Case Study: Outsourcing and Shared Services in the UK Public Sector

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Anna Wojt- PwC SSC/ BPO Consulting Manager

- 7 years experience in SSC/ BPO Business

- Pior to joinng PwC, Anna worked in HP GSC/ BPO and cooperate with public sector working at University of Wroclaw

Darren Owens – Head of Capita Poland Krakow Business Centre

- UK Chartered Accountant with 13 years experience of BPO delivery in central Europe.

- Prior to joining Capita, Darren worked at PwC, Capgemini and Infosys running BPO operations from Poland and the Czech Republic

Philip Andrews - CEO and President of: Saritor Group and Progresa
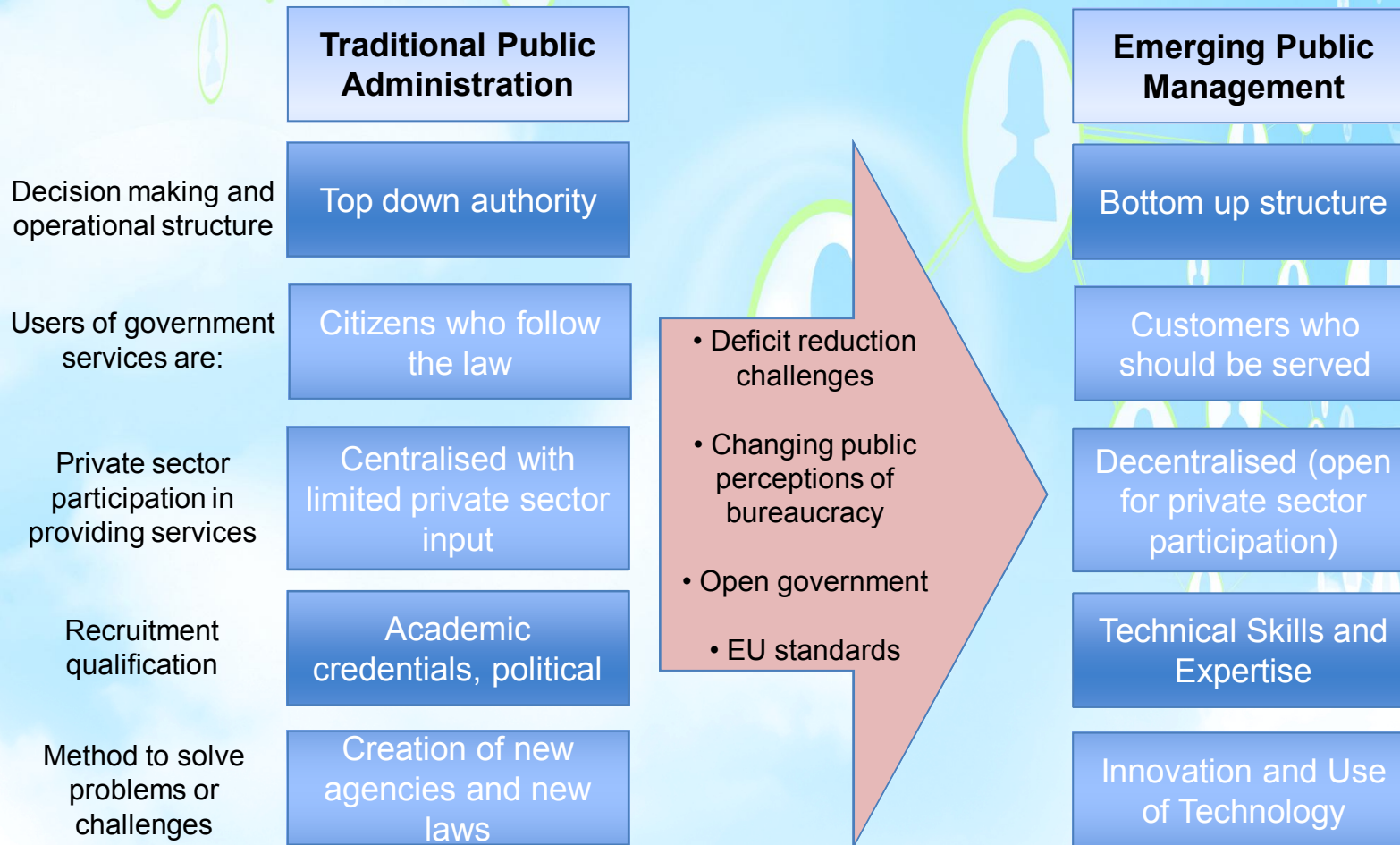
- In 2005 Philip established Saritor and later Progresa.

- Prior more than 10 years experience on the senior level managerial positions with two major international corporations: Serco plc and Capgemini plc

Rafał Grzeszczyk -Director of Investor Business Support Services in Radom

- 5 years experience in Public Sector

- Experienced in running many investment projects and investors' services in City of Radom.

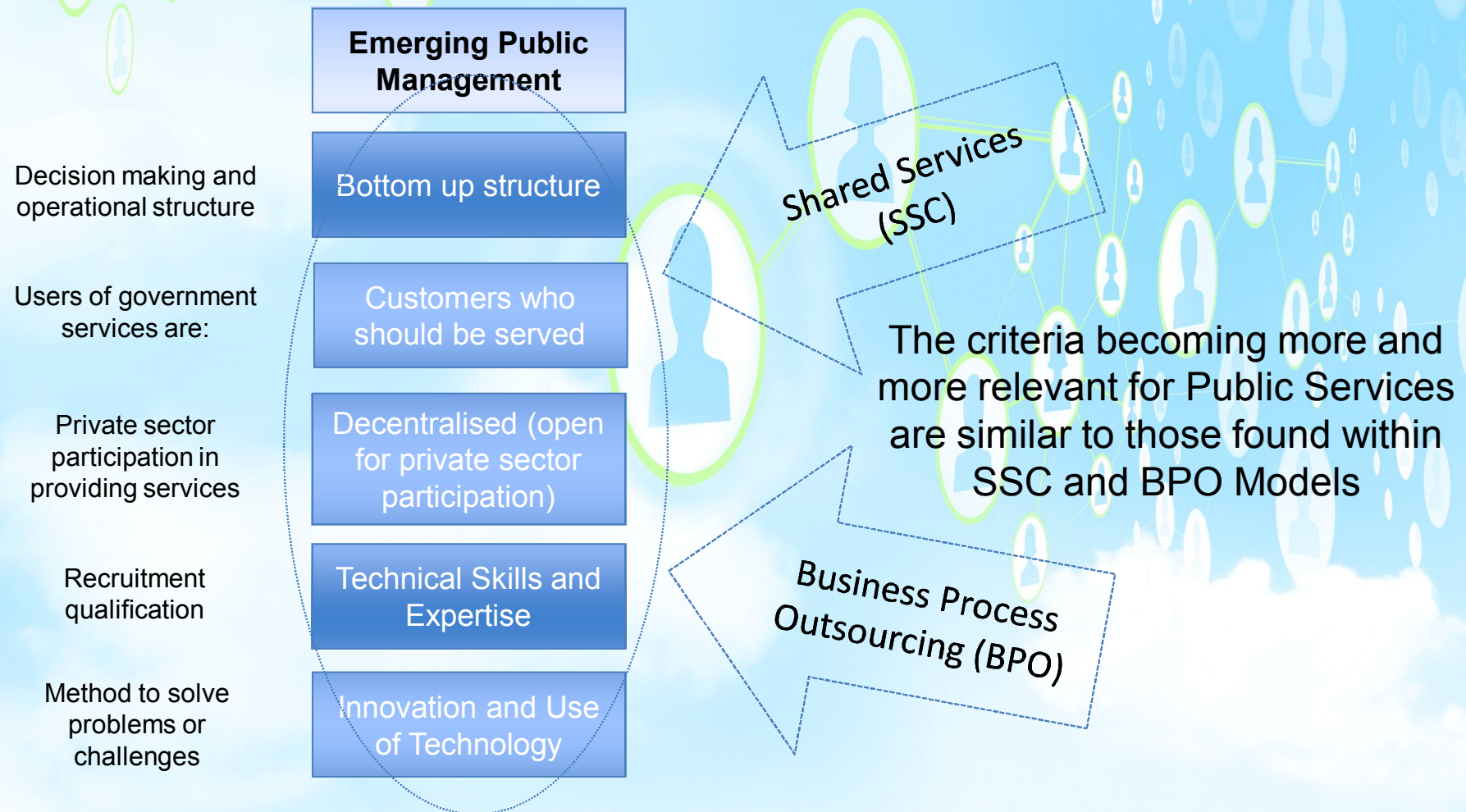# The Changing Face of Public Sector Service Provision

The public sector faces a variety of pressures which are increasingly challenging the status quo:

Traditional Public Administration		Emerging Public Management
Decision making and operational structure	Top down authority	Bottom up structure
Users of government services are:	Citizens who follow the law	Customers who should be served
Private sector participation in providing services	Centralised with limited private sector input	Decentralised (open for private sector participation)
Recruitment qualification	Academic credentials, political	Technical Skills and Expertise
Method to solve problems or challenges	Creation of new agencies and new laws	Innovation and Use of Technology

- Deficit reduction challenges
- Changing public perceptions of bureaucracy
- Open government
- EU standards

The Changing Face of Public Sector Service Provision

These emerging Public Management practices have elements in common with corporate philosophies

Emerging Public Management

Decision making and operational structure

Bottom up structure

Users of government services are:

Customers who should be served

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Shared Services (SSC)

Business Process Outsourcing (BPO)

The criteria becoming more and more relevant for Public Services are similar to those found within SSC and BPO Models

Characteristics of SSC and BPO in UK Public Sector

Although the size, shape and utilisation of BPO and SSC vary – the following are typical configurations within the UK

	Shared Services	BPO
Ownership	Owned by government (within department or across departments as separate entity)	Third party ownership or joint venture with government
Set-Up	Sometimes built around current centre of gravity, but also popular is greenfield creation with satellite locations for legacy operations	Often based at legacy delivery location (based upon TUPE of existing staff) with transfer of specialist skills to BPO provider centres of excellence, or directly into existing provider CoE's for new initiatives
Route to Efficiency and Effectiveness	Standardised processes across all SSC entities to deliver savings based upon investment in: - Standard processes utilising best practice - Shared management and governance - Supporting technology interventions	Efficiency and effectiveness increased through: - Rigorous performance management - Private sector management practices - Innovative technology intervention - Best practice and deep process expertise - Contractually binding pricing and performance
Suitability	Large departments, or aggregation of smaller functional areas with a large 'sponsor' organisation to leverage technology and process investments	Suitable for all scales of public sector organisation and also particularly effective for new government initiatives

Typical service portfolios – SSC and BPO in UK Public Sector

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	Shared Services	BPO
Typical Services	Internally focused on government back-office functions	Wide variety of services from administration through to direct interactions with the public
Examples	Five SSCs provide back office functions of HR, Finance, Procurement and Payroll for the following UK governmental bodies: - Department for Environment, Food and Rural Affairs - Department for Transport - Department for Work and Pensions - Ministry of Justice - Research Councils UK These bodies cover 50% of all central government staff	Widely differing services. Examples of Capita services include: - Development and administration of NHS (National Health Service) Choices website - Administration of UK Teachers' Pensions - Wide range of services for Birmingham City Council - Provision of interpreters for Ministry of Justice - Wide range of services (including blue light) for Police services across UK - Working with local and central government across a diverse range of initiatives and services 48% of Capita's GBP 2.9bn revenue is in Public Sector service provision

Experience of SSC from UK – Example of Central Government SSCs

The largest initiative within Central Government SSC relates to the creation of back-office functions for HR, Finance, Procurement and Payroll for a variety of government departments

Results

Of the 8 major SSCs created between 2004 and 2011, 5 were included in a March 2012 report by the UK National Audit Office (NAO) – a national body independent of government. The Key financial facts from their report were:

GBP 1.4 billion
Spent to date on creating Five SSCs

GBP 159 million
of PLANNED SAVINGS by end 2010-11

GBP 255 million
ACTUAL NET COST of those SSCs that are still tracking benefits

Selected Conclusions and Recommendations

1. Shared service centres have provided poor value for money in the past
2. The Cabinet Office did not provide the strong leadership required to get buy-in from individual departments
3. Overly complicated systems at the SSCs have arisen because departmental users are unwilling to change their ways of working
4. The Cabinet Office lacks comparable data on the cost and quality of corporate services provided by SSCs

Experience of SSC from UK – Example of Central Government SSCs (cont.)

Next Steps

The Cabinet Office issued a strategic vision for Government Shared Services in July this year. This recognised the following lessons

Lesson 1: Independence is important (incentivising better quality at lower cost)

Lesson 2: Delivery of shared services is not a core Government skill

Lesson 3: On-boarding to a bespoke service can be expensive

Lesson 4: SSCs comprises a range of key components that influence cost and require standardisation

Lesson 5: Strong governance is essential

The Cabinet Office also outlined the future strategy:

> "We will reform how Central Government procures and manages consolidated back office corporate services – by establishing an equitable market of a small number (circa 2) of accredited Independent Shared Services Centres (ISSCs) and enabling Departments and their ALBs* to choose between these - in order to drive up quality and reduce costs of these services, in support of Governments cost reduction targets."

* - ALB - Arms Length Bodies

Experience of BPO from UK
Market Size

Size of the Market for BPO in the UK

Current UK BPO market
GBP 8.1bn*

Capita is the UK BPO Leader*
23% market share – nearest competitor 4%

Potential UK BPO market
GBP 117bn*

Split of current BPO market*:
- 28% Public Sector
- 72% Private Sector

- Source - IDC

Experience of BPO from UK Services for the Public Sector

The range of services provided to the Public Sector is very wide and is not limited to the typical functions included in SSCs.

Services include:

• Back-Office functions (Finance, HR, IT Payroll, Procurement etc)

• Customer services

• Transformation

• IT Services

• Many other specific service solutions that cannot be easily categorised

As an example, a selected few of Capita's public sector clients:

Public / 3rd Sector

Experience of BPO from UK
Benefits and Challenges of BPO in public sector

Although cost reduction is a critical part of public sector service delivery, there are other important benefits, and also some challenges

Pros +	Cons -
Cost savings. Typical, indicative savings: - Local Government – up to 15% - Central Government – between 20 and 30%	BPO has a negative image, and can be seen as a bold policy to adopt
Cost savings and performance levels are contractually binding – not just a target	Badly drafted contracts can lead to inflexibility in services which is not acceptable in a government context. Critical to ensure the right levels of flexibility are included
Access to industry best practices (eg performance management and rigorous service quality measurement)	Potential loss of talent which is then not available to move between government departments
Innovative solutions and access to IT skills – supports new initiatives (eg congestion charging)	Complexity and non-standard nature of some governmental functions makes designing effective performance measurement tools more difficult
BPO allows the pain of cost cuts to be one step removed from policy makers	Requirement for strong BPO contract management skills within government
Joining a BPO provider gives new challenges and job growth opportunities to government staff	
Agility – ability to ramp-up for service delivery very quickly and ramp-down / re-align if policy changes. Lack of inertia	