g. private sector) funds for investment or to manage cash flow
- The organisation will be bound by Government accounting rules, and in particular the obligation to surrender any unplanned income to HM Treasury
- There may still be a lack of perceived independence if all staff transfer from the sponsoring Department
- Lack of Departmental control may create a disconnect between policy and delivery unless embed robust governance
- The new ALB will have no track record of delivery

Types of Arms Length Bodies

Executive Agency

An Executive Agency is a public sector organisation established to carry out delegated executive functions of Government. Each Agency falls within the “family” of an existing Government Department. Policy & resources are determined by the parent Department,

although the agency is free to implement within these bounds as it sees fit.

Other characteristics of an Executive Agency are that:

- It is 100% publicly funded and resourced.
- It must publish accounts and a performance statement separately from the parent Department.
- Chief Executive has operational responsibility but is accountable to the parent Department.

The option to create an Executive Agency for shared services delivery may be attractive when services are being provided to multiple organisations within a departmental “family”.

However compared to other ALBs discussed here, Executive Agencies have the following disadvantages:

- As with a Departmental Unit, an Agency will still be bound by Treasury fees and charging
- Agencies are restricted by legislation in their ability to implement performance related pay, which may reduce their ability to incentivise improved productivity when compared, for instance, to a Joint Venture.

Trading Fund

A Trading Fund is an organisation created under the Government Trading Act 1990, and which is financed out of its own trading income. This income comes from the customers of the Trading Fund, and not directly from HM Treasury. Before creating a Trading Fund, HM Treasury will need to be satisfied that the proposed organisation is commercially viable, and will expect it

to generate a level of return to its owner commensurate with the level of risk of the business in which it is engaged.

These organisations are essentially similar to Executive Agencies (as above) but have the benefit of operating under more flexible financial arrangements. Specifically, the significant advantage of a Trading Fund over an Executive Agency is that it has the power to borrow money and create reserves. As a Trading Fund is “off-vote”, it has no requirement to seek advance Parliamentary or Treasury approval of its planned income and expenditure. This flexibility is intended to encourage managers and staff to think commercially, find opportunities to cut costs and introduce more efficient ways of operating and to grow the revenue stream. A Trading Fund should therefore enjoy a greater degree of financial flexibility and also generate a more corporate, entrepreneurial, incentive-style culture and ethos.

A further advantage of Trading Fund status is the ability to retain revenue reserves to fund long-term planning and future investments. Excess income may alternatively be distributed to the parent Department as a dividend.

Disadvantages are that the tests set by HM Treasury for the creation of a new Trading Fund are demanding. In any event, successful operation as an Executive Agency is often regarded as a pre-condition for establishing a Trading Fund.

NDPB

A Non Departmental Public Body is an organisation which is not an integral part of any one Government Department and which carries out its work at arm's length from Ministers and parliament. As it is not created to carry out ministerial orders and policy, an NDPB is more or less self-determining and enjoys greater independence. NDPBs are particularly suited to situations where political considerations play little part in decision-making.

Advantages of NDPB status are that:

- Unlike an Executive Agency, an NDPB is independent of any one sponsoring Department, which may make it more attractive to potential customers of the shared service
- Unlike a Trading Fund, an NDPB may be centrally financed

One disadvantage is that staff of NDPBs are not civil servants, so the staff transition is likely to be more problematic than migration to either an Executive Agency or Trading Fund.

Examples of Arms Length Bodies providing shared services

Firebuy Ltd

Firebuy was set up by Communities and Local Government in 30 March 2006 to procure equipment nationally for the Fire and Rescue service.

Firebuy enable savings by negotiating better deals for buying in bulk and also eliminates the duplication of procurement of fire-specific equipment by individual Fire and Rescue Authorities (FRAs). Rather than all 47 FRAs negotiating separately for service-

specific items such as vehicles, protective clothing and respiratory equipment, Firebuy Ltd negotiates contracts on their behalf and takes the lead in contract monitoring and service level monitoring.

Firebuy was established as a Non-Departmental Public Body (NDPB) and was funded by grant in aid from CLG during its setup. It will be reclassified as a Public Corporation once fees and charges received from its customers exceed 50% of its income. This will also allow more flexible financial management and provide for the holding of reserves.

For further information see:

www.firebuy.gov.uk

Joint Venture with a private sector supplier

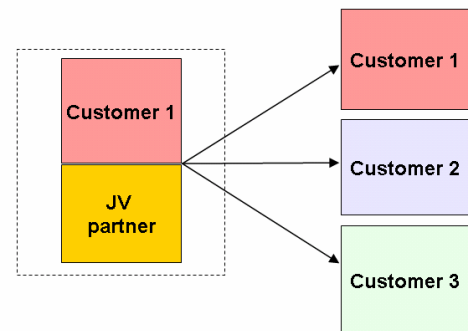
A Joint Venture (JV) is an entity formed between two or more parties to undertake economic activity together. Such an arrangement may be desirable where there is an objective of transferring skills & technology from the private to the public sector.

Under this arrangement, as with Arms Length Bodies referred to elsewhere in this document, a separate vehicle is established to deliver the services. The parties agree to create a new entity by both contributing equity, and then share in the revenues, expenses, and control of the enterprise. Revenue, expenses & control are all shared in proportion to equity stake.

In common with the Arms Length Body approach, commercial drivers and disciplines may be put in place to support the expansion of the shared service to new customers and the evolution of the services delivered.

However, a JV also offers the opportunity to share risk and reward with a private sector partner through joint ownership. With both parties contributing equity and resources into the JV, revenue, expenses & control are all shared in proportion to these equity stakes.

Joint Venture



Advantages

- Shared services organisation is incentivised to gain new customers and create efficiencies by its commercial structure
- The public sector maintains an element of control and share in benefits.
- There is an opportunity to benefit from up-front private sector investment
- Risk and reward is shared with a private sector partner
- Staff may retain an element of public sector status and culture, especially if they are seconded rather than transferred to the JV.
- Headcount reductions for customers possible if staff are TUPE transferred
- Public sector gains the ability to benefit from private sector expertise and capacity
- The opportunity to align incentives between public and private sector partners

Disadvantages

- Strong project management for transition required.
- Significant up-front investment is likely to be required to form JV (and potentially to exit)

- Transfer process (TUPE) to JV may cause staff concerns
- Risk of investing in JV with uncertain demand for services
- Financial risk subject to vehicle selected, as there will be an investment subject to future demand
- Staff secondment rather than TUPE transfer may highlight cultural differences which need to be addressed

Examples of Shared Service Joint Ventures

NHS Shared Business Services

NHS Shared Business Services is a Joint Venture between the Department of Health and Xansa (now part of Groupe Steria following their acquisition of Xansa in September 2007).

The shared service was initiated in April 2005 and now provides finance, accounting, payroll and purchase-to-pay services to over 25% of NHS organisations. Control of the JV is split 50/50, while profits are distributed through a gainshare arrangement in a 2:1 ratio in favour of the DoH. These profits are passed by the NHS back to individual customers (e.g. NHS Trusts) on a proportional basis.

The shared service made an initial pledge to provide customers with 20% savings on in-house provision plus ongoing savings of 2% year on year. Evidence from the customers is that actual savings have averaged 34%. The National Audit Office, in its 2007 review of shared services, commented that SBS was on target to deliver £250 million over 11 years.

For further information see:

<http://www.sbs.nhs.uk/NHS%20Annual%20review06.pdf>

Liverpool Direct Ltd

Liverpool Direct Ltd was established in 2001 as a 10 year Joint Venture between Liverpool City Council and BT with BT owning 80.1% of the company.

The shared service provides ICT infrastructure, Revenue & Benefits, Call centre, HR & Payroll services. It employs 800 members of staff and has annual revenue of £260m.

Rather than migrating to Liverpool Direct by TUPE transfer, staff were seconded from both partner organisations, allowing them to retain existing pension rights and terms and conditions, minimising the risk of staff concerns.

The service has achieved significant performance improvements in areas such as support call resolution, where fewer than 10% of calls are abandoned and 90% are resolved at the first point of contact and council tax collection which are at record highs of 97%. Due to this success, the Joint Venture has now been extended for a further five years to 2017.

For further information see

<http://www.liverpooldirectlimited.co.uk/>

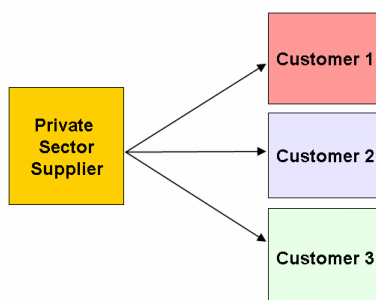
Outsource through Framework Agreement

Where it is appropriate to outsource delivery of shared services to the private sector, the establishment of a Framework Agreement is likely to be the most appropriate way to do so. Under this structure, one Government body acts as a Central Purchasing Body (CPB) to put in place a contract to purchase services from a private sector supplier.

This contract (known as a Framework Agreement) can then be used by other public sector bodies to award contracts for goods and services without needing to conduct a full, open procurement exercise.

OGC guidance on CPBs under the procurement rules can be found at http://www.ogc.gov.uk/documents/Guide_central_purchasing.pdf. Further information on the wording to be included in OJEU notices and PQQ when letting frameworks for shared services can be found in this document in the section on “Software License Transfer”.

Outsource to private sector



Advantages

- This option may offer efficiency savings which may not be available through public sector service delivery, for example through the offshoring of some activity.
- Possibility of headcount reduction through transfer of staff to the private sector supplier
- Take-up of services by new customers is possible without the need for further procurement, saving considerable cost and elapsed time.
- The private sector supplier is incentivised to standardise the services being delivered, resulting in greater economies of scale.
- Customers benefit from the economies of scale brought to the shared service by other customers. Where these economies of scale can be predicted in advance, appropriate volume discount structures may be embedded in the framework agreement itself so that the price reduces as the number of customers increases.
- Customers gain access to a robust contract and service level agreement negotiated on commercial terms.
- Commercial risk may be transferred to the private sector supplier.
- An established service delivery approach, backed up by contractually binding service level agreements gives strong assurance of quality
- Each customer can maintain its own commercial relationship with the supplier, providing clear lines of

- accountability and helping to provide a more responsive service
- Low set-up costs

Disadvantages

- Strong contract management will be required for the success of this model.
- Framework contracts can only be let for four years under recent 2006 changes to the EU Procurement Directive. This may seem a relatively short timeframe given the major change management implications of moving to shared services, and customers will have no guarantee as to what service will be in place beyond the end of the framework period. However, it should be noted that contracts let under a framework may extend beyond the lifetime of the framework itself, and can be for longer than four years duration.
- The services which can be provided are tightly bound by the scope of the initial framework agreement, which can be difficult to change subsequently without recourse to another procurement.
- Customers may wish to change the “standard” services delivered under their contract to more closely match their own needs, having the effect of reducing economy and efficiency. To counter this possibility, the legal and commercial terms of the framework agreement should be constructed in order to discourage both the supplier and customers from bespokeing the service in this way. Similarly the Central Purchasing Body should be prepared to police the use of the framework

effectively in order to avoid possible legal challenge resulting from a customer misusing the framework.

- Such outsourcing arrangements (and particularly offshoring) is a politically sensitive issue
- Public sector staff who are currently engaged in delivering similar services may be reluctant to transfer to the private sector supplier.

Examples of Shared Service Framework Agreements

Public Sector Flex

Flex is a framework let by the Cabinet Office which allows any UK public sector body to outsource their ICT provision. The service, provided by Fujitsu Services Ltd, consists of a “Core Shared Service” using common infrastructure and service delivery, as well as the ability to tailor the service around the needs of a particular customer by taking advantage of a range of additional services. Contracts may be let under the framework for up to seven years, and pre-defined volume discounts were negotiated and embedded into the framework agreement.

For further information, see

<http://www.fujitsu.com/uk/industries/government/flex/>

Zanzibar

Zanzibar is a framework agreement let by OGCbuying.solutions for a purchase-to-pay electronic procurement service. This agreement provides UK public sector bodies with access to a hosted eProcurement software solution provided by PA Shared Services Ltd.

For further information, see

<http://www.ogcbuyingsolutions.gov.uk/zanzibar/zanzibar.asp>

Making a Decision

In order to arrive at a decision on the most appropriate Delivery Model, each option should be considered to assess the best option from a financial perspective.

This should take account of:

- Implementation costs including service set-up, input of working capital, transition costs for provider and customers
- Ongoing operational costs
- Projected cost savings and the likelihood of realising them
- Financial risks
- Potential to generate third-party revenues
- Potential exit costs in event of service failure
- Freedom from constraints of Government Accounting rules (e.g. the ability to retain unplanned savings or income.)
- Access to external funding – overcome fiscal constraints on affordability of initial investment/smoothing of cash flow

In addition to these financial criteria in the decision making process, a qualitative evaluation should also be undertaken to identify the best fit from the perspective of:

- Cultural fit with the sponsoring organisation and potential customers
- Means of establishing clear accountability
- Appropriate allocation of risks
- Appropriate controls and governance arrangements
- Making best use of public and private sector skills and resources

- Mitigation of employment issues (TUPE, secondment etc.)
- Providing for long-term sustainability of the solution.
- Enhancing the reputation of the shared services provider with potential clients
- Urgency and timing

Other Examples of Good Practice

Supporting tools and examples to assist in selecting a suitable delivery model for shared services can be found in Cabinet Office Shared Services Toolkit at:

http://www.cio.gov.uk/shared_services/toolkit/tools/biz_case.asp

The example documents include a paper on shared service contracting options and an Institute of Public Finance occasional paper on shared services with a specific section on choosing the right shared services model.

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.