
The Shared Services Experience

Report 2: Lessons from Australia

Commissioned by the Public Service Association of SA

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1 Executive Summary

This report has been commissioned by the Public Service Association of South Australia to identify some of the key lessons from shared service arrangements in Britain and Australia. The report provides an overview of the Australian experience, while an accompanying report details lessons from the British experience. Both reports are presented in the context of the South Australian Government's deliberations regarding the introduction of a shared service model for the provision of business services to the South Australian public sector.

The adoption of an appropriate shared service model has the potential to enhance the efficiency and effectiveness of public services in South Australia. To achieve this objective will require a careful analysis of the likely benefits and risks associated with various models. A public servant/agency driven rather than consultant driven approach to the introduction of shared services is necessary to ensure that genuine service improvements are achieved. The central objective of the shared services agenda should be to underpin the delivery of high quality public services in South Australia.

It would not be prudent to hastily implement shared service arrangements in the pursuit for short term cost savings. There is a very high risk that the imposition of an inappropriate model might cost more than existing arrangements. It might also dissipate, rather than harness, corporate memory, knowledge and skills. A prudent approach to the introduction of shared services is required to ensure that public service morale is not undermined by poorly thought through strategies that fail to harness agency knowledge, skills and commitment.

Close examination of public sector experiments with shared services, while valuable, should be undertaken with caution. Differing institutional arrangements, policy priorities and organisational cultures dictate the need for tailored, rather than off the shelf, solutions. The provision of shared services is not simply a technical and organisational challenge, it requires a deep understanding of how administrative and financial systems can aid or impede the implementation of policy priorities. Critical

to this is ensuring that shared service arrangements do not take on a life of their own, but rather exist to serve the differing needs of a complex range of public sector agencies.

It is evident that the adoption of a shared services model in South Australia may lead to the loss of up to 1,600 full-time equivalent public sector jobs. Furthermore, those public servants who are employed in the provision of shared services are very likely to be employed at lower levels and experience greater job insecurity. It is likely to prove more difficult to attract and retain highly experienced and skilled personnel in shared service arrangements under these conditions, particularly in the context of the tight labour market that will flow from an ageing workforce. Policy makers also need to be alert to the possibility that the adoption of a shared services model will concentrate shared services in metropolitan Adelaide, with commensurate job losses and reduced economic activity in regional South Australia.

This report examines the experiences in New South Wales, Queensland and Western Australia following the adoption of shared service models in those States over the past decade. The evidence from interstate and overseas indicates that governments desire to reduce expenditure in the short term through the introduction of shared services can undermine efficiency and effectiveness objectives. Detailed consideration to the significant changes necessary to underpin the introduction of shared services programs must be given if the risk of system failures is to be avoided. Hasty introduction of inappropriate models is likely to result in system inefficiencies and cost increases.

Shared services arrangements require significant new investment in IT infrastructure, and training. Improvements in efficiency and cost savings are not likely unless these investments are made.

While cost savings are possible using shared services, net savings targets are rarely achieved and are often revised downwards. The experience of three States demonstrates that savings are often achieved through significant job losses and a commensurate reduction in labour costs.

Some key lessons from the review of the Australian experience with shared services are summarised in the following table.

KEY LESSONS AT A GLANCE
<ul style="list-style-type: none"> • The primary motivation for the introduction of shared services should not be cost savings but rather improvements in service delivery and quality;
<ul style="list-style-type: none"> • The introduction of shared service models is often costly and complex requiring detailed research and the development of a business case which includes comparisons with existing modes of delivery, workforce impact and service delivery assessment;
<ul style="list-style-type: none"> • There is a high risk that hasty imposition of an inappropriate model might dissipate, rather than harness, corporate memory, knowledge and skills
<ul style="list-style-type: none"> • Consultation and meaningful engagement with unions and employees is vital for the success of any shared services program;
<ul style="list-style-type: none"> • While costs savings can be achieved, savings targets are rarely met and the main source of savings is normally significant job losses;
<ul style="list-style-type: none"> • The costs of shared services are often under estimated because implicit costs and externalities are often not measured;
<ul style="list-style-type: none"> • The benefits of shared services are often over estimated;
<ul style="list-style-type: none"> • Job losses in regional areas are a likely consequence of centralisation of functions. This will have a negative impact on the viability of regional communities;
<ul style="list-style-type: none"> • Shared services may be a viable method of providing some business services, but they are not appropriate in all situations due to the diversity and complexity of services that need to be provided; and
<ul style="list-style-type: none"> • The information collection phase is vital in determining the appropriateness of shared service models to ensure that risks are identified and managed.
<ul style="list-style-type: none"> • The introduction of inappropriate shared services arrangements is likely to damage staff morale at a time when the public sector needs to position itself as an employer of choice to retain and attract skilled workers in the face of growing skill shortages.

2 Introduction

2.1 Introduction

The Public Service Association (PSA) represents State public sector workers in South Australia. In addition to its recognised industrial role, the PSA actively promotes the vital role of the public sector in the South Australian economy and community. This role extends to commissioning and undertaking research to inform deliberations regarding the development and implementation of public policy in South Australia. The PSA is particularly interested in public policy that impacts on the quality of public sector employment or on the ability of the public sector to provide the quantity and quality of services that the South Australian community expects.

This report has been commissioned by the Public Service Association of South Australia to identify some of the key lessons from shared service arrangements in Britain and Australia. The report provides an overview of the Australian experience, identifying key lessons for the consideration of policymakers. This task is constrained by the limited number of studies undertaken on shared services in Australia. For this reason it is important to study the extensive experience with shared services arrangements in nations like Britain. An accompanying report by the European Services Strategy Unit details lessons from the British experience, providing a framework and guiding principles for the development and assessment of shared services proposals. Both reports are presented in the context of the South Australian Government's deliberations regarding the introduction of a shared service model for the provision of business services to the South Australian public sector.

Shared services can contribute to an improvement in the efficiency and effectiveness of public sector service delivery through economies of scale and scope and by fostering a collaborative whole-of-government approach to underpin 'joined up' policy/program/service development and implementation. Collaborative models for the delivery of corporate and transaction services to public sector agencies have the potential to free up some administrative resources to improve the quality and quantity of services that are available to the South Australian community.

While the development of shared services has the potential to improve the quality and efficiency of public services in South Australia, there is also a high risk that the imposition of inappropriate models may impede these objectives. The central objective of the shared services agenda should not be cost savings but rather the establishment of infrastructure and the harnessing of expertise and skills to underpin the delivery of high quality public services in South Australia.

Close examination of public sector experiments with shared services is warranted, but it should be undertaken with great caution. Differing institutional arrangements, policy priorities and organisational cultures dictate the need for tailored, rather than off the shelf, solutions. The provision of shared services is not simply a technical and organisational challenge it requires a deep understanding of how administrative and financial systems can aid or impede the implementation of policy priorities. Critical to this is ensuring that shared service arrangements do not take on a life of their own, but rather exist to serve the differing needs of a complex range of public sector agencies.

All State and Territory Governments in Australia have introduced or are planning to introduce shared services for organising their corporate and transaction services. New South Wales, Queensland and Western Australia are significantly advanced in adopting shared services. This report focuses on the experiences in these three States. It is evident that despite substantial set up costs, the adoption of shared services can deliver cost savings to Governments. The full effect of these savings may however, be delayed for several years due to the substantial implementation costs involved in establishing shared services. Moreover, the evidence gathered from these three States demonstrates that these savings are largely the result of substantial public sector job losses and the standardisation of processes and procedures. It should also be noted that savings targets from shared services arrangements are rarely met and that estimates of net savings are rarely verified.

This report is divided into two broad sections. The next two chapters provide context and background to the shared services deliberations that are underway in South Australia. Following chapters provide an overview of various approaches to shared

services in Australia. This includes New South Wales, Queensland and Western Australia where shared services programs have been implemented and are fully operational. Developments in other States and Territories are discussed briefly in Chapter 7 as they have yet to implement a shared services program. The discussion of these approaches has been informed by our review of the relevant literature and a number of interviews and focus groups with key informants and stakeholders.

2.2 What are Shared Services?

Shared services are an organisational arrangement that came to prominence in the private sector in the early-1980s, followed by the public sector in the 1990s. The principle of shared services is that business services operating as separate units within individual organisations are reconstituted and combined to provide services to a group of organisations. Shared services, in the context of the public sector, normally entails two types of business services. These are corporate services, or back-office services, which tend to be administrative services and transactional services, which typically involve providing services to the community. Typically, corporate services (back-office) include;

- human resources;
- Information and Communications Technology (ICT), which includes e-Govt;
- finance;
- legal;
- internal audit;
- marketing and communications;
- facilities or estate management;
- travel services;
- security;
- procurement; and
- asset management.

The other type of services are transactional services, which can include;

- payroll;
- council tax administration;

- national non-domestic rates;
- housing benefits administration;
- council tax benefits;
- registration of births, deaths and marriages;
- planning and environmental enquiries;
- other repetitive information and handling and response services applied daily within local government.

Organisational units that provide these services are normally consolidated into business centres, selling back services to firms or Government departments on a commercial basis.

The incentive for an organisation to move to a shared services model is two-fold. Firstly it is argued that there is likely to be an increase in the quality of business services and secondly, substantial cost savings are claimed to flow from the establishment of shared service arrangements. These twin goals are to be achieved by standardising systems and processes and achieving economies of scale and scope in the provision of business services. It is argued that the efficiencies gained from the new organisational structure and the investment in technology will produce savings, usually in part through a reduction in staffing. This has led to concerns about shared services being used primarily as a cost cutting mechanism, rather than a means for increasing the efficiency and effectiveness of public services.

3 Context

This chapter provides an overview of the context to the South Australian Government's deliberations regarding an appropriate shared services model for the public sector in South Australia.

3.1 Background

In the 2006-07 State Budget the South Australian Government announced its intention to establish a Shared Services Unit to eliminate duplication of administrative services and save \$60 million annually (South Australian Government, 2006d; 8). This proposal followed a recommendation of the Review of Priorities, conducted in 2006 by Greg Smith. The Smith Review was established by the Government to focus on expenditure in high priority services in health, education and law and order (South Australian Government, 2006d; 8). The Smith Review gave two reasons why the Government should move to a shared services model;

1. Efficiencies will be made which will be put into front-line services with government deciding the priorities. Savings are expected through systems restructuring and staff reduction;
2. Improved services, the 'back office' will be de-coupled from the agency service so there is less focus in the agency on 'transactions'. Moving the back office to the front office of a shared services centre means the core business is in corporate/business services, which is good for training and better career opportunities .

Subsequently, the Shared Services Reform Office was established to reform the delivery of corporate and business support functions to Government agencies by consolidating them into a shared services environment. The shared services unit is intended to centrally provide administrative services to all Government portfolios including IT, human resources, records management, finance, procurement and payroll. The expected savings are;

- \$25 million in 2007-08,
- \$45 million in 2008-09 and

- \$60 million from 2009-10 onwards.

It is expected that it will take three years for the full impact of the savings to flow through due to substantial initial set up costs, which are expected to be;

- \$5 million in 2006-07;
- \$27 million in 2007-08;
- \$13.5 million in 2008-09; and
- \$14.5 million in 2009-10 (South Australian Government, 2006f; 15).

These costs are largely due to the substantial investment in information and communication technology that would be required to underpin any shared services arrangement (ICT).

The South Australian Government cited successful experiences of shared services in other countries, such as the United States, Canada, New Zealand and other parts of Australia in seeking to establish its own model. It stated that shared services would result in a smarter, simpler, more effective and robust way of doing business. The front-line services of health, education and law and order were regarded as priorities for attention (South Australian Government, 2006e; 11-12).

3.2 Shared Services Reform Office

Pursuant to the Government's announcement, the Shared Services Reform Office (SSRO) was established with its own staff and budget along with a governance and consultation structure. The timeline for implementing shared services is:

- Up to the end of March 2007, detailed data and information gathering which is credible, accurate and agreed to by the respective agencies to determine how different the landscape of corporate services is across government. A report on the types of activities and costs will be made to cabinet in late-March;
- April to May/June 2007, formulation of a strategy for shared services based on the data/information gathered in the previous phase. Recommendations will include which model of shared services to proceed with. Submission of the report to cabinet was expected to be made some time in May/June 2007.

The information gathering stage is seen as imperative for the successful implementation of shared services;

- in order to know where services are now;
- what the needs are;
- what the best model to adopt is; and
- for being best able to measure changes.

The State Government has indicated that there will be no forced redundancies. However, the SSRO expects that if the shared services strategy is successful, then 1,571 public sector jobs will be lost through natural attrition (*The Advertiser*, 2007).

The SSRO has not yet decided which model of shared services to adopt. However, the preference of the Shared Services Steering Committee is for a one-centre model following concerns that the provision of shared services in Queensland and Western Australia had not been particularly successful and that Governments in those States were considering moving to a one centre model. A cluster model is also being investigated. The types of services which will be re-organised into shared services are both corporate services and transactional services in the following areas;

- accounts payable and receivable;
- procurement;
- financing, accounting;
- HR, payroll and leave management; and
- ICT infrastructure.

Study visits were undertaken by the SSRO to the UK, Western Australia and Queensland. The Western Australian context is regarded as worthy of particular attention given the number of full-time equivalent (FTE) employees in the public sector, the size of the population of the State, the distribution of the population and the geographic pattern of service delivery.

Whichever model is finally adopted, the SSRO has decided on a five-stage process for the implementation of shared services. These five stages are;

- information gathering;
- strategy development;

- detailed design and development;
- implement and migrate; and
- operate and improve.

3.3 Shared Services in the South Australian Public Sector

Shared services are not a new initiative in the South Australian public sector. A number of agencies already operate shared services. This involves agencies centralising the provision of corporate services or transactional services through call centres or other centralised locations. Some examples of shared services already in place are;

- the management of the Government's ICT maintenance service by EDS;
- the centralised computerised HR system called Empower that employees use for certain personnel information such as leave entitlements;
- the Department of Administrative and Information Services (recently devolved) provides payroll services through the CHRIS payroll system to a number of government agencies;
- the Department of Treasury and Finance provides certain services to other departments; and
- Southern Adelaide Health amalgamation has one payroll system.

3.4 Directions

While details of the preferred shared services model for the South Australian public sector have yet to be announced information from the SSRO indicates that the change is likely to be large, complex and take considerable time to implement. The SSRO offered the following insights into the development of shared services in SA;

- a one-centre model is favoured;
- it is likely that there will be one or two shared services sites;
- it will be a whole of government re-organisation and it will be mandatory for all government agencies;
- transactional, high-volume services and some advisory services in HR, ICT, procurement and finance will be delivered;
- savings will be spent on government priorities;
- governance will include open and transparent communications and consultation with stakeholders including staff and PSA;
- consultation will be consistent with clause 22 Consultative Processes in the South Australian Government Wages parity (Salaried) Enterprise Agreement 2006;
- existing industrial agreements and provisions will continue to apply to affected staff;
- savings are expected from efficiencies by consolidating services, standardising and streamlining processes, economies of scale and service improvement;
- agency budgets will be reduced (by the difference between money transferred to the shared services organisation and the expected lower costs);
- agencies are expected to focus on their core goals;
- claim improved development and career opportunities for staff;
- data collection is being undertaken to identify transaction activity levels, service costs (pricing), potential savings and benchmarks.
- benchmarks are being developed for measuring goals and continuous improvement;
- information is being gathered from other public sector jurisdictions in Australia and overseas and private sector;
- training and development programs will be provided for staff;

- an assessment of the regional impact will be done;
- the SSRO will manage implementation;
- a workforce management strategy will be required; and
- a change management program will be required.

The SSRO indicates that a number of principles will be followed in re-organising shared services:

- achievability of implementation and savings;
- logical scale and phases for consolidation, standardisation and improvement;
- service and quality improvements;
- transparency and openness;
- equity and opportunity for staff; and
- customer focus and a commitment to continuous improvement.

4 New South Wales

4.1 Background

In New South Wales some 17,000 public sector employees provide corporate and transactional services to NSW Government agencies at a cost \$1.8 billion per year (Auditor General of NSW, 2004: 8). The NSW Government launched its Corporate Service Reform Initiative in 1995 in an attempt to save \$70 million per year. Then, in 1996 the NSW Government created the Central Corporate Services Unit (CCSU), its first shared services centre. In the following year, the Corporate Services Reform strategy was endorsed by Government. In 2002 the Government adopted its Shared Corporate Services Strategy, which is a wider ranging approach to shared services to reduce costs and improve services.

The NSW government's goals in introducing the Shared Corporate Services Strategy was to '...enable public sector agencies to significantly improve corporate services delivery, realise the benefits of technologies and reduce costs...' as part of corporate services reform aimed at across the whole of government and within individual agencies. (Auditor General of New South Wales, 2004: 1)

Part of the NSW Corporate Services Reform Strategy involved introducing HR Expert, a human resources information system that manages the entitlements of NSW Public Sector employees. It is estimated that potential savings from this are likely to be between \$2 and \$8 million per annum. An assessment of HR Expert found that industrial relations had improved, there were fewer grievances and more consistent HR decisions and interpretations. Phase 2 of the program was introduced in 2003/04 and included occupational health and safety and electronic self-service for personnel and payroll.

The key to a successful system of shared services was viewed as incorporating the best of centralised and decentralised corporate services models. Services that are delivered centrally benefit from economies of scale and scope, common systems and standardised procedures, while meeting the particular needs of individual agencies

through service level agreements. The main features of shared services were described as;

- consolidated activities of several services units into one;
- streamlined processes;
- automated transactions; and
- increased expert capacity.

The level of expected savings was 15 per cent from consolidating corporate services, 15 per cent from automation of basic transactions and 3 per cent from employee related costs. Of the estimated savings from shared services, about 88 per cent is associated with 16 large agencies, the five most important of which are health, education and training, commerce and NSW Police.

4.2 Shared Services Model

The introduction of shared services in NSW has been piece-meal. When the first centre, the CCSU, was set up in 1996 it was voluntary for departments to participate in shared services. After the adoption of the 2002 Strategy, it was no longer optional, but each department had a choice as to which model of shared services it would adopt. Departments had three choices;

- purchase services from the already existing CCSU;
- create its own internal shared corporate services business unit; or
- form a shared corporate services unit with one or more other departments, a cluster.

As a result of this strategy, the NSW Auditor General estimated that eventually there would be approximately 22 shared service providers varying in size from 700 to more than 20,000 employees.

4.3 CCSU

The CCSU initially serviced eleven central agencies in Sydney. Later more than 40 small to medium sized Government agencies entered into agreements with CCSU.

The corporate services provided are;

- human resources including payroll, recruitment and training;
- financial, including accounts payable and receivable, financial reporting and management accounting;
- office, including office fit-outs, relocations, telephones and fleet management;
- information technology, including a help desk, business systems, host systems, communications and networks;
- research and library, including collection management, current awareness and detailed research.

Other services that agencies can purchase are legal, communication and information management. However, a client agency of CCSU does not have to contract for all the services that can be provided by CCSU.

4.4 Other shared service centres

Other shared service providers are being explored, planned or have come into existence since the establishment of the CCSU including:

- Visitor Services Agencies (VSA); Tourism NSW, Royal Botanic Gardens, and Centennial Parklands agencies commenced operations in 1999. Staff are spread across agencies with one functional team at each agency, for example, finance at Tourism NSW. Each function has site staff and/or client service officers in each agency. A three-year 'co-operation agreement' established 2001 which includes entry and exit mechanisms and grievance/dispute resolution avenues;
- NSW Businesslink; Housing, Ageing, Disability and Homecare, and Community Services agencies has a five year implementation plan and a 25 per cent savings goal;

- Police Business Services (PBS); Police. PBS failed being unable to deliver functions in certain areas which have now returned to their respective branches and areas;
- Health; four clusters;
- Education; NSW schools and TAFE;
- Transport; operational in July 2004. Expect savings of between 19 and 34 per cent per year;
- Emergency Services; being explored;
- Justice Cluster; Shared Corporate Services established;
- Arts Portfolios. Shared Corporate Services being established;
- Infrastructure Planning and Natural Resources. Embarking on Shared Corporate Services project.;
- Business Services Group for the Roads and Traffic Authority of NSW (RTA). Established 1999. Fifteen services/products, eg, administrative services (including procurement, accounts payable), payroll, finance. \$5 million savings achieved over nearly two2 years. Has adopted private sector/market benchmarking and in 2002 joined the National Shared Services Benchmarking Consortium which included Australia Post, BHP Billiton, Telstra, Westpac and Western Mining Corp; and
- Attorney General's Department.

4.5 Staff

Agencies are encouraged to utilise natural attrition, training and re-deployment to manage staff changes when moving to shared services. For example, NSW Businesslink is a shared services provider that made a commitment that no employee would be worse off. The centre aimed to provide an improved career path and learning and development opportunities that were not available in the previous employment situation. There is a 'Staff Transfer Program' that provides a safety net for staff who cannot transfer due to health/carer issues. The employer reported that 'staff are generally happy'. The re-structuring of the Department of Education and Training/TAFE may result in the loss of 700 jobs

4.6 NSW Auditor General Report of CCSU

An Audit by the Auditor General of NSW was conducted of the CCSU in 2004. The review argued that shared services should not be viewed simply as a cost cutting exercise and that the complete transformation of the way that corporate services are provided will take years (Auditor General of NSW, 2004: 13) .

From its inception to 2003 there were many complaints about the CCSU regarding the quality and level of services and governance. (Auditor General of NSW, 2004: 12). During 2001/02 new systems and service improvements were introduced at a cost of \$15 million.

While immediate cost savings were realised by CCSU more than 90 per cent of savings were generated from staff reductions and accommodation costs. There were also hidden costs associated with agency staff costs associated with 'tailored services and (to) liaise with CCSU' (Auditor General of NSW, 2004: 13). Other key findings of the audit include;

- the number of clients/transactions were not defined for economies of scale;
- the CCSU has had to tailor its services for agencies needs and this may have inflated unit costs;
- the CCSU needs more control over the choice of ICT for its clients in standardising ICT assets;
- the set of indicators the CCSU measures its monthly performance by does not include 'staff turnover, customer and staff satisfaction and efficiency gains' ;
- for the government as a whole 'the benefits...are significantly less than what was expected' (Auditor General of NSW, 2004: 15 and 18).

The Review also recognised the 'diversity of government business and the need for different solutions to different issues'. The Audit states that '(a)gencies need to be able to determine a strategic reason to implement shared services and choose the approach that best suits the business (Auditor General of NSW, 2004; 21 and 24).

Key factors for successful implementation of shared services identified by the 2004 NSW Audit included;

- the need to take into account the cost implications of incompatible systems, applications;
- the need to analyse the short and long term risks, and costs and benefits for an agency at the outset; the need to estimate any costs 'with retaining capability to provide tailored support services, strategic advice and interface with the provider';
- the need for 'front-end investment' in standardising systems and processes which is more expensive and difficult across agencies; and
- having a very clear 'benefits realisation program' which defines the impact of shared services, benefits and measures for measuring (Auditor General of NSW, 2004: 25).

4.9 Lessons for South Australia

The above discussion highlight six key issues that the SSRO needs to consider as part of its reform agenda;

- consultation with unions and other stakeholders is vital for the success of any shared services program;
- shared services may be a viable method of providing some business services, but it is not appropriate in all situations due to the diversity of services that need to be provided;
- the information collection phase is vital if all risks are to be effectively identified and managed;
- the costs of shared services are under estimated because implicit costs are not measured;
- the benefits are often likely to be over estimated; and
- cost savings are largely the result of job losses which can also lead to the loss of valuable corporate memory, knowledge and skills.

5 Queensland

5.1 Background

The Queensland Government's first steps towards the development of shared service arrangements began with the approval of the Aligning Services and Priorities (ASAP) process in late-2001. This involved a thorough examination into the adoption and implementation of shared services. Subsequently, an ASAP Project Team was appointed to perform the whole-of-government Review of Corporate Services provision (QPSU, 2004; 6). This Review found that in 2002, about 10 per cent of the Queensland Government's budget was spent on the provision of corporate supplies and services. The number of employees employed in corporate services in the Queensland public sector was approximately 5,000.

A second stage in the adoption of shared services occurred with the adoption of the Shared Service Initiative 2002 Business Plan, following the whole-of-government Review of Corporate Services that was conducted earlier that year. The Shared Services Implementation Office operated between February 2003 and June 2006 under the auspices of the Queensland Treasury. Savings of \$14.4 million were estimated for 2005/06 for the shared services initiative and an additional \$12 million for procurement. Total projected savings was \$42.5 million. All shared services providers reached their savings targets for 2005/06.

5.2 Shared Services Model

The adoption of shared services in Queensland followed NSW by several years. The Queensland Government appears to have learnt some important lessons from the NSW experience. Arising from a business plan prepared in December 2002, five large-scale shared services providers were proposed along with two smaller-scale ones. In July 2003, the following seven shared service centres were established;

- PartnerOne; law and public safety;
- CorporateLink; child safety, forestry and plantations, main roads;
- Corporate Solutions Queensland; education, training and arts, housing;

- Corporate and Professional Services; Education Queensland, a shared services centre for schools within the education, training and arts agency;
- Corporate Administration Agency; parliamentary services, smaller agencies and statutory authorities;
- Health; within Queensland Health;
- CorpTech; corporate information communication technology applications for delivering finance, HR (payroll), procurement, documents and records management and facilities management;

In addition, two technology centres have recently been established;

- Corporate Applications Support Unit (CASU);
- Corporate Infrastructure Services Unit (CISU).

The business services that have been re-organised into shared services in the various providers include;

- HR;
- payroll;
- finance
- telecommunications
- fleet management;
- records and document management;
- procurement
- property and facilities management;
- information services/management;
- legal and administrative law
- audit
- supply

Not all shared services centres provide all of the above services.

A revised model for the Shared Services Initiative was developed during the Service Delivery and Performance Commission Review that took place between late-2006 and early 2007. As well as reporting registered concerns in an interim report, the

review stated that '(p)erformance returns have been met and have been the dominant driver of the initiative to date' (Queensland Government, 2006b) . Nevertheless, a shared services agency was formed through the amalgamation of CorporateLink, PartnerOne and Corporate Solutions Queensland, the host being Queensland Treasury. This agency oversees implementation of the Shared Services Initiative.

5.3 Staff

The Shared Services Initiative Workforce Management Framework (Queensland Government, 2006c) sets out the following employment principles for the Regional Service Delivery model;

- employment security;
- no forced relocation;
- staff supported and involved in change;
- partnership culture with stakeholders.

5.4 Issues

The Queensland Government set up a Commission to review the Shared Service Initiative. The Review commenced in September 2006 and was completed in February 2007. Particular attention was to be given to 'savings realised (and) impacts on service delivery' (Queensland Government, 2006b). A progress report of the Review acknowledged continuing concerns of 'diverse and non-standardised mix of services' particularly in regional areas, the effect on service quality of dividing functions between agencies, staff turnover, workloads and the morale of the staff of shared services providers.

As a major stakeholder, the Queensland Public Sector Union made a submission to the Commission citing the following as its major concerns:

- the large number of temporary employees, 20-25 per cent in most services;
- excessive workloads;
- lack of satisfactory training – inadequate and not timely;
- unsatisfactory change management processes;
- lack of support from management; and

- the above issues have affected service delivery.

Generally, union members expressed the view that the goals of shared services can only be met with reasonable resourcing and timely implementation of singular systems. The Union also expressed the view that the real cost of shared services is only starting to emerge after three years and speculated that some of the cost savings of shared services providers were at the expense of agencies 'cost shuffling'. Concern was also expressed that there was not an apparent mechanism for measuring work quality 'as it affects the customers (staff) only as it affects the agencies themselves through Service Delivery Agreements'. Additionally, it was noted that some services are returning to agencies (Queensland Public Sector Union, nd).

A survey conducted by the Union of members involved with the shared services initiative revealed that one of the main concerns was a lack of consultation in relation to job and workplace design. Other key findings from the survey include;

- many staff felt powerless and not listened to in the transition process;
- many employees would have liked an opportunity to choose whether they stayed in the department;
- the planning process was too rushed;
- some managers complained of decisions made behind closed doors;
- 46 per cent of respondents were more uncertain about their future;
- 25 per cent of respondents were more stressed at home;
- 16 per cent of respondents enjoy coming to work less;
- 25 per cent of respondents saw morale as low amongst co-workers;
- 32 per cent of respondents saw their job security as less and 16 per cent as greater;
- more than 25 per cent of respondents are actively looking for work elsewhere;
- less than 25 per cent of respondents believe they'll be an employee in the Queensland public service in three years time;
- greater than 50 per cent of respondents do not believe the number of jobs can be reduced and still complete the necessary work;
- 32.52 per cent of respondents agree that moving to a shared services provider is career enhancing;
- 47 per cent of respondents expect to change workplace;

- moving workplace can create extra expense, family care changes, stress from uncertainty of moving;
- 24 per cent of respondents said more than half of their tasks would change and 50 per cent said some tasks would change;
- 23 per cent of respondents believed their jobs would be more enjoyable with the changes, slightly more than those who thought that the jobs would be less enjoyable;
- 18 per cent of respondents in shared services providers worked standard hours with 39 per cent working 4+ unpaid overtime hours per week;
- 12 per cent work more hours after moving to a shared services provider and 69 per cent the same hours;
- the most important working conditions were fair job classifications, job permanency, flexi-time/accrued time, training/career paths and family friendly work places.

At meetings held by Queensland Public Service Union with its members working in shared services providers the main concerns raised were;

- different pay rates for the same work;
- workloads;
- number of temporary employees; and
- no backfilling for training temporary staff or to cover staff leave.

Finally, regional hubs have been created in a number of regional centres, but this leads to job losses in smaller towns. In summary, from the perspective of the QPSU shared services may have met its cost reduction targets, but an enormous cost to public sector employees, both those who lost their jobs and those who remain to provide the services (Queensland Public Sector Union, 2005).

5.5 Union consultation

The Business Plan of 2002 states that unions will be consulted on development strategies for transitioning employees. However, despite the establishment of a formal consultative process, the QPSU reports that there has been little consultation with unions and their members (Queensland Public Sector Union, 2004). The Central

Consultative Forum has representatives from Queensland Public Service Union, Australian Services Union and the Queensland Council of Unions. From the outset the Queensland Public Service Union has struggled to be properly informed and consulted as required under the Core Enterprise Agreement and the Public Service Award. Consequently, the Queensland Public Service Union has pursued its right to consultation through the Queensland Industrial Relations Commission. A Commission order based on the Enterprise Agreement contained the following;

- a commitment to no forced redundancies;
- a guarantee that no positions would be spilled, or employees forced to reapply for their jobs;
- temporary contracts would be honoured; and
- terms and conditions of staff transferred would be guaranteed until reviewed after full consultation with the Union.

5.6 Lessons for South Australia

The above discussion highlight six key issues that the SSRO needs to consider as part of its reform agenda;

- consultation with unions is vital for the success of any shared services program, failure to consult effectively will lead to failure;
- the main source of cost savings is through job losses;
- job losses in regional areas can have a negative impact on regional economies
- some cost savings are illusory due to cost shifting;
- the costs of shared services are underestimated because implicit costs are not measured; and
- the benefits of shared services are often overestimated.

6 Western Australia

6.1 Background

The adoption of shared services by the Western Australian Government followed the recommendations of the Machinery of Government Taskforce Review. That review was followed by the Review into the Effective Delivery of Government Priorities and finally the Functional Review Taskforce established in June 2002. This final review reported to cabinet in December 2002. Cabinet responded favourably setting a savings goal of \$50 million savings per annum as part of a larger goal to control expenditure and prevent waste and duplication in the public sector. The Governments objectives included establishing shared services for the delivery of corporate services to all Government agencies and creating whole of Government procurement practices (Government of Western Australia, 2007a; 1). Moving to shared services was seen as a natural extension of an earlier review that reduced the number of Government agencies from 46 to 23. The review of shared services that was undertaken by Office of Shared Services had three phases;

- strategic business review and model development;
- benchmarking and baseline data collection; and
- implementation planning (Government of Western Australia, 2007b; 1-2).

At the time of the review into shared services, 6,235 FTE public sector employees were involved in the provision of business services, at an estimated cost of around \$390 million. The estimated implementation costs were \$70.3 million for ICT infrastructure and system solutions, agency roll-in, program office and a contingency fund (Government of Western Australia, 2003; 4-14). A \$67 million ten-year contract was awarded in 2005 to a private contractor to develop a business system to support the shared services project (Government of Western Australia, 2007c). Projected savings from shared services was estimated to be \$50 million per year. Projected net savings for a whole-of-government procurement system was \$264 million for the period 2003/4 to 2007/8 through economies of scale and reduced duplication (Government of Western Australia, 2005; 1).

The Western Australian Government views the shared service centres as generating efficiencies through reducing the variety and duplication of systems and processes in corporate services. For example, the largest 49 agencies had 21 different finance systems, 12 HR systems and 19 information management systems (Government of Western Australia, 2005; 1).

The time-line for the implementation of shared service centres is mid-2005 to late-2008. All three shared services centres were to be operational by mid-2006 with staggered time-tables for rolling in agencies. The re-organisation of procurement began earlier with 23 senior procurement officers being moved to the Department of Treasury and Finance in July 2004. The Shared Corporate Services Program Office managed the implementation of this.

Shared services were designed to provide 'back office' services, mostly of a transactional nature in finance, human resources and payroll and IT systems to support these functions. The Government stated that shared service;

project's strategic objective is to optimise the quality and cost effectiveness of corporate services delivery, and in so doing, achieve process efficiencies and cost savings. In keeping with other Functional Review related projects, an underlying objective of the reform is to free-up scarce resources that can then be directed to Government priority areas of health, education, community services and law and order (Government of Western Australia, 2007b; 1).

While cost savings was the main driving force, the Government also argued that improved quality of services was to be an outcome of shared services. The main cost savings are to be delivered through a 'high-volume' corporate services being delivered from a 'one stop shop' (Government of Western Australia, 2007b; 2). The principles in operating shared services centres are to be;

- cost recovery;
- user pays; and
- service agreements.

6.2 Shared Services Model

The Western Australian Government's approach to shared services is based on the experience of public and private sector organisations both in Australia and overseas, as well as consultation with its agencies and staff. The model comprises three centres, Health, Education and Training and the Office of Shared Services, which has two agency clusters. Health alone has 35,000 employees with five major employee groups and a budget in excess of \$3 billion. The Government believed that Health warranted its own shared service centre with about 500 employees. The services provided by the centres are;

- payroll;
- human resources;
- finance;
- support systems;
- supporting ICT systems.

The Office of Shared Services is designed to meet over 90 per cent of the largest agencies corporate service needs. In 2007 the Office of Shared Services became a business unit of the Department of Treasury and Finance. The Office of Shared Services also provides procurement and supply services to its two clusters.

The Health Corporate Network shared service centre for Health includes other services such as supply. A separate shared service centre will deliver ICT to Health, the Information Communication Technology Shares Service.

In addition to the main Shared Service Centres, the Western Australian Government is undertaking the Procurement Reform Program which will create shared services in the area of procurement. In investigating the best governance model for procurement, a consultant's report concluded that a one-size fits all for a whole-of-government approach was not appropriate and that the existing dual system was preferable, that is separating goods and services procurement from works procurement (Government of Western Australia; 2003; v-xiv). The report also recommended key senior procurement employees who join the whole-of-

government system remain located in their respective agencies, including in regional offices.

6.3 Staff

Over 900 employees were to transfer to the Office of Shared Services. The Western Australian Government has stated that '(t)he quality of public services is dependent on the capability and commitment of staff' (Government of Western Australia; 2004; 5). However, the Government expects a reduction of about 700 FTE positions through the establishment of shared services. The Government's policy is for no forced redundancies, and that reduction in jobs will be achieved through natural attrition, part-time work, job-sharing, re-deployment and retraining.

A consultant estimated that a whole-of-government procurement system would involve the loss of a substantial number of jobs as a result of the reduction in time spent by thousands of employees purchasing goods and services from external providers. Indeed, most of the predicted savings of \$50 million per year is based on the reduction of employment and the introduction of standardised systems (Government of Western Australia; 2004; 5).

The Western Australian Government created a Staff Change Management Program to assist in the transition of employees from agencies to Shared Service Centres. The Shared Corporate Services Program Office manages implementation of the shared services initiative. A key strategy in the process of staff change management is the introduction of fixed term contracts for back-filling jobs during the transition period.

The managers of shared service centres stated a commitment 'to providing an environment where employees are part of a high performing team and are able to achieve their personal and career objectives' and recognising that 'employees families are important elements of support and wellness' (Government of Western Australia; 2005). Stimulating and satisfying jobs and a flexible working environment were part of the commitment. Continuous improvement is a concept associated with staff performance by management. Part-time work and job sharing are seen as part of

meeting employees' needs. Prior learning and experience recognition will be part of professional learning programs for Shared Service Centres employees.

Multi-skilling will be adopted in which an employee is expected to be competent in more than one function, 'a versatile specialist' in a 'changing workplace environment'. Succession planning to meet present and future workforce needs in the Shared Service Centres is part of the strategy as well (Government of Western Australia; 2005). Ongoing learning with skilling and up-skilling, work-place learning and development of generic skills, for example, communication, teamwork, problem solving, are part of the management goals of Shared Services Centres. Retaining organisational memory and knowledge is viewed as a benefit of keeping a stable workforce.

6.5 Issues

In feedback to management on the design of the OSS building one employee asked for change of the factory-like feel of the workstations. Other concerns expressed with the open-space design were noise levels, size, wheel-chair access, screen height, personal effects storage and desk size (Government of Western Australia; 2005). 'Grow Back' and duplication of services was expressed as a concern at a cluster consultative forum meeting at which the union (CPSU/CSA) has representation. 'Grow back' is a situation when agencies resume their own corporate service providing.

6.6 Union Consultation

Consultation takes place with unions through the development and implementation processes by means of the 'consultative forums'. The clusters have consultation groups for employees' input. A consultant's report of the review on shared services concluded that one of the critical success factors was 'continued frequent and open communication to all stakeholders including unions' (Government of Western Australia; 2003; 15). Again, the consultant's report on reforming procurement listed consultation with unions and stakeholders as part of the basis the transition.

6.7 Lessons for South Australia

The above discussion highlights six key issues that the SSRO needs to consider as part of its reform agenda;

- meaningful dialogue and consultation with unions and staff is vital for the success of any shared services program, failure to consult effectively will lead to failure;
- the main source of cost savings is through job losses;
- the costs of shared services are under estimated because implicit costs are not measured; and
- the benefits are over often estimated.
- the need for appropriate working conditions and a working environment that is conducive to sustaining high levels of work satisfaction.
- the geographical distribution of population and service demand warrants investigation of the lessons that might be learnt from the Western Australian approach.

7 Other jurisdictions

7.1 The Northern Territory

In 1998 the Northern Territory Government established its shared services provider the Department of Corporate and Information Services (Northern Territory Government; 2006). Four entities make up the Department, which are the DPIS and three Government Business Divisions;

- Data Centre Services;
- NT Fleet; and
- Government Printing Office.

The Department delivers corporate and information management services to all Government agencies as well as some services to the public. Several regional offices of the Department exist throughout the Northern Territory. Centralised management is provided for nine key services:

- accounting and financial services;
- human resource services, including payroll, recruitment, occupational health and safety and training, personal information payroll system (PIPS), 'myHR' (employee personnel self-service) and employment programs;
- information technology;
- printing;
- procurement policy;
- property leasing and records; and
- tendering services.

The DCIS has more than 700 staff that deliver services across the Northern Territory. Performance measures for assessing objectives stated in the Department's 'Corporate Plan 2005-2008' were listed as;

- customer satisfaction;
- service metrics;
- involvement with other agencies;
- staff satisfaction;

- skills and qualifications;
- recognition as a valued employer within NTPS;
- system accessibility, reliability and useability;
- reduction in unit prices;
- a quasi commercial status obtained by 2008; and
- business reviews, evaluations and audits.

The Corporate Services Review is currently being conducted by Deloitte. A sub-review is also being conducted into an appropriate delivery model of business services called the Vision and Business Model for the Delivery of Corporate Services, to see what model options there are. The Northern Territory currently has a centralised model and the review will look at the 'best of contemporary models'. The review is also designed to identify duplication, efficiencies to improve business processes in conjunction with being an advisory review on options.

7.2 The Australian Capital Territory

The ACT Government implemented a shared services program with the opening of the Shared Services Centre on 1 February, 2007 (Australian Capital Territory Government; 2007). The Centre provides corporate services in finance, human resources, records management, publishing services, ICT and procurement. Four separate business units comprise the Centre;

- human resource services;
- finance services;
- InTACT (ICT, records and publishing services); and
- procurement solutions

More strategic functions that cannot be standardised will not be included in the Shared Services Centre. Both InTACT and Procurement Solutions were operating before the establishment of the Shared Services Centre. The services of both bodies have been expanded to all Government departments and agencies as part of the new Shared Services Centre. Overall, the Centre is seen as 'the next logical step', building on the economies of scale and scope that are asserted to exist in the provision of

corporate and transaction services by the public sector. The expectations for the Centre are;

- delivering quality services;
- creating greater career opportunities;
- delivering savings; and
- working in a more efficient environment.

7.3 Tasmania

The Department of Health and Human Services Tasmania has a shared services centre, the Shared Services Group (Tasmania Government; 2007). The Group comprises business units responsible for providing a number of corporate and strategic services and infrastructure to the Department. The services provided include;

- facilities management;
- finance;
- human resources;
- information services;
- planning, performance and evaluation; and
- business and risk strategy.

7.4 Victoria

The Government of Victoria is in the very early stages of planning some level of shared services re-organisation. A shared services centre is to be established in the Department of Treasury and Finance to provide IT services to all Government departments. ICT functions across Government will be integrated from procurement through to interaction with the community. A new unit called the Information Systems and Infrastructure Office in the Department of Treasury and Finance will guide Government-wide IT issues. Prior to its recent re-election, the Government claimed that through consolidating IT functions across Government \$20 million could be saved in four years.

8 Conclusions

A number of implications for South Australian policymakers can be drawn from the preceding overview of shared services arrangements and developments in other jurisdictions.

It is evident, as the European Services Strategy Unit details in its examination of the British experience that shared service solutions must take account of the complexity of the business services that are required by the public sector. In this context it is vital that conclusions about appropriate shared service models for implementation in South Australia not be prematurely drawn, but rather patiently guided by an agreed set of principles and objectives. A commitment to comprehensive consultation with public servants is essential.

The pursuit of cost savings should not be the guiding principle to the design and implementation of shared service arrangements. Where estimates of savings are made they need to be weighed up against the costs of implementation and take account of a range of hidden costs. These might include excessive workloads, recruitment and retention difficulties and a decline in staff morale. Shared services should not be implemented without demonstrable benefits for staff, the community and Government.

The case for shared services needs to be evidence based and subject to scrutiny by external experts and stakeholders before any decisions are made. The benefits, costs and risks associated with different models must be detailed and made available publicly to ensure that the process of determining an appropriate approach is transparent and accountable.

Relying on private sector perspectives on shared services is inappropriate as private sector models are not appropriate in their current form for application in the public sector. The private sector has an entirely different *raison d'être* to the public sector. The public sector does not have a duty to return a profit to shareholders, but rather it must strive to deliver high quality services in the most efficient and effective manner

it can. Savings from improvements that arise from shared services should be available to reinvest in service improvements.

Close examination of public sector experiments with shared services while warranted should be undertaken with caution. Differing institutional arrangements, policy priorities and organisational cultures dictate the need for tailored, rather than off the shelf, solutions. The provision of shared services is not simply a technical and organisational challenge, it requires a deep understanding of how administrative and financial systems can aid or impede the implementation of policy priorities. Critical to this is ensuring that shared service arrangements do not take on a life of their own but rather exist to serve the differing needs of a complex range of public sector agencies.

There are well founded concerns that shared services arrangements will lead to substantial job losses and erode working conditions in the public sector. This would be counterproductive in the context of an ageing workforce where the public sector will find it increasingly difficult to retain skilled and experienced people in the face of intense competition from the private sector. The workforce development imperative of the next decade is to increase the capacity of the public sector to recruit more young people and retain its mature age workforce longer to avoid the emergence of chronic skill shortages in the public sector.

The re-organisation of work that shared service arrangements inevitably entails can have positive or negative impacts on work satisfaction, career development, job security, health and work/life balance. It is vital in the current context that any change that takes place results in positive outcomes for individuals as this will help to underpin wider public sector retention strategies that are necessary to counter the ageing of the workforce.

The Government is considering one or two workplaces for the hundreds of employees engaged in the provision of business services that will create very large work centres. Some dislocated employees will face personal challenges regarding transportation, childcare and family responsibilities with new work locations and possibly new schedules. Claims that improved career paths occur for employees in

shared services are still to be demonstrated in other jurisdictions. All of these concerns need to be taken into account in developing an appropriate approach to the introduction of shared service facilities in South Australia.

Finally, a major risk associated with establishing one or two major shared service centres is the temptation for future policymakers to outsource them in much the same way as the management and maintenance of public sector information technology infrastructure was outsourced in the mid-1990s by the previous Government. Large scale shared service centres are neatly bundled for this purpose. The major consulting firms are likely to suggest that outsourcing large shared services centres to the private sector would be cost effective for the State Government. The real question however is whether it would be in the public interest. Local experience suggests that it would undermine the quality and delivery of public services.

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