Inquiry into the Benefits and Costs Associated with the Provision of Shared Corporate Services in the Public Sector

Final Report

10 June 2011

Economic Regulation Authority
WESTERN AUSTRALIA

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For further information, contact:

Economic Regulation Authority
Perth, Western Australia
Phone: (08) 9213 1900

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Executive Summary

On 19 January 2011, the Treasurer, the Hon. Christian Porter, requested that the Economic Regulation Authority (**Authority**) conduct an inquiry into whether the Office of Shared Services (**OSS**) provides a benefit to Western Australia. This report outlines the analysis, findings and recommendation of the Authority.

The project to centralise corporate services across the public sector is at a critical stage of implementation. Since the Department of Treasury and Finance (**DTF**) assumed responsibility for the OSS in January 2007, the project has been progressed on-time and on-budget. However, complaints regarding the level of service delivered by the OSS, now known as the DTF Shared Service Centre (**DTFSSC**), have been widespread.

A decision regarding the future of DTFSSC is needed as:

- the project has incurred costs of $401 million (net of revenue, including $189 million in capital and $212 million in operating losses) and achieved minimal benefit in terms of savings to agencies;
- the agency roll-in schedule for 2011 and 2012 proposes rolling in a number of large and complex agencies. Rolling agencies into an ineffective shared services arrangement would be costly and jeopardise agencies' operational efficiency; and
- the ability to pursue alternative service delivery options, such as decommissioning DTFSSC, will become more difficult and costly over time.

Background

Shared corporate services were introduced in Western Australia in 2003, with the objective of reducing the overall cost of providing corporate services in the public sector. This was to be achieved by realising economies of scale through the aggregation, standardisation and centralisation of common 'back office' corporate functions such as finance, human resources, payroll and procurement.

The original 2003 business case identified a potential saving of $56.6 million per annum from shared service provision across the whole-of-government. It proposed that shared services be delivered by five centres. These included a centre servicing health agencies, another centre servicing education agencies and three centres servicing general government agencies. The general government centres were expected to generate $40.7 million of the $56.6 million per annum in savings. Implementation costs for establishing the shared services centres were estimated at $82 million in 2002-03 prices for the total shared services project, including $68.5 million for the general government clusters. All suitable government agencies were scheduled to be rolled-in to shared services by early 2007. The 2003 business case projections are shown in the following table.

Table 1.1 2003 business case – cost benefit analysis ($ million real at December 2003)

	2003-04	2004-05	2005-06	2006-07	2007-08	Recurrent
Net operating benefits	(0.7)	(2.0)	11.7	49.9	53.7	56.6
Capital costs	(7.1)	(41.8)	(29.5)	(3.2)	(0.4)	-
Net benefits	(7.8)	(43.8)	(17.9)	46.7	53.3	56.6
Avoided Information and Communication Technology Capital Expenditure	9.7	9.7	9.7	9.7	9.7	
Net benefits (Including avoided ICT CAPEX)	1.8	(34.1)	(8.2)	56.4	62.9	56.6
NPV (net present value)	288.1					
IRR (internal rate of return)	87%					

Source: DTFSSC, Shared Corporate Services Program, Options Case Review, 06 November 2007, p17.

In 2010-11 prices, the DTFSSC component of the project was expected to deliver a Net Present Value (**NPV**) of $171 million by 2010-11. This is detailed in Appendix F.

The OSS, a single general government shared service centre, was established on 1 July 2005 to provide corporate services to general agencies of the Western Australian Government.[1] A full Enterprise Resource Planning (**ERP**) corporate services solution (the eBusiness suite) was to be delivered by Oracle Corporation Pty Ltd (**Oracle**). This system was to allow the OSS to deliver finance, human resources (**HR**), payroll and procurement services to client agencies. Initially, the OSS was a separate accountable office, with the Executive Director reporting to the Minister for Public Sector Management. It was located at the Mason Bird Building, 303 Sevenoaks Street, Cannington. The Health Corporate Network (**HCN**) and Education and Training Shared Services Centre (**ETSSC**) were set up to service the health and education sectors respectively.

The Government exempted around 50 agencies from shared services provision (including the Police Service, the Corruption and Crime Commission and Racing and Wagering WA) on the expectation that exempt agencies would be required to match the service benchmarks achieved by the fully operational shared services centre.

In practice, the experience of the shared services project has not met original expectations.

- **In 2006** − issues with the implementation of the Oracle HR/payroll system became apparent. The Oracle system was originally expected to provide payroll services for 30 of the 70 different employment awards that operate in the Western Australian public sector. By the end of April 2006, the due date for the delivery of the human resources function, only three of the 30 awards had been delivered. Rather than delay further roll-ins, the Government allowed agencies to roll-in for finance services only. For HR/payroll services, agencies had the choice of

[1] OSS (2006), Annual Report 2005/06, p7

continuing to provide their own HR/payroll services or using an interim payroll solution[2] provided by OSS. This meant that agencies needed to integrate their current systems with the Oracle system. Consequently there was considerable customisation through the development of interfaces between the interim payroll solution and the Oracle financial system.

- **In June 2006** – $4.25 million was provided by the redirection of funds from the Department of the Premier and Cabinet (**DPC**) and DTF for additional modules these departments required. This funding was not in the original program scope.
- **In November 2006** – additional funding of $56.28 million was approved to account for the increased costs of the project incurred due to project delays.
- **In January 2007** – responsibility for shared services was transferred to DTF and OSS became known as the DTFSSC. The HCN and ETSSC remained unchanged.
- **In June 2007** – the Auditor General conducted a performance examination of the shared services program and concluded that it was over budget and two years behind schedule. Project funding had been revised up to $198 million nominal for all three shared service centres (compared to the 2003 business implementation cost of $82 million in 2003-04 prices) and implementation issues were resulting in delays to the program. It was determined that these issues and delays were costing an estimated $400,000 per month.
- **In November 2007** – DTF commissioned a review of alternative options for the shared services provision.
  - The review concluded that none of the ten options considered would generate a positive financial return to government over a ten-year period. Importantly, this meant that the focus of the shared services program had shifted from a benefit maximisation exercise to a cost minimisation exercise. The review indicated that continuation of the full ERP was expected to cost less than the other options analysed. On the basis of this review the Government chose to continue with the full ERP option.
  - In order to proceed with the option recommended by the review the DTFSSC requested additional funding of $242.98 million from the Expenditure Review Committee (**ERC**). This request was approved.
- **In 2008** – a review by the Quadrant Group found that since 2007 the project had made progress in terms of budget and timelines.

Up until 30 June 2011 the DTFSSC is expected to have cost the Government (in nominal terms) $189 million in capital costs, $254 million in operating costs and has only received $43 million in revenue from agencies.[3] To date, only 58 of the expected 80 agencies have been rolled-in. The majority of these rolled-in agencies are small to medium-sized. Consequently DTFSSC is currently only servicing 37 per cent of the full time equivalents (**FTE**) expected to be serviced once all agency roll-ins are complete.[4] Only 37 agencies have rolled-in to the full ERP solution, with the remainder using finance and/or procurement services only. Of the remainder, seven agencies use the interim payroll solution while 13 are responsible for their own HR/payroll systems.

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[2] The interim payroll solution refers to a stop-gap measure that allows OSS to provide payroll services to agencies using agency systems and staff.

[3] These costs exclude shared services in the health, education and training sectors. The cost increases to $473 million nominal if unanticipated agency specific costs are included.

[4] This figure excludes the Department of Corrective Services which has only rolled in for procurement services.

The Authority's analysis indicates that had the costs of the shared services project been able to be assessed more accurately and comprehensively in 2003, the shared services project would not have proceeded. Furthermore, given current information, the DTFSSC should have been decommissioned following the 2007 review. Additionally, this decision would have saved the costs incurred between 2007 and 2011. In making these judgements the Authority acknowledges that decision makers in 2003 and 2007 did not have the same information as the Authority currently possesses.

Submissions to the Inquiry

As part of its review the Authority has conducted an extensive data gathering exercise. Information was received through:

- submissions in response to an issues paper and a draft report provided to government agencies, relevant unions and DTFSSC's private sector partners. The Authority received 63 submissions in response to the issues paper (distributed on 21 January 2011) and 30 submissions in response to the draft report (distributed on 6 May 2011);
- interviews with 19 agencies, individuals and organisations;
- issuing a template to all Chief Financial Officers (CFOs) from rolled-in agencies to gather data regarding the financial impact of receiving services from DTFSSC;
- two formal (and several informal) information requests to DTF; and
- engaging a consultant, Stantons International (**Stantons**), to conduct a technical review of the Oracle eBusiness system and processes used at DTFSSC.

Inquiry Findings

In financial terms, there have been no net savings to government from establishing DTFSSC, nor are there likely to be future savings from rolling-in additional agencies. As early as 2007, the shared services project was identified as being unable to generate a positive financial return to Government. The 2003 business case estimated that the project would deliver a total NPV of $137.4 million in 2003-04 prices over the first 8 years of the project ($171 million in 2010-11 prices). However, at the point of this review, the project has an NPV of −$345 million in 2010-11 prices (see Appendix F).

The Authority notes that the original project aimed to create efficiency savings in agencies. These efficiency savings could then be used to pay for the DTFSSC fee for service, with any leftover being harvested by Government. However, the Authority concludes that sector-wide savings to date do not even cover the cost of DTFSSC services. All rolled-in agencies that presented submissions to the Authority indicated that they are financially worse off under the new arrangements. Therefore, the Authority is of the view that the anticipated efficiency savings have not been achieved, and that any savings or harvest written into the budget on the basis of the 2003 business case or subsequent revisions are financial transactions that are based on the efficiencies envisaged rather than actual efficiency savings.

The Authority acknowledges that since 2007, when DTF was given responsibility for shared services, the program has remained on budget. This may change in the future as DTFSSC is seeking an additional $35 million to upgrade the Oracle system to version 12. While upgrading the system is a normal business expense, this funding has not been mentioned in detail in any previous business case. Therefore the Authority considers that

the $35 million required to upgrade is an additional program cost. DTFSSC has also indicated that it will be seeking additional funding in future years for maintenance of industrial instruments in the eBusiness suite, client account management and to offset the loss of revenue resulting from the pause in agency roll-ins requested by Government.

Information provided by rolled-in agencies indicates that there are substantial problems with service delivery at DTFSSC. In particular, agencies believe that the level of cooperation and understanding between themselves and DTFSSC is minimal. The absence of meaningful service level agreements, transparent service costs and a transparent pricing model has led to reduced ownership of, and commitment to, shared services by agencies.

Agencies have also reported that they are facing unanticipated costs after transitioning to shared services. These unanticipated costs arise from:

- the reluctance of agencies to trust DTFSSC produced data and reports;
- the need to run parallel work processes in order to ensure DTFSSC data and reports are correct;
- the need to change agency system and processes to comply with DTFSSC; and
- the use of staff and management self service facilities which ‘pushes back’ workload to staff and managers in agencies and diverts them from their core functions.

Many agencies have also experienced technical problems with the Oracle business system used by DTFSSC. Additionally, in its technical advice to the Authority, Stantons reported that the future costs of shared service provision have been increased due to the added complexity of software upgrades.

Agency submissions also revealed positive aspects of DTFSSC’s service. For example, some agencies indicated that the provision of taxation and procurement services by DTFSSC adequately met their needs and that a greater level of accountability was afforded by processing transactions through DTFSSC.

If DTFSSC was to continue in some form, the Authority is of the view that the Oracle eBusiness system would need to be upgraded to the latest version. It is believed that this latest version is more shared services centric and may eliminate the need for excessive customisation of the system in the future. In order for the DTFSSC to work efficiently, the upgraded eBusiness system would need to be implemented in a more standardised form than is currently the case.

Analysis of the existing governance arrangements has shown that they are ineffective. If it were to continue, the Authority believes that DTFSSC should be responsible to a board. This board should be responsible to the Minister for Finance and contain at least two independent members as well as the Director General of the Department of Finance.

To date, many of the rolled-in agencies have been relatively small. If the remaining agencies were to roll-in as scheduled, the existing issues faced by agencies would worsen and costs would increase. This is because the agencies scheduled to roll in are large and have complex in-house systems and processes.

Assessment against the Terms of Reference has found that:

1. There are substantial problems with the current shared services arrangements.
2. Service levels are likely to deteriorate as more agencies roll-in.
3. There are costs to agencies that transition to DTFSSC. These include initial transition costs as well as ongoing costs associated with complying with DTFSSC systems and processes.
4. Savings to agencies, where realised, are less than the amount harvested by DTF.
5. DTFSSC has resulted in a net cost to government. Between 2005-06 and 2010-11 the NPV of the project was –$345 million discounted to 2010-11 prices.
6. As more agencies roll-in to DTFSSC the complexity and costs associated with decommissioning increase, making it more difficult to implement this option in the future.

Therefore the Authority recommends that the current roll-in of further agencies ceases immediately.

A decision needs to be made whether to:

- **'stop and fix'** the DTFSSC, including consideration of whether some services should be sent back to agencies. The rolling-in of further agencies should be paused while current problems with service delivery are fixed;
- **discontinue the project, decommission** DTFSSC and return responsibility for corporate services back to individual agencies; or
- **outsource** shared services. Under this option DTFSSC would be either sold or closed down. The Government would seek shared service provision from a private sector company.

To inform this decision-making process the Authority developed a set of guiding principles for shared service delivery, should it continue, and a summary of the lessons learned from previous reviews. The Authority also identified and evaluated future options for shared corporate service provision in the public sector. The most viable options were costed and financially modelled. The results of the modelling are explained below.

Modelling Results

After an initial assessment of all the options, the Authority undertook detailed financial analysis of the following four options:

- continuation of the full Enterprise Resource Planning (**ERP**). This refers to the provision of fully integrated finance, HR/payroll and procurement services by DTFSSC using the existing Oracle platform;
- 'best of breed'. Under this option DTFSSC would continue to provide finance services with its existing system. HR/payroll services would be delivered using a new system that integrates with existing finance modules;
- 'finance only'. This refers to DTFSSC using the existing Oracle system to provide finance services. Responsibility for providing HR/payroll services would be devolved to agencies; and

- decommission DTFSSC. Under this option DTFSSC would be shut down and responsibility for corporate service provision returned to agencies.

The Authority's financial model quantified the forward-looking financial cost of each of the above options at an agency level. It then aggregated these costs to give a whole-of-government cost for adopting each option. Where practicable, assumptions regarding the impacts of each option on agencies' and DTFSSC's labour requirements, capital costs and operating costs have been based on information provided in submissions and by Stantons. Impacts have been modelled on a quarterly basis over a 5, 10, 15 and 20 year horizon. All of the options that relate to the continuation of shared services involve upgrading the Oracle system to version 12, returning it to a more standardised 'vanilla' product and establishing meaningful service level agreements.

The model indicates that all of the options have a net present cost from a whole-of-government perspective, over all time horizons. This is shown in Table 1.2 below. It should be noted that the figures in Table 1.2 represent the cost of delivering corporate service for all 'in-scope' agencies over the given time period rather than simply the cost of transition from the current arrangements.

Table 1.2 Net present cost of modelled options for future shared service delivery

Option description	Net present cost ($ millions)			
	5 year	10 year	15 year	20 year
Full ERP	-1,184.5	-2,225.8	-3,164.5	-4,011.9
Oracle for financials and HR/payroll by 'best of breed'	-1,164.4	-2,184.4	-3,104.7	-3,935.7
'Finance only' HR/payroll by agencies	-1,159.9	-2,137.1	-3,017.5	-3,812.7
Decommission	-1,074.9	-1,922.9	-2,690.3	-3,383.3

Source: ERA analysis

The Authority's modelling, based on FTE savings submitted by agencies, indicates that continuing with a full ERP solution for shared corporate services is the most expensive option. Decommissioning DTFSSC was found to be the least costly option across a range of assumptions. Because this modelling is based on an extrapolation of current agency FTE savings, the Authority does not recommend the literal use of these results as the single decision criteria for a decision on DTFSSC.

In the draft report the Authority considered the finance only option as potentially superior to decommissioning on the basis that, after updating the Oracle finance system, the agency FTE savings required to produce net present costs that equal the net present cost of decommissioning were potentially achievable. However, submissions following the draft report indicated that the DTFSSC would have to retain the maintenance of agency HR data under the finance only option. Without this data many functions of the finance module, such as the proper application of workflows, manager approvals, raising a purchase order or the processing of expenses, would not work efficiently. Additional costs associated with this integration now make the finance-only option significantly more costly when compared to the decommissioning option.

Conclusion

The history of shared corporate services projects in the public sector in Australia shows that it is a complex process with uncertain and distant returns. While there is some evidence of successes in the corporate sector, there has not been one fully successful implementation in the public sector of any Australian jurisdiction.

The Authority considers that the original 2003 business case was fundamentally flawed. The proposed benefits were overly optimistic, the true cost of the project was underestimated and the proposed roll-in schedule was not realistic. This, together with decisions made regarding customisation of the IT system during the initial stages of the project, has caused problems that are still influencing the service delivery of the DTFSSC today.

The principles for a shared corporate service arrangement contained in the original business case were sound and consistent with the Authority's own principles for such an enterprise. However these principles were never fully implemented. In particular, after 2007, the focus of the project revolved around implementation with little regard to the guiding principles.

In 2007 the DTF was tasked by the Government to roll agencies into the DTFSSC on a very aggressive timetable designed to minimise the financial loss from the project. Services were expected to deteriorate during the roll-in period, but were expected to improve once this process was complete. However, the Authority considers that the focus on rolling in agencies at the expense of service delivery inevitably led to the problems encountered by agencies and the low level of trust between the two parties.

The Authority concludes that the current structure of the DTFSSC is problematic. It is a monopoly provider, with a mandated client base and a lack of meaningful service level agreements. This means that there are minimal incentives for DTFSSC to improve service delivery and few ways in which client agencies can hold DTFSSC accountable for the service provided, or DTFSSC can hold client agencies accountable for meeting their obligations. This problematic structure is the key reason why the project has failed to meet expectations.

The Authority considers that, even after a 'stop and fix' period, the probability of successfully implementing shared corporate services in the public sector, at a cost that is less than the cost of decommissioning, is extremely low. This is because:

- attempting to service multiple agencies with differing needs by using a single system is very costly, fraught with challenges, and potentially unachievable. Servicing agencies with a system that is modified to meet all needs results in a system that is expensive, costly to maintain and prone to error, while the alternative of servicing agencies with a standardised product results in large integration costs being imposed on agencies;
- the project has a history of not being able to deliver on expectations and has instead resulted in substantial service delivery problems. Based on this past performance, the Authority sees considerable risk that any 'stop and fix' option would not be successful;
- the agencies that have rolled into the DTFSSC to date have largely been small to medium sized and relatively non-complex in their requirements, yet virtually all have experienced problems with the DTFSSC product and service. The agencies yet to roll-in are generally larger with more complex requirements. These

agencies are likely to have much higher implementation and ongoing compliance costs, as well as substantially higher risks of roll-in delays and system performance problems;

- there is a lack of trust between DTFSSC and agencies, largely caused by the centrally-driven mandatory implementation schedule and the lack of meaningful service level agreements. This lack of trust makes implementation of a difficult project, even more difficult.

Given these concerns, the Authority would only countenance an alternative to decommissioning if the expected cost of the alternative was substantially lower than the cost of decommissioning.

The Authority's financial modelling of alternative options indicates that the full ERP, best of breed and finance only options are unlikely to be the least cost way of delivering corporate services to government. While there are scenarios where any of these options could be less costly than decommissioning, the Authority considers these scenarios highly unlikely. Even if these scenarios occurred, they are only slightly less costly than decommissioning, and would be vulnerable to any future negative shocks.

The Authority's analysis indicates that decommissioning DTFSSC represents the least cost and most certain option for delivering corporate services. While this option is not risk free, it represents the most likely way to minimise the cost to government.

In addition, it is likely that as more agencies roll-in to the DTFSSC the cost of decommissioning will rise substantially, limiting options if the system does not perform as expected in the future.

The Authority recommends that DTFSSC be decommissioned and responsibility for corporate services be returned to agencies.

Summary of Findings

Background to shared corporate services in Western Australia

- This is the fifth major review (including the original business case) of shared corporate services in the public sector since it was adopted by the Western Australian Government in 2003. Historically, the level of funding for the shared services project has increased at each review.
- At the end of 2010-11 the estimated total cost of the DTFSSC is expected to be $401 million in nominal terms. This includes $189 million in capital expenditure, $254 million in operating expenditure against $43 million in revenue (excluding agency harvests). At this time, 58 agencies have been rolled-in to the DTFSSC. An additional 22 agencies are listed as potential clients on the DTFSSC's website.
  - In contrast, the original estimate to build the business system and roll-in agencies for the entire shared services project (including the DTFSSC and the health and education clusters) was $68.5 million in capital expenditure in 2003-04 prices. Additionally the DTFSSC was to be self-funding and generating $40.7 million per year in net savings within the first five years of implementation. All agencies were to be rolled-in by early 2007. The NPV of the project to 2010-11 in 2010-11 dollars was estimated at $171 million.
  - The Authority has found that the actual efficiency savings are far less than expected in the original business case, and the NPV of the project to date is –$345 million in 2010-11 prices.

Assessment of current arrangements

- On the basis of the analysis of shared corporate services and submissions to the inquiry, the Authority has found that:
  - problems exist with the current shared service arrangements. Analysis indicates that problems are largely associated with the HR/payroll services. Finance and procurement services appear to be functioning more successfully, although there are problems with these components;
  - service levels are likely to deteriorate as more agencies roll-in;
  - there are costs to agencies that transition to DTFSSC;
  - there are ongoing costs associated with agencies complying with DTFSSC systems and procedures;
  - savings to agencies, if they exist at all, have fallen well short of the amount harvested by DTF;
  - where savings do exist for agencies, they do not start immediately after roll-in. It is more likely that an agency will experience savings at least 12 months after they have rolled-in; and
  - current shared services arrangements are negatively impacting upon agencies' operations.
- As more agencies roll-in to DTFSSC the complexity and costs associated with decommissioning increase, making it more difficult to implement this option in the future.
- The Oracle eBusiness system is currently used within DTFSSC to provide shared corporate services. If this system were to continue to be used it would require:

  - an upgrade to the newer version (12), given that Oracle will cease support for the current version (11.5.10) in November 2013;
  - that, prior to any upgrade, there be a review of the existing defects, enhancements and degree of customisation of the Oracle system. The Authority's technical consultant, Stantons International, estimates the upgrade, including the review, could take up to 27 months;
  - a move toward standardised (or 'vanilla') finance and HR/payroll products for the Oracle system to be successful. However, this change would impose greater costs on agencies; and
  - responsibility for some functions that cannot be easily managed through the standardised (or 'vanilla') Oracle system, such as recruitment, be transferred back to agencies.
- From the information received, the Authority has estimated that the shared services project has cost $473 million in nominal terms, including net costs borne by agencies. According to the 2003 business case the DTFSSC should be saving rolled-in agencies approximately 180 Full Time Equivalents (FTEs) by now. However only 46.6 FTEs have been saved according to the agencies that responded to the Authority.This equates to 62 FTEs across all agencies that have rolled-in.
- As early as 2007, it was recognised that the Government would never recover the capital expenditure on the shared services program through agency payments to DTFSSC.
- Against the Terms of Reference (ToR) for the inquiry, the Authority concludes that:
  - the DTFSSC is not operating effectively or efficiently under the existing arrangements (ToR 1);
  - without substantive reform the effectiveness of the DTFSSC is likely to deteriorate further as more agencies are serviced (ToR 2);
  - rolling-in to the DTFSSC has had a detrimental impact on the operations of the majority of rolled-in agencies (ToR 3); and
  - as implemented thus far, the provision of shared services within the public sector has resulted in a total cost to the State of $473 million (ToR 4).
- In assessing whether rolling-in the remaining agencies to the DTFSSC would provide a net benefit to the State (ToR 5), the Authority concludes that rolling-in more agencies under the current arrangements is unsustainable.
- The Authority has identified that there are some shared services, e.g. recruitment and workers compensation management, that are unlikely to ever be managed efficiently by any shared service model and as such should be returned to the agencies. This is regardless of the future of the shared service program, should it continue.
- The Authority recommends that the current roll-in of agencies cease immediately.

Guiding Principles

If DTFSSC is to continue then the following principles should apply.

Value for Money

- The DTFSSC must deliver value for money to the Western Australian Government. This would be achieved by providing shared services to a defined service standard at minimum cost over the long term.

- If there are net benefits to sharing some corporate services, then the choice between future shared services arrangements should take into account strategies for appropriate risk mitigation and management.
- Any harvesting of savings from agencies by government should not occur immediately after the agency is rolled-in to DTFSSC. Agencies require time to adjust to the new arrangements and therefore are unlikely to achieve savings immediately. Therefore any harvesting of savings should not begin immediately after agencies roll-in.

Clear Role

- The role of the DTFSSC should be to provide those services to government agencies which can be provided more efficiently by DTFSSC than by individual agencies.

Defined Level of Service

- The level of service delivered by the DTFSSC should be clearly defined through Service Level Agreements and independently monitored.

Cost Efficiency and Cost-Reflective Pricing

- Service fees to agencies should be independently monitored to ensure that fees reflect the efficient costs of service. Mechanisms should be put in place to ensure continuous improvement in cost efficiency over time.

Accountability, Transparency, Independence

- Governance of the DTFSSC should be transparent, accountable and independent of Government and the Executive of the DTFSSC.

Future options

The Authority was asked to investigate whether alternative arrangements for the provision of shared services would provide a net benefit to the State (ToR 6).

- Given the current situation is unsustainable, the key issue to address going forward is whether to:
  - stop and fix the current arrangements; or
  - decommission DTFSSC and return responsibility for corporate services to individual agencies.
- Following an initial assessment, the Authority undertook financial analysis of four of the ten options considered:
  - cease roll-ins, upgrade rolled-in agencies to Oracle version 12 and review. If review is positive, roll-in other agencies to the full Oracle eBusiness suite (Option 2a);
  - cease roll-ins and use a ‘best of breed’ system to deliver shared HR/payroll services at DTFSSC. Retain the current Oracle system for financial services only (Option 2d);
  - cease roll-ins and allow agencies to develop their own HR/payroll systems. Retain the current Oracle system at DTFSSC to deliver shared financial services (Option 2g); and
  - decommission DTFSSC (Option 3).

Recommended Option

- Decommission DTFSSC and allow agencies to provide their own corporate services.
- Shared procurement services should continue in some form once DTFSSC is decommissioned.
- The findings of this review are specific to the Western Australian general government sector and its particular circumstances. It should not be taken as evidence for the performance of any other shared corporate services arrangements in the public or private sectors, which should be evaluated on their own respective merits.

FINAL REPORT

1 Introduction

1.1 Terms of Reference

The Terms of Reference for the inquiry are presented in **Appendix A**. The Terms of Reference, received from the Treasurer on 19 January 2011, required the Authority to investigate and report on:

- The effectiveness and efficiency of the Office of Shared Services (**OSS**)[5] at its current level of operations.
- How the effectiveness and efficiency of the OSS is likely to vary with the number of agencies it services.
- The impact that rolling-in to the OSS has had on the operations of a selection of representative agencies.
- Whether the provision of shared corporate services within the public sector, as implemented thus far, has provided a net benefit to the State.
- Whether rolling-in the remaining agencies to the OSS would provide a net benefit to the State.
- Whether alternative options for the provision of functions currently provided by the Office of Shared Services would provide a greater net benefit to the State.

In undertaking the inquiry, the Authority has recognised section 26 of the Act, which requires the Authority to have regard to:

- the need to promote regulatory outcomes that are in the public interest;
- the long term interests of consumers in relation to the price, quality and reliability of goods and services provided in relevant markets;
- the need to encourage investments in certain markets;
- the legitimate business interests of investors and service providers in relevant markets;
- the need to promote competition and fair market conduct;
- the need to prevent the abuse of monopoly or market power; and
- the need to promote transparent decision making processes that involve public consultation.

The Treasurer, in response to a request from the Authority, amended the Terms of Reference on 31 March 2011. The amendment to the Terms of Reference is shown in **Appendix B**. The amendment:

- required the Authority to make a draft report for the inquiry available for consultation with public sector agencies, the relevant unions and private sector partners of the OSS; and
- extended the due date for the final report to 10 June 2011.

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5 The organisation providing shared corporate services was named OSS up until its transfer to the Department of Treasury and Finance when it changed to Department of Treasury and Finance Shared Service Centre (DTFSSC).

1.2 Background to the Inquiry

The expectation of shared corporate services is that costs can be reduced and service delivery improved through the centralisation and standardisation of typical 'back room' functions such as finance, human resources (**HR**), procurement and information and communications technology (**ICT**).

Shared corporate service provision has been adopted by private sector companies such as BP, Ford, General Electric and Hewlett-Packard.[6] State Governments in Western Australia, Queensland, South Australia, the Northern Territory, the ACT and Victoria have also adopted shared services in some form.[7]

Whilst attractive in theory, with potential savings often quoted as being between five and fifteen per cent[8] in the private sector, the experience of moving to shared services in the public sector is less positive. Commonly reported problems are internal resistance to change, long transition periods, technological problems, cost overruns and service provision below the level originally expected.[9]

The following entities were established in 2005 to provide shared corporate services across the Western Australian public sector:[10]

- Office of Shared Services (**OSS**) − servicing general government agencies;
- Health Corporation Network (**HCN**) – servicing the health portfolio; and
- Education and Training Shared Services Centre (**ETSSC**) – servicing the education and training portfolios.

The establishment of shared corporate services in the Western Australian public sector was initially expected to cost $82 million,[11] of which $69 million was directly related to OSS. Additionally, the project was expected to deliver annual savings of $56.6 million from 2008-09.[12] These savings were based upon a reduction in employee numbers and the introduction of standardised business systems for corporate service provision. The estimated benefit represented an annual 14 per cent reduction across the total corporate services cost base ($315 million).[13] These values are given in December 2003 dollars (real).

However, implementation of shared services by the OSS did not proceed as expected. The Auditor General predicted that by November 2006, the total budget allocations for shared services (including HCN and ETSSC) had increased to $198 million (nominal) and the process of rolling-in agencies was two years behind target. DTF advises that $176 million of this can be attributed to OSS. As there was a delay in the roll-in schedule there was also a delay in realising savings.

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[6] Government of South Australia (2010), Fact Sheet – April 2010 – Shared Services Explained

[7] State government websites

[8] AT Kearney (2005), Shared Services in Government, p5

[9] AT Kearney (2005), Shared Services in Government, pp 12-14

[10] The Western Australian Police provided its own shared corporate services.

[11] Auditor General (2007), Auditor General's Report 5 – June 2007: Shared Services Reform – A Work in Progress, p21

[12] DTF (2003), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p150

[13] Department of Premier and Cabinet (2004), Executive Summary – Shared Corporate Services Project, p5

In June 2007, the Auditor General reported that:

> "..successful implementation of shared services reform is under serious threat."[14]

Responsibility for the OSS was transferred to the Department of Treasury and Finance (**DTF**) in 2007 and renamed the Department of Treasury and Finance Shared Services Centre (**DTFSSC**). Since taking over responsibility for the shared services project DTF has ensured that it has been delivered on time and on budget. However, agencies have raised issues regarding DTFSSC service standards and the unanticipated costs of transitioning. In a media statement made on 3 January 2011, the Premier Hon. Colin Barnett, announced that an independent review of the DTFSSC would take place. This was followed on 19 January 2011 by the Treasurer Hon. Christian Porter who:

- outlined the terms of reference for the review; and
- announced that the review would be conducted by the Authority.

The aim of the Authority's inquiry was to investigate the effectiveness and efficiency of shared services provision to date and make recommendations on the future provision of shared services. This included making recommendations regarding whether the remaining agencies should be rolled-in to DTFSSC or whether an alternative approach to the provision of corporate services would deliver a net benefit to the State.

1.3 The Review Process

The recommendations of this inquiry have been informed by the following consultation process.

- The Authority circulated an issues paper on 21 January 2011 and invited submissions from public sector agencies, relevant unions and private sector partners of the DTFSSC.
- The Authority received 63 submissions in response to the issues paper and conducted face-to-face and telephone interviews with 19 agencies and organisations to collect additional information to aid the inquiry.
- The Authority made two major and many smaller data requests of the DTF which were responded to in a timely, informative and comprehensive manner.
- The Authority circulated a draft report to public sector agencies, relevant unions and private sector partners of DTFSSC and received 30 submissions in response.
- The final report was presented to the Treasurer by 10 June 2011. Following the receipt of the final report, the Treasurer has 28 days to table the report in Parliament.

In accordance with section 45 of the Act, the Authority acted through the Chairman and members in conducting this inquiry.

[14] Op cit. p18

1.4 Further Information

Further information regarding this inquiry can be obtained from:

Bruce Layman
Director, References and Research
Economic Regulation Authority
Phone: (08) 9213 1900

2 Background to Shared Services in Western Australia

This section outlines the evolution of shared services in Western Australia and the experience of shared services in other jurisdictions.

2.1 History of Shared Services in Western Australia

This sub-section outlines the development of shared corporate services within the public sector in Western Australia from 2001 to the present. The reasons that have prompted the current inquiry are also explained in sections 2.1.8 and 2.1.9 below.

2.1.1 Machinery of Government Initiatives

In Western Australia, the move to shared corporate services began in 2001. The Gallop Government initiated a Machinery of Government Review to consider the effectiveness of agencies with a view to identifying savings. The review recommended that agencies consider ways to reduce administrative costs through greater sharing of corporate support services.

In January 2003, the Functional Review Implementation Team (**FRIT**) was tasked with the development of a business plan for the implementation of shared corporate services. Government endorsed the final business case, implementation plan and governance framework for the provision of shared corporate services in December 2003 and 12 months later approved the establishment of the Office of Shared Services (**OSS**) as the entity to provide shared services to general government agencies.

The aim of shared services was to leverage economies of scale through the consolidation, standardisation, simplification and automation of 'back office' corporate service functions and activities. The original business case estimated that $315 million per annum (real at December 2003) was spent on corporate services across the public sector and 5,000 public servants were utilized in delivering these corporate services. It was estimated that a shared services model could provide corporate services at a saving of $56.6 million per annum[15] (real at December 2003). This would be achieved through:

- economies of scale;
- greater transparency and flexibility of service levels and costs; and
- the provision of better corporate services to agencies.

With responsibility for corporate services removed to 'centres of excellence', individual agencies would be better able to concentrate on core service delivery.[16]

It was originally envisaged that five corporate service clusters[17] would deliver transactional services across public sector agencies. The clustering of agencies was to build on existing shared services, common business practice and Information Technology (**IT**) platforms.

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[15] DTF (2003), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p150

[16] Auditor General (2007), Auditor General's Report 5 – June 2007: Shared Services Reform – A Work in Progress, pp. 13-14

[17] The ETSSC, the HCN and three general government clusters.

In setting up the five clusters, consideration was to be given to the optimal size for a cluster[18], any related services and client bases that already existed, the geographic dispersion of agencies within a cluster and the implementation and integration costs of setting up a cluster. It was anticipated that each cluster would determine the optimal IT solution required to support the business needs of its client agencies.

2.1.2 Principles that Underpinned the Development of Shared Services in Western Australia

The original shared services business case clearly identified the complex nature of the shared services proposal. It noted that ICT implementation, staff transition and downsizing would need to be undertaken in parallel in order for the project to be successful. In particular, it made clear that considerable process aggregation, standardisation and improvement underpinned any realisation of savings. If this was not achievable, then the realisation of savings would be compromised.

The original business case[19] identified six dimensions and a range of principles to guide the development and implementation of a business model. The six dimensions were:

- strategy;
- governance and management;
- processes;
- information systems;
- locations; and
- organisation and people.

The key principles[20] are listed below.

- Clusters of agencies were to be formed on the basis of economies of scale. Standardisation was to be informed by existing synergies in service models and business practice.
- The model required high levels of ownership and commitment by agency Directors General and Chief Executive Officers.
- Services were to be agreed with agencies on a cost recovery and user pays basis through Service Level Agreements. These were to be underpinned by a transparent costing and pricing model.
- Governance bodies were to be established to oversee the operation of the shared services clusters. These bodies were to be distinct from project implementation.
- Roles and responsibilities of agencies and the service delivery clusters were to be clearly documented and agreed.
- Strategic activities were to remain with agencies, transactional services were to be provided by the clusters and tactical services would be provided when it was agreed with the customer agency.

[18] Each cluster had a minimum of 8,000 employees serviced. (Deloitte, (2007), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p34)

[19] DTF (2003), Strategic Business Review of Corporate Services Reform within the Western Australian Government Sector. Deliverable A – Summary Report

[20] Op. Cit.

- Process improvements could only be achieved in areas where it was possible to implement consolidation, standardisation, re-engineering and automation.
- While seeking to minimise the number of IT solutions each cluster retained the ability to choose the Enterprise Resource Planning (**ERP**)[21] or 'best of breed' solution.[22] This decision was to be based on the requirements of client agencies.
- The clusters were to have a customer focused culture.

A review of current shared service delivery against these initial principles is given in section 4 below.

2.1.3 2003 Initial Business Case and Governance Arrangements for Shared Services

The initial (2003) business case calculated savings of over $56.6 million per annum on the then $315 million spent on corporate services across the Western Australian Government. Estimated capital expenditure of $82 million was required to set up the shared services centres. At that stage this included the health and education clusters as well as three centres for the rest of government. The analysis also determined that there would be $36 million in additional benefits. This was not included as part of the cost-benefit analysis.

Table 2.1 shows the initial cost-benefit analysis of the program. This analysis indicates an estimated internal rate of return of 87 per cent. The OSS share of the net operating benefits was estimated at $40.7 million at full implementation.

Table 2.1 2003 business case − cost benefit analysis ($ million real at December 2003)

	2003-04	2004-05	2005-06	2006-07	2007-08	Recurrent
Net operating benefits	(0.7)	(2.0)	11.7	49.9	53.7	56.6
Capital costs	(7.1)	(41.8)	(29.5)	(3.2)	(0.4)	-
Net benefits	(7.8)	(43.8)	(17.9)	46.7	53.3	56.6
Avoided Information and Communication Technology Capital Expenditure	9.7	9.7	9.7	9.7	9.7	
Net benefits (Including avoided ICT CAPEX)	1.8	(34.1)	(8.2)	56.4	62.9	56.6
NPV (net present value)	288.1					
IRR (internal rate of return)	87%					

Source: DTFSSC, Shared Corporate Services Program, Options Case Review, 06 November 2007, p17.

[21] ERP is the integrated provision of management information and processes across an organisation, or group of organisations, supported by a suite of software and hardware packages.

[22] 'Best of Breed' means the best product of its type for each function (finance and HR/payroll).

Key assumptions underlying this analysis were that:

- there would be savings of $56.6 million per year based on saving 770 Full Time Equivalents (**FTE**) out of the total 5,000 corporate services staff across the public sector. The OSS share of this was $40.7 million based on a reduction of 489 FTEs, with the remainder attributed to the ETSSC and HCN;
- the (then) five shared services clusters were to be established by July 2005. 90 public sector agencies were to be rolled-in to the general government shared service centre;
- it was anticipated that the chosen provider would deliver an integrated product that could be used as soon as staff from the agencies were transferred to the OSS;
- the three general government clusters were expected to employ 300 FTEs each;[23]
- while there would be staff losses across the public sector, management of excess staff would be through natural attrition or redundancies funded by agencies;[24] and
- change management issues were considered and costed.[25]

The business case noted that the general government clusters would be housed in a single, previously vacant location, with the former Woodside building at 1 Adelaide Terrace a potential option.[26]

The DTF has noted that the 2003 business case assumption of $56.6 million savings included non-budget dependent agencies that could not result in net savings to government, as well as ICT-related savings such as maintenance costs, payments to external HR/payroll providers and other ICT costs. Further, DTF noted that, as the project proceeded, several revisions to the original business case were endorsed by government. These revisions reduced the estimated FTE savings for general government agencies to 380 (instead of 498) and estimated net savings from budget-dependent government agencies to around $49 million (including education and health). The Government determined that the overall net savings from the project should be $55 million, so individual agency savings targets were increased by around 13.5 per cent to meet this target.

In December 2003, Cabinet approved $68.53 million to build the supporting IT Business System and roll-in agencies to the first shared services cluster (excluding health and education clusters). Further funding of $26.99 million was approved by Cabinet in December 2004 for the establishment of the OSS ($6.99 million) and to overcome resourcing issues that were impacting on the project ($20 million for additional staff). In April 2005, funding of $19.59 million for ongoing costs was approved and appropriated over a three year financial period to 2008-09. While this funding was offset against savings, it was additional funding that was not originally envisaged.

Also in December 2003, the State Government approved governance arrangements that assigned shared accountability for the provision of shared corporate services to a committee rather than to individual Directors General.

Governance Boards to oversee the development of shared services were established in April 2004. The Strategic Management Council of Directors General, chaired by the

[23] Deloitte, (2007), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p74

[24] Op. cit. p48

[25] Op. cit p164

[26] Op. cit. pp. 75-79, 95, 158

Premier, established a permanent sub-committee, the Whole-of-Government Steering Committee (**WoGSC**) to oversee shared services reform.

The WoGSC was chaired by the Director General, Department of Premier and Cabinet (**DPC**), with the Under Treasurer as Deputy Chair. It had overall accountability for implementation and operations of shared services, and the achievement of agreed outcomes.

In December 2004, the Government decided against creating three general government clusters. Following this, Cabinet approved the establishment of the OSS as the single entity to provide shared services to general government agencies.

2.1.4 Establishment of the OSS

The OSS was established on 1 July 2005 to provide corporate services to most general agencies of the Western Australian Government.[27] Initially, the OSS was a separate accountable office, with the Executive Director reporting to the Minister for Public Sector Management. It was located at the Mason Bird Building, 303 Sevenoaks Street, Cannington.

The Government exempted around 50 agencies from shared service provision (including the Police Service, the Corruption and Crime Commission and Racing and Wagering WA) on the expectation that exempt agencies would be required to match the service benchmarks achieved by the fully operational shared services centre.

In June 2006, funding of $4.25 million was provided by DPC and DTF for additional modules and work they required. This work was not in the original program scope.

Additional funding of $56.28 million was also approved in November 2006 for the increased costs of the shared services project incurred due to project delays. Of this, there was additional funding for increased operating costs ($34 million) to compensate for the shortfall in revenue occurring as a result of delays in rolling-in agencies. Additional capital expenditure ($22 million) was required to fund the increased project costs to build the business system.

The OSS was originally expected to offer a full ERP solution to rolled-in agencies (finance, HR/payroll and procurement). However, during 2006 problems arose with the implementation of the HR/payroll system. The contractor, Oracle, experienced problems in designing, building and testing a human resources system that catered for 30 of the 70 different employment awards that operate in the Western Australia public sector. The original deadline for the delivery of the human resources solution was the end of April 2006. However, by that time, only three of the 30 required awards had been delivered.

In November 2006, given that the HR/payroll system had not been finalised the Government, agreed that shared services could use a ‘split’ system to roll-in agencies. Agencies in this group (which include the Authority) utilise OSS financial and procurement services along with either:

- the Interim Payroll Solution;[28] or
- in-house provision of HR and payroll functions.[29]

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[27] OSS (2006), Annual Report 2005/06, p7

[28] The Interim Payroll Solution is where DTFSSC provides a centralised payroll service for agencies but uses the agencies own licensed payroll system and staff.

[29] Auditor General (2007), Auditor General’s Report 5 – June 2007: Shared Services Reform – A Work in Progress, pp. 21-23

In an article[30] in the West Australian in January 2007, the then Treasurer was reported to have conceded that the shared services project was in difficulties and that responsibility for the problems lay with Oracle. The report noted that Oracle was around five months behind its delivery schedule and that this was 'putting at risk the savings the Government expected to achieve.'

2.1.5 2007 Auditor General's Report

The Auditor General conducted a Performance Examination of shared services in 2007.[31] The findings of this examination show that at the time the program was over budget and two years behind schedule.[32] The Auditor General found that only two of the three shared service systems had been implemented (finance and procurement), and that successful implementation was at risk due to technical and management issues with the third component (human resources). The HCN and ETSSC had implemented their shared service systems reasonably successfully, although implementation of an electronic data management system at HCN had failed. The implementation problems at OSS were resulting in substantial inefficiencies, with delays costing OSS an estimated $400,000 per month.

The examination showed that the model for shared services had been optimistic and the implementation plan ambitious for a project of that size and complexity. Implementation problems had arisen due to weak project management, increasingly complex software solutions, and a high turnover of skilled contractors and agency staff. Temporary solutions were being developed to overcome implementation problems. However, such solutions would reduce the benefits of shared services if they became permanent. The Auditor General recommended that any decisions to depart from the approved implementation plan be made on the basis of a full assessment of the long term costs and benefits.

Governance arrangements were found to be inadequate, with no active oversight and little transparency of performance information. Due to these issues the Auditor General recommended that the OSS adopt:

- a more consultative approach;
- greater transparency of costs;
- accountability for performance;
- monitoring of financial and performance information; and
- benchmarking of performance.

Additionally, little coordination between the three shared service centres was observed. In order to rectify this, the Auditor General recommended the use of common systems as well as standardised processes and practices.

It was also discovered that agencies were facing unanticipated financial and non-financial costs. The Auditor General recommended that additional funding be provided to agencies

[30] West Australian (30 January 2007), Oracle blamed as State plan crashes

[31] Auditor General for Western Australia (June 2007), Performance Examination – Shared Services: A Work in Progress, Report 5, 2007

[32] In November 2006, the project funding was revised to $198 million from the previously endorsed funding of $122 million (and the $91 million originally funded in December 2003), and harvesting of savings had been pushed back from July 2007 to July 2009 (op.cit, p5).

for transition to shared services.[33] It was noted that DTF had refunded $19 million of the $34 million of savings harvested from agencies in 2006-07.[34]

2.1.6 2007 Review of Shared Services

In January 2007, responsibility for shared services transferred to the Department of Treasury and Finance. This new business unit became known as the DTFSSC. It has responsibility for delivering finance, human resource, payroll, recruitment and online services to government.

Arrangements for the provision of shared services in the HCN and the ETSSC were left unchanged.

Upon receiving responsibility for the project, DTF commissioned Ernst and Young to conduct a review into the provision of shared services in Western Australia. This review resulted in a new business case for DTFSSC. This business case included a qualitative and financial analysis of various options for DTFSSC, ranging from proceeding with the full ERP (or full Oracle business suite) to decommissioning. The business case underpinned the advice to government at the time and was attached to the DTF submission to government.

The review found that the trend toward centralisation jeopardised the ability of the project to remain consistent with the original principles set out in section 2.1.2. This is because the standardised corporate services solution could not meet the diverse needs of agencies.

The 2007 business case examined three options in detail. These were:

- full ERP;
- 'best of breed', where Oracle Financials would be interfaced with the Alesco/Talent 2 HR/payroll software product; and
- decommission.

Qualitative and financial analysis was undertaken for each of these options. The qualitative analysis involved rating each option against a series of criteria developed by the DTFSS Steering Group, which comprised of officers from DTFSSC, ETSSC and HCN. The scoring system is outlined in Table 2.2 below.

[33] For example, at the time of the Auditor General's review, Main Roads had spent $550,000 on an implementation team; the Department of Culture and Arts had spent $250,000 on a project manager and support staff; and the Department of Premier and Cabinet had spent $250,000 on consultants.

[34] The Department of Agriculture responded that the refund was less than the additional costs it had incurred due to the project, and noted that it expected to incur a further $1.1 million for interfaces with agency systems.

Table 2.2 2007 business case qualitative scoring system

	Description	Classification	Weighting
I	Maximise the business case $$$ benefits	H	10
II	Minimise the cost impact of the option	H	10
III	Maximise the consolidation, automation, standardisation and simplification	H	10
IV	Maximise opportunities for cross-skilling/critical mass/pathway leverage	M	5
V	Minimise long-term maintenance requirements	M	5
VI	Maximise agency productivity	L	1
VII	Maximise program confidence	H	10
VIII	Ensure benefits for smaller agencies	L	1
IX	Best management of access to a reducing labour workforce.	H	10

Source: DTFSSC Shared Corporate Services– Options Case Review, November 2007

The results of the qualitative and financial analysis are shown in Table 2.3 below. No option was considered to generate a positive financial return to Government over the 10 year analysis period. The net present cost of each option is shown in Table 2.3.

The 2007 business case concluded that, of all the options costed, the ERP option was expected to cost the least. The expected net cost of the preferred option was to be added to the $147.3 million of expenditure that had been incurred by that stage (November 2007). It was considered likely that the project would never recover its total costs.

Table 2.3 2007 business case results

	Continue with full ERP	'Best of breed'	Decommission
Qualitative analysis 'score'	*280*	*275*	*107*
Net present cost (NPC) (10 years at 8% and $ million real at 2007)	2.336	51.8	7.954
Payback period (to positive cash flow)[35]	8 years 3 months	9 years 6 months	n/a

Source: DTFSSC Shared Corporate Services – Options Case Review, November 2007

The rationale for recommending the continuation to a full ERP solution was made on the basis that it:

- had a lower net present cost ($2.3 million) than the 'best of breed' solution ($51.8 million);
- had the quickest payback period;
- represented the best option to achieve the original business case objectives;
- provided greater confidence in quantifying scope, costs and risks;

[35] This refers to whole of government cash flow, not DTFSSC cash flow.

- the DTFSSC would be self funding on a cash basis by 2012-13 but the capital already invested would never be recovered;
- the capital identified in the 2007 business case was expected to be recovered through the agency harvest;
- offered developed plans to progress industrial award development; and
- represented the best long-term option for maintainability, functional growth and upgrades.

The costing of the 'best of breed' option was considered less certain than the ERP option and so was given a higher cost contingency. It was also anticipated that the additional work required to implement the Alesco/Talent 2 product would delay agency roll-in and harvest by 12 months, which substantially affected its financial returns.

Decommissioning was considered not appropriate at the time. Uncertainty around the estimated costs of decommissioning meant greater risk of cost escalation over and above the forecast level. The options case review also reported the lack of 'long-term financial benefits and the inevitability of human resource scarcity in the foreseeable future'[36] as reasons why decommissioning was not progressed in the review.

It also recommended that 'a review of the DTF Shared Services Program will be undertaken in the second quarter of 2008 to assess the status of the program. This was to include an assessment of the integrated Oracle System, the stability and integrity of the technology infrastructure, progress of industrial award standardisation and the ability to create software that caters for the relevant industrial awards'.[37] This led to the 2008 review summarised below.

DTFSSC sought additional funding of $242.98 million from the Expenditure Review Committee (**ERC**) in November 2007 to implement the full ERP solution. This funding was comprised of $105.8 million in capital expenditure and $137.2 million in operating expenditure to fund the continued implementation of the full Oracle system.

The governance arrangements for shared services changed when responsibility for shared services transferred to the Under Treasurer and DTF. The WoGSC was restructured and the Shared Services Governance Council was established with the Under Treasurer as Chair and representatives from rolled-in agencies as members. The membership and purpose of this group is provided in **Appendix C**.

This new arrangement followed the 2007 Auditor General's report which stated:

> "the WoGSC did not take active responsibility for the successful implementation of the shared services reform, as might a board of directors with individual and collective legal responsibilities"[38]

Other formal forums have developed over time. They include the Client Management Council and two Head of Corporate Services groups, one representing pre roll-in agencies and on representing post roll-in agencies. The membership and purpose of these groups is provided in **Appendix D**.

[36] DTFSSC Shared Corporate Services– Options Case Review, November 2007, p7

[37] Op. cit. p7

[38] Auditor General (2007), Auditor General's report No. 5, June 2007, p34

2.1.7 2008 Review of Shared Services

Following a recommendation in the 2007 review, the Quadrant Group conducted a review of shared services in August 2008. This review found that the project had made good progress against the business case despite some significant workarounds (e.g. cash reporting) and significant risks (e.g. the heavy roll-in schedule from 2009-10 onwards). It noted that increasing numbers of workarounds would be necessary as more agencies were rolled-in.[39]

The report noted that the HCN had achieved approximately 75 per cent of its projected cost savings, indicating that the principles underpinning the savings predictions are sound.[40] To achieve these savings, the HCN has resolved many of the issues that prevented DTFSSC adopting the 'best of breed' solution in 2007. However, the Quadrant Group found that the issue of integration between Alesco/Talent 2 and Oracle Financials remained. Additionally there was a considerable risk to the business case of abandoning the integrated Oracle solution in favour of the Oracle/Alesco solution'.[41]

The Quadrant Group identified the main risks associated with the achievement of savings. These are included below.

- Further delays in the roll-in schedule would delay the pay-back period;
- If the volume of transactions processed exceeds the projections contained in the business case projected savings would diminish.
- The formulae used to harvest agencies' budgets may prove to be too onerous for the agencies to continue to operate effectively.
- The integrated Oracle System may not prove to be efficient enough to enable the DTFSSC to achieve the processing benchmarks set out in the original business case.

The review recommended that these risks be the subject of a future review within eighteen months.

2.1.8 Call for Current ERA Inquiry

On 3 January 2011, the Premier announced an independent review of the provision of shared corporate services in the public sector.[42] Mr Barnett stated that the review would:

> "..consider what has been achieved, the challenges encountered, what can be done better and whether the project offers value for money."

The Authority began its review on 19 January 2011 upon receipt of final Terms of Reference for the inquiry. The Authority subsequently requested, and was granted, an extension to the deadline for the inquiry from 31 March to 10 June 2011.

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[39] Quadrant Group (2008) Shared Corporate Services Review Program, p3

[40] Op. cit. p4

[41] Quadrant Group (2008) Shared Corporate Services Review Program, p4

[42] Premier Colin Barnett (2011), Ministerial Media Statements – Review of Office of Shared Services, Monday 3 January 2011

2.1.9 Current Situation at DTFSSC

Service Provision

At the present time, 58 entities are rolled-in to the DTFSSC. The extent of roll-in to full shared service provision for these agencies differs as shown below:

- 37 are fully rolled-in (ERP solution);
- 13 receive finance services only;
- 7 receive finance services and use the Interim Payroll Solution;[43] and
- 1 receives procurement services only.

A full list of the agencies and the extent of their roll-in to shared services is given in **Appendix E**. The DTFSSC currently provides shared corporate services from its offices in Cannington.

The fully rolled-in ERP solution comprises DTFSSC providing procurement, finance, human resources and payroll functions to agencies. However, as is noted above, the DTFSSC also provides 'partial' shared services to 18 agencies. The reasons for this are covered in section 2.1.4 above.

The original project schedule had anticipated that approximately 90 public sector agencies would be receiving services by 2012-13.[44] However, the roll-in of agencies is currently suspended pending the outcome of the Authority's inquiry.

Cost of Implementation to Date

Table 2.4 below shows the total cost of implementing and delivering the shared services project to date. It is based on the actual program costs reported in Annual Reports between 2005-06 and 2009-10 and the estimated costs in the 2011-12 Budget papers.

The harvesting savings that are deducted from rolled-in agencies' budgets each year are not included in Table 2.4 as they are simply an accounting item and do not form part of the total projects costs. In this regard, the Authority has found that the actual government-wide efficiency savings are less than originally envisaged in 2003 and less than the actual and planned harvest amounts; i.e. the efficiency savings on which the harvested savings are supposed to be based have not been achieved. More information regarding the savings that are harvested from rolled-in agencies and the cost of transitioning is provided in section 3 below.

At the end of 2010-11, the total cost of the shared services program (excluding health and education) is estimated to be $444 million, with a net cost (accounting for revenue) of $401 million.

[43] The Interim Payroll Solution is where DTFSSC provides a centralised payroll service for agencies but using the agencies own licensed payroll system and staff.

[44] DTF (2011), website www.dtf.wa.gov.au, although only 80 agencies are listed as current and future clients on this website

Table 2.4 Actual costs of shared services project (2007-08 to 2009-10) and 2010-11 Budget estimate ($ million nominal)

Cost	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	Total
Operating costs (excluding depreciation and amortisation)	12.285	21.301	41.327	58.732	58.827	61.894	**254.366**
Revenue	0.119	2.269	5.711	7.441	9.501	17.747	42.788
Net cost of services (appropriation)*	*12.166*	*19.032*	*35.616*	*51.291*	*49.326*	*44.147*	*211.578*
Capital expenditure	42.094	13.102	18.676	43.127	42.189	30.227	189.415
Total costs (operating costs + capital costs)	***54.379***	***34.403***	***60.003***	***101.859***	***101.016***	***92.121***	***443.781***
Total net costs (total cost – revenue)	***54.260***	***32.134***	***54.292***	***94.418***	***91.515***	***74.374***	***400.993***

Note: * The net cost of service is the total operating costs less any revenue received (such as the payments for shared services from rolled-in agencies).

Source: DTF, OSS and DTF Annual Reports and Budget Papers.

2.2 Experience of Shared Services Elsewhere

The provision of shared services is widespread throughout Australia and overseas as well as across the public and private sectors. This sub-section briefly describes shared service provision in other organisations.

2.2.1 Other Public Sector Shared Services Providers in Western Australia

Health Corporate Network

The HCN provides human resources, supply, finance, financial reporting and business systems services to health portfolio agencies in Western Australia. By 2007 it had consolidated the 22 corporate service systems initially used by its client agencies to seven. At this time, the HCN was prevented from consolidating any further until it had migrated to the integrated Oracle system being developed at OSS/DTFSSC.

This created inefficiencies at HCN as doctors and nurses who moved between hospitals or health services needed to be removed from the HR system used by their current hospital or health system and re-loaded on the system supporting their new hospital or health service. For example, the HCN has 160 junior medical officers that rotate, up to five times per year, between hospitals or health services. This means that each officer's details, leave entitlements, salary packaging and other personal information needs to be transferred from one system to another every time they rotate.[45] Consequently the HCN has to conduct up to 800 removals from one system and additions to another system each year to cater for only 160 staff.

[45] Auditor General's Report (2007), Shared Services Reform – A Work in Progress, p24

In early 2006, the HCN had also anticipated implementation of an Electronic Document and Records Management System (**EDRMS**) to efficiently manage the 4,000 documents arriving each day by mail, fax and email. However, the EDRMS implementation failed and as a consequence HCN staff continued to rely on manual systems. This had repercussions for customers, with staff having to manually retrieve documents to answer payroll, purchase order and invoice inquiries.[46]

In 2007, HCN was also proposing to purchase another human resources system rather than waiting for the successful implementation of the Oracle integrated system at OSS/DTFSSC. The HCN subsequently requested a deferral ($3.5 million nominal) of its savings target in recognition of the additional staff required to maintain existing systems.

Late in 2010, the Department of Health advised that it would conduct an internal review of the HCN, overseen by the Medical Director's forum. The intent of the review is to examine the current service delivery models associated with the provision of payroll and employment contract services to WA Health salaried doctors and recommend any changes to that model. The review will last from approximately eight to ten weeks from commencement.[47]

Education and Training Shared Services Centre

The ETSSC has been providing shared corporate services to the education and training portfolios since October 2005. It manages finance and human resources services including payroll for public schools and TAFE colleges. This equates to payroll for approximately 45,000 staff per fortnight. The ETSSC, like HCN, has been independently implementing its shared services centre using its own timelines and targets. The implementation plans assumed that the whole-of-government integrated systems would be ready by 2008.

The Department of Education's submission in response to the issues paper noted that:

> "..since 2005, the ETSSC had achieved $21.52 million in savings although delivering savings was proving more and more challenging since early gains were harvested".

The submission also comments that, whilst agencies were rolling-in 'the operational areas were in a constant state of flux and that operational areas only became more efficient and effective once the roll-in had ceased'.

Other submissions from individual colleges suggest that service levels at ETSSC, although improved since inception, are less than were originally promised. This has led to staffing levels within the training sectors increasing. Colleges report that these additional costs have largely been ignored when determining the savings generated by the implementation of shared services.

The ETSSC operates two different sets of IT systems, one set (Oracle and PeopleSoft) for the Department of Education, Department of Training and Workforce Development and public schools and another set (Empower-HR and Finance One) for state training providers. This requires the maintenance of two sets of operational and technical skills and ongoing support costs.

The finance system used by the state training providers is currently out of vendor support. The ETSSC has to decide whether to upgrade to the latest version of the existing system, move to the same system as is used by the Departments and public schools or migrate to the same Oracle platform used by DTFSSC.

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[46] Op. cit. p24

[47] AMAWA (2011) , Industrial Update No. 1: Health Corporate Network (Internal Review)

In 2008-09, the ETSSC ran a project to migrate the training sector onto the same systems used by the education sector. However, the process was halted in October 2009 following a Department of Education review which determined that there were insufficient funds available to meet the costs of the project.

During 2010, the Department of Training and Workforce Development commissioned a review of the provision of shared services for the public training sector. This review is still in progress.

2.2.2 Shared Services Provision in Other Australian Jurisdictions

New South Wales

In 1996, the NSW Government created the Central Corporate Services Unit (**CCSU**) to help reduce costs and improve productivity. This involved the merger of corporate services staff and assets in 11 agencies. In 2002, the NSW Government released its Shared Corporate Services Strategy with the intent of guiding agencies to improve corporate service delivery, realise the benefits of new technology and reduce costs through shared service arrangements. To achieve these aims, agencies had the choice of:

- clustering with other agencies;
- consolidating internally; and
- using services provided by the CCSU.

However, by mid-2003 only five per cent of the anticipated $297 million (nominal) savings forecast by 2006 had been achieved. The main reason identified for this was that over 88 per cent of the forecast cost savings were associated with 16 large agencies (e.g. Departments of Health, Education and Training, Housing and Commerce) that had been slow to implement changes.[48]

By mid-2009, the NSW Government published its 'Blueprint for Corporate and Shared Services in the NSW Government'. This document announced the amalgamation of agencies into 13 clusters. Clusters include a principal department and other similar agencies, tribunals and statutory bodies. Fundamental to this reform is the drive to consolidate corporate and shared services across the sector. In order to achieve this, the Government has developed the Corporate and Shared Service Reform Implementation Project.

The project has a three stage implementation plan and contains an operating model where corporate functions are consolidated at cluster level in the principal department and shared services are provided in-house or by a third party provider. The key outcomes sought by this reform include:

- a more streamlined and standardised corporate and shared services framework and service delivery;
- more efficient, low cost service and redirection of available resources to front line services; and
- a focus on improving the corporate and shared service experience.

[48] Auditor General NSW (2004), Performance Audit, Shared Corporate Services: Realising the Benefits, pp.2, 18-19

If the new NSW Government endorses the original plan, it is expected that the transition to shared services under the new project will be fully underway by 2012.

Victoria

In Victoria, the Shared Services Provider (**SSP**) began to operate in December 2009. The SSP is a division in the Department of Treasury and Finance which provides ancillary services to all of the eleven government departments and four of the government agencies in Victoria. The following ancillary services are provided by the SSP:

- fleet;
- project management;
- accommodation; and
- libraries.

The traditional services of HR/payroll and finance are not currently delivered through a shared services model in Victoria. As public sector agencies in Victoria are very large in size they can achieve economies of scale in their current form.

The implementation of the shared services model to deliver the above ancillary services in Victoria has not been without its problems. A number of seed projects are currently being undertaken in conjunction with four SSP clients in order to improve service delivery and client relationships.

CenITex is the ICT shared services agency, established by the Victorian Government in June 2008 as a State-owned enterprise to centralise ICT support to government departments and agencies. CenITex currently builds and operates IT infrastructure and provides integrated ICT products and services to the Victorian Government departments that are SSP clients.

There has been no independent review of the Victorian Shared Services Provider or CenITex to assess the costs and benefits to agencies or whole-of-government of the current Victorian shared services arrangements.

Queensland

The Queensland Government decided to implement shared services in December 2002 and six shared service providers were established in mid-2003. The number of shared service providers has since been reduced to four (Shared Services Agency, Queensland Health Shared Service Partner, Corporate and Professional Services and CorpTech).

- The Shared Services Agency, which is currently part of the Department of Public Works, provides finance, procurement, human resource management, facilities management, and mail support services to around 80,000 public servants in 11 agencies and six statutory authorities.

- The Queensland Health Shared Service Partner delivers the following corporate support services to Queensland Health:
  - payroll;
  - recruitment;
  - supply;
  - finance;
  - business improvements;
  - private practice support services; and
  - HR consultancy and engagement.

- Corporate and Professional Services (**CAPS**), provides corporate support functions to the Department of Education and Training (**DET**) and operates as a discrete business entity within the DET. The corporate services provided by CAPS include:
  - delivery of human resources services, including payroll each fortnight to employees across corporate business areas, state schools and TAFE institutes;
  - management of the ICT network for all state schools and corporate business areas;
  - financial and procurement advisory services;
  - management of school facilities, including water and energy efficiency initiatives;
  - project management of capital works projects for Queensland state schools; and
  - provision of legal advisory and representation services.

- CorpTech is responsible for the design, build, implementation and support of the whole-of-government information systems used by government agencies and shared service providers to administer the State's finances and workforce.

  These whole-of-government information systems include: payroll, rostering, purchasing, inventory management, asset management, accounts payable and accounts receivable.

In addition to these clusters Queensland maintains the Corporate Administration Agency (**CAA**) to provide a range of corporate support services to statutory bodies within the arts portfolio. The CAA was established in 1997 and is a subdivision of the Department of Premier and Cabinet. The CAA's client base has expanded over the years and it now services around twenty state government agencies within the following areas:

- financial services;
- HR/payroll services; and
- information management.

The CAA services smaller government agencies and statutory bodies (outside the current scope of the Shared Services Initiative) that often have difficulty in finding the resources to make the appropriate investments in support services.

In 2008, the Auditor General produced a report on information systems, governance and control in Queensland, including the Queensland Health payroll system.[49] The report addressed significant issues with the Queensland Health payroll system implementation. The system went live in March 2010, more than 18 months after the original go-live date. Following implementation, thousands of staff experienced delayed, incorrect or no payments. The Auditor General's report noted poor governance arrangements, underestimation of the scope of the project and significant cost over-run (the project was approximately 300 per cent over the original budget cost of $6.19 million).

Following the Auditor General's report, the Queensland Government commissioned a review of the shared services model by PricewaterhouseCoopers (**PwC**) in July 2010. The PwC report recommended abandoning the one-size-fits-all approach to shared services across government. Instead, it recommended creating three shared service providers – Queensland Health, the Department of Education and Training and a provider for the rest of government – to deliver future shared services. More specifically, it was recommended that:

- once fully implemented, DET and Queensland Health will be responsible for their own finance and human resource/payroll business applications;
- a new shared service provider for the rest of government will continue to reside within the Department of Public Works and provide shared human resource, payroll and finance services to all other agencies; and
- agencies will have clear accountability for project delivery, with centralised portfolio management and project support provided as needed to ensure consistency.

The Queensland Government announced that it would adopt all of the recommendations contained in the PwC review relating to the shared service operating model. The Director General of the Department of Premier and Cabinet would chair a newly formed Shared Services Chief Executive Officer sub-committee, which would be held accountable for the delivery of shared services across the Government.[50]

South Australia

In September 2006, the South Australian Government announced a shared services initiative to streamline and simplify internal corporate and business support services to deliver savings to government.

In late 2007, the SA State Cabinet approved the creation of Shared Services SA in the Department of Treasury and Finance. Services were transitioned from agencies to Shared Services SA without any review or reform of systems or processes. Review, reform and improvement of systems and processes followed at a later stage. This approach avoided the complexity and issues that result from mandating a large number of major structural changes across the majority of agencies.

Shared Services SA aims to deliver services in the areas of finance, human resources, information and communication technology and procurement. The range of services delivered by each Shared Services SA expanded as the shared services reform progressed.

[49] Auditor General of Queensland (June 2010*)*, Report to Parliament No. 7 for 2010: Information Systems Governance and Control, including the Queensland Health Implementation of Continuity Project. Financial and Compliance Audits

[50] www.publicworks.qld.gov.au/newsletters/, ICT in focus, December 2010, Government adopts recommendations of shared services review

The South Australian Auditor General noted, in reports in 2008 and 2009, that there are risks of the shared services program not meeting its original timeline or achieving its savings and cost targets. In an update on shared services in 2010, the Auditor General reported that the savings achieved from shared services and anticipated in the future were well below the savings budgeted in 2006.[51] Over the period 2007-08 to 2009-10, the balance of savings was $43 million below the budgeted savings of $130 million for that period. Future savings estimates were revised down for the 2010-11 State Budget. Consequently savings for the period 2007-2008 to 2013-14 were expected to be $100 million less than the original savings of $370 million. The Auditor General also found that the costs of the program had been greater than expected. Additional implementation funding of $8.3 million was budgeted for the years 2011-12 to 2012-13. This was $60 million more than the original budget for those years, as well as an additional $15.4 million per year for accommodation costs.

Australian Capital Territory

On 21 April 2006, the ACT Government announced its decision to establish a Shared Services organisation within the ACT public service. The aim of the new shared service centre was to deliver cost savings, a higher level of service and create greater career opportunities for corporate services staff.

On 1 February 2007, Shared Services, a business unit of the Department of Territory and Municipal Services, commenced operations. Shared Services provides transactional and corporate services to and on behalf of ACT Government agencies. Specific services provided include:

- finance services;
- human resources services;
- procurement services;
- ICT services;
- records services; and
- publishing services.

In 2009-10, the net cost of service for the Shared Services Centre was $7.3 million, compared to a budgeted net cost of $14.2 million, due mainly to higher than expected revenues from agencies for shared services provided.[52] However, there has been no assessment of the costs and benefits to agencies in transitioning to shared services, or the total costs and benefits to government.

[51] Auditor General of South Australia (September 2010), Report of the Auditor General: Annual Report for the Year Ended 30 June 2010. Part A: Audit Overview, pp9-10

[52] ACT Auditor General's Office (December 2010), Audit Report: 2009-10 Financial Audits, Report No. 10/2010, pp110-111.

2.3 Summary of Findings

Background to shared corporate services in Western Australia

- This is the fifth major review (including the original business case) of shared corporate services in the public sector since it was adopted by the Western Australian Government in 2003. Historically, the level of funding for the shared services project has increased at each review.

- At the end of 2010-11 the estimated total cost of the DTFSSC is expected to be $401 million in nominal terms. This includes $189 million in capital expenditure, $254 million in operating expenditure against $43 million in revenue (excluding agency harvests). At this time, 58 agencies have been rolled-in to the DTFSSC. An additional 22 agencies are listed as potential clients on the DTFSSC's website.

  - In contrast, the original estimate to build the business system and roll-in agencies for the entire shared services project (including the DTFSSC and the health and education clusters) was $68.5 million in capital expenditure in 2003-04 prices. Additionally the DTFSSC was to be self-funding and generating $40.7 million per year in net savings within the first five years of implementation. All agencies were to be rolled-in by early 2007. The NPV of the project to 2010-11 in 2010-11 dollars was estimated at $171 million.

  - The Authority has found that the actual efficiency savings are far less than expected in the original business case, and the NPV of the project to date is –$345 million in 2010-11 prices.

3 Assessment of Current Arrangements

This section reviews the experiences of agencies that have rolled-in to DTFSSC and the concerns of those agencies that are yet to roll-in as detailed in their submissions received in response to the issues paper.

The Authority engaged Stantons International (**Stantons**) to undertake a technical review of the DTFSSC, a summary of which is given in section 3.2 below. The Authority undertook a financial analysis of the costs of shared service provision to date, in terms of the costs of DTFSSC and the costs incurred by the client agencies and this is discussed in section 3.3 below.

The section concludes with the Authority's assessment of the provision of shared service by DTFSSC, which includes:

- a discussion and assessment of the problems experienced by the rolled-in agencies;
- the main causes underlying these problems; and
- an assessment of the current shared service arrangements against the Terms of Reference for the inquiry.

3.1 Analysis of Submissions Received in Response to the Issues Paper

3.1.1 Number and Coverage of Submissions Received

An issues paper[53] was sent to all general Government Directors General and Chief Executive Officers, private sector stakeholders and the relevant unions requesting information on the Terms of Reference for the inquiry. A list of the stakeholders invited to make submissions is given in **Appendix G**.

The issues paper provided information on the inquiry and the review process as well as background information on shared corporate services in Western Australia. It also provided a list of questions for respondents to consider when preparing their submission.

Agencies had discretion to submit a formal submission addressing the Terms of Reference and/or provide answers to the questions included in the issues paper.

Overall, 63 submissions were received by the Authority in response to the issues paper. Additionally, the Authority met with 19 agencies, individuals and organisations. The 63 submissions are analysed in Table 3.1 below.

[53] ERA (2011), Inquiry into the Benefits and Costs Associated with the Provision of Shared Corporate Services in the Public Sector: Issues Paper

Table 3.1 Analysis of submissions received in response to the issues paper for the inquiry

Submissions received from	Number
Agencies rolled-in to DTFSSC	31
Agencies yet to roll-in to DTFSSC	16
Agencies using services of ETSSC	7
IT companies	4
Accounting firms	2
Individuals working in rolled-in organisations	2
Relevant unions	1
Total	63

Source: Submissions on ERA issues paper and ERA analysis

Of the 80[54] agencies that are rolled-in or scheduled to roll-in to DTFSSC, 48 responded to the issues paper for the inquiry.[55] However, many small agencies (such as government boards and committees) receive corporate support from 'parent' agencies. Therefore the submissions received from these 'parent' agencies often conveyed the experiences of the supported smaller agencies. Taking this into account, the 48 submissions received actually represented 66 agencies and accounted for 82 per cent of the agencies rolled-in or scheduled to roll-in to the DTFSSC.

For comparative purposes, responses from agencies were grouped into three categories (small, medium and large) based on agency size. The number of FTE staff employed by the agency was used as a proxy for agency size as follows:

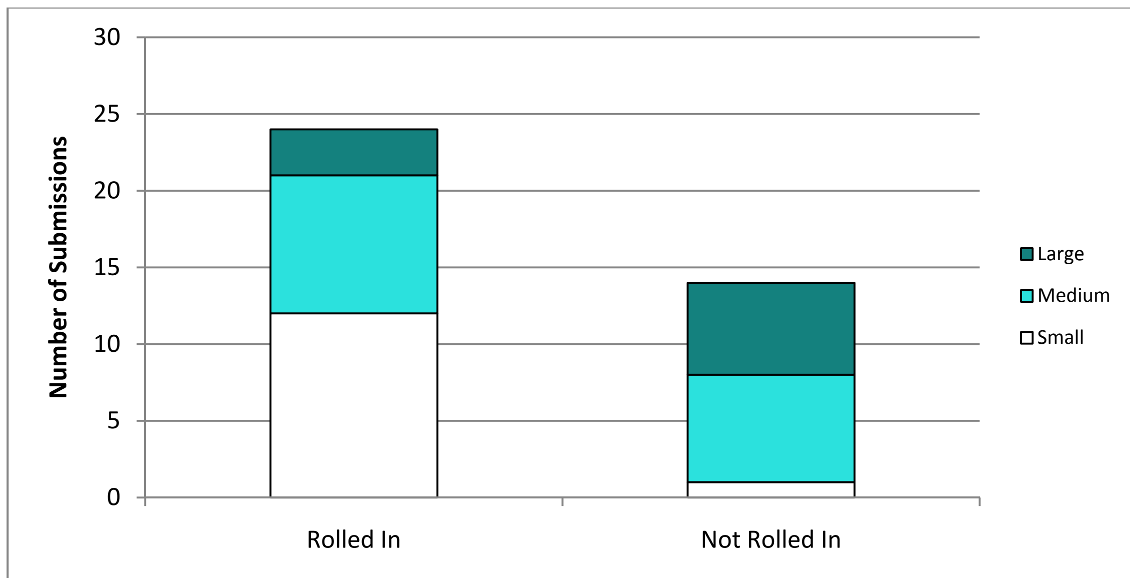
- small agencies − with less than 100 FTEs;
- medium agencies − from 101 to 1,000 FTEs; and
- large agencies − with more than 1,000 FTEs.

A breakdown of the submissions received by agency size is given in Figure 3.1 below. The majority of submissions were from smaller agencies (those with less than 100 FTEs) that have rolled-in to DTFSSC. The number of submissions from medium-sized agencies was fairly evenly spread between those which have rolled-in and those which are scheduled to roll-in. The majority (eight out of 12) of the larger agencies have yet to roll-in to DTFSSC. All large agencies that have rolled-in made a submission, while five out of eight large agencies scheduled to roll-in made a submission.

[54] DTFSSC (2011), website www.oss.wa.gov.au

[55] Two agencies made a joint submission.

Figure 3.1 Number of submissions received by agency size and rolled-in status to DTFSSC



Notes:

- Agency size is measured by FTEs as at 30 September 2010
- Some agencies have not rolled-in to the full range of corporate services e.g. the Department of Corrective Services has rolled-in for Procurement Services only and is therefore counted as not rolled-in in this graph.
- Agency status taken from DTFSSC website (www.oss.wa.gov.au) at April 2011.

Source: Public Sector Commission reports[56] *and ERA analysis*

The submissions were categorised by size (the number of FTEs in each agency) to determine whether the sample was representative of the whole shared services environment. The outcome of this analysis is as follows:

- 56 per cent of agencies that have rolled-in to DTFSSC made a submission. These agencies represent 98 per cent of the staff of all rolled-in agencies.
- More than half (65 per cent) of the agencies yet to roll-in to DTFSSC returned a submission. These agencies also account for 77 per cent of staff for all agencies yet to roll-in.

3.1.2 DTF Submission

In response to the issues paper, DTF commented that since being assigned responsibility for shared service delivery it had a 'very strong record' of meeting project deadlines. The submission from DTF stated that:

> "..based on the revised project plan approved by the ERC and Cabinet,[57] agency roll-ins have been achieved on time and on budget.."

and that:

> "..up until the pause the project was on track to deliver its current roll-in schedule by late 2012."

[56] At http://www.publicsector.wa.gov.au Western Australia Public Sector Workforce Report, September 2010

[57] This refers to the budget and revised project plan agreed by the Government in November 2007

DTF noted that the shared service centre would only begin to optimise its operations when the roll-in schedule is complete. This is because only at that time could the centre achieve real economies of scale and be able to invest in service improvement.

The DTF submission noted a number of issues that have impacted upon the successful implementation of shared services reform. The main issues were identified as:

- a lack of strong sponsorship and leadership (in particular from central agencies);
- limited industrial relations reform – currently the DTFSSC maintains 100+ industrial awards in its HR/payroll system. These represent a high initial build cost and significant ongoing maintenance cost to government if these industrial agreements are not simplified, standardised and rationalised where possible in the future;[58]
- instead of moving toward business process standardisation, agencies have implemented differing business processes and systems; and
- a lack of collaboration between both agencies and the shared service centre – DTF's submission suggests that many issues arise because an action has not taken place within the agency that then affects the ability of the centre to deliver its services.

The DTF submission addressed known agency concerns regarding transition costs, savings and service charges. DTF indicated that additional funding was not provided by DTF for transition costs because DTF assumed these would be offset by the agencies not having to upgrade or replace their corporate systems in the future. To counter agency claims that savings harvested had been too harsh, the DTF submission stated that the savings harvest applied to each agency 'has not been adjusted' since 2004 and as such is in line with the assumptions made in the original business case.

Agencies also claimed in their submissions that the costs of services provided by the DTFSSC were higher than if they provided the same services in-house. DTF commented that service charges had been adjusted over time to take account of 'inflation, increases in shared services contract costs and FTE increases in individual agencies.'

DTF made four recommendations in its submission. These were that:

- the shared services reform agenda be continued;
- the roll-in of agencies be paused for 12 months to allow DTFSSC an opportunity to improve its service delivery;
- industrial relations reform be progressed as a matter of urgency; and
- a client account service bureau be established to provide a key point of contact for senior agency staff.

The Authority also made two major formal requests and numerous informal requests to DTF containing questions, data requests and clarification of issues. DTF complied with the Authority's requests in a timely and comprehensive manner on both occasions. DTF also provided the Authority's technical consultant, Stantons International, with full access to its information and Stantons' staff members were complimentary regarding the co-operation they received from DTF/DTFSSC staff.

[58] It should be noted that industrial reform was not assumed in the original business case.

3.1.3 Submissions from Agencies (Other than DTF)

The information received in submissions from individual agencies is contrary to the views expressed by DTF.

Information on Service Delivery from Shared Corporate Services

Overall, information from individual agency submissions suggested that the services provided by DTFSSC are insufficient for their needs, of a higher cost and of a lower standard than when services were provided in-house.

The information on service delivery contained in the responses received on behalf of rolled-in agencies was analysed and grouped into categories as shown in Table 3.2 below. Only 23 submissions were received within the timeframe and were included in this analysis.

Some of the key themes emerging from this summary are that 91 per cent of sampled agencies comment that service delivery has deteriorated upon transitioning to shared services. Over 80 per cent of the sampled agencies reported that processing timeframes have worsened and that the current shared service arrangements are less efficient than legacy, in-house systems. There are 70 per cent of sampled agencies reporting problems with Oracle eBusiness, which has contributed to 65 per cent of the sampled agencies devising 'workarounds'[59] to compensate for the problems experienced.

Table 3.2 Analysis of responses from sampled agencies that have rolled-in to DTFSSC

	Top ten themes of responses received from sampled rolled-in agencies	Small 12 %	Medium 9 %	Large 2 %	Total 23 %
1	Service delivery has deteriorated once rolled-in to DTFSSC	82	100	100	91
2	Timeframes for processing have worsened as more agencies have rolled-in	75	100	100	87
3	DTFSSC system is a complex solution	67	100	100	83
4	Employee Self Service (ESS) and Manager Self Service (MSS) have hidden costs	75	89	100	83
5	DTFSSC is less efficient than legacy systems	73	78	100	82
6	Rolling-in to DTFSSC has resulted in a net cost to agencies	73	89	50	77
7	Agencies have experienced issues with the system	58	78	100	70
8	Agencies require workarounds	50	89	50	65
9	DTFSSC lacks adequate reporting functions	67	56	50	65
10	Insufficient resources at DTFSSC to deal with agencies' requirements	42	56	50	48

Source: Agency submissions on issues paper and ERA analysis

[59] 'Workarounds' refers to the internal systems and processes that agencies develop to carry out tasks not adequately completed by DTFSSC.

Table 3.3 Analysis of positive responses from sampled agencies that have rolled-in to DTFSSC

	Top ten positive responses received from sampled rolled-in agencies	Small 12 %	Medium 9 %	Large 2 %	Total 23 %
1	Procurement system is adequate for agency needs	25	22	-	22
2	Financial services (excluding financial reporting) are adequate for agencies' needs	25	22	-	22
3	Procurement service is better than in-house systems	18	11	-	14
4	Agencies believe DTFSSC delivers a greater level of accountability compared with in-house systems as every transaction is recorded	9	11	-	9
5	Tax services work well	-	11	50	9

Source: Agency submissions on issues paper and ERA analysis

Agencies were also asked by the Authority to identify benefits associated with receiving services from DTFSSC. The following benefits were identified:

- taxation services;
- procurement services;
- financial services, excluding the provision of financial reports; and
- the greater level of accountability that is afforded by DTFSSC.

Nine per cent of rolled-in sampled agencies indicated that the provision of tax and fringe benefit tax services by DTFSSC adequately met their needs. Some of the sampled agencies indicated that the service delivered by DTFSSC meant that they no longer needed their tax staff. One medium size agency reported a saving of 0.1 FTE as a result of the DTFSSC tax service.

The provision of procurement services is another area where agencies perceived a benefit from DTFSSC. Just over 20 per cent of rolled-in sampled agencies commented that the procurement service met or exceeded their expectations and 14 per cent indicated that it is superior to their previous in-house systems.

Similarly, 22 per cent of rolled-in sampled agencies indicated that the financial services received from DTFSSC, with the exception of financial reporting services, were efficient. However, financial reporting services were identified as inadequate by 65 per cent of the rolled-in sampled agencies.

Finally, two rolled-in agencies indicated that the greater level of reporting required by DTFSSC meant that there was a greater level of accountability and information available to decision makers. These agencies were in the minority as 43 per cent of sampled agencies commented that they had no confidence in the accuracy of DTFSSC information.

Submissions from agencies yet to roll-in indicated they were concerned that they would face many of the problems experienced by the rolled-in agencies. An analysis of the submission responses from agencies yet to roll-in to DTFSSC is shown in Table 3.4 below.

Table 3.4 Analysis of the top ten responses from sampled agencies yet to roll-in to DTFSSC

	Top ten themes of responses received from agencies	Total 14 %
1	Service delivery will deteriorate if rolled-in to DTFSSC	86
2	Agencies will experience no net benefit from transferring to DTFSSC	79
3	Current system is superior to DTFSSC	79
4	Rolling-in to DTFSSC will have a negative impact on agencies' operations	79
5	DTFSSC is inflexible and does not allow agencies to innovate	71
6	There are problems with the ESS and MSS system	64
7	Agencies will experience an increased workload once rolled-in	57
8	New systems/workarounds are required to account for OSS' shortfalls	43
9	Agencies will experience significant transitioning costs	43
10	Migration to DTFSSC requires modification to agencies' core systems	43

Source: Agency submissions and ERA analysis

Submissions from sampled agencies yet to roll-in to DTFSSC illustrate negative perceptions of shared service arrangements. Of these sampled agencies, 86 per cent expected service levels to deteriorate upon roll-in. 80 per cent believed that their current in-house systems are superior to the Oracle system, so that rolling-in would have a negative impact upon their business. These negative perceptions may limit cooperation with any future roll-in to shared services, undermining potential gains and creating a culture of conflict rather than cooperation.

Benefits Realisation Analysis

The aim of shared service reform is to generate efficiencies in corporate service delivery and/or generate savings from providing a lower level of service than previously. Realising these benefits depends upon:

- agencies reducing costs after transitioning to DTFSSC. It was anticipated that these savings would be sourced mostly from reductions in staff, as well as other leasing and operational costs for software and hardware;
- agencies funding their portion of the DTFSSC operational costs; and
- reductions to the agencies' budgets to 'harvest' the savings back to the Government.

In their submissions, agencies reported that the benefits that were expected following the transition to DTFSSC have not been realised.

In order to examine this issue further, the Authority issued a template to all Chief Finance Officers (CFOs) from rolled-in agencies requesting data on the financial impact of the transition to and ongoing service from DTFSSC (excluding the service costs paid to DTFSSC for services received).

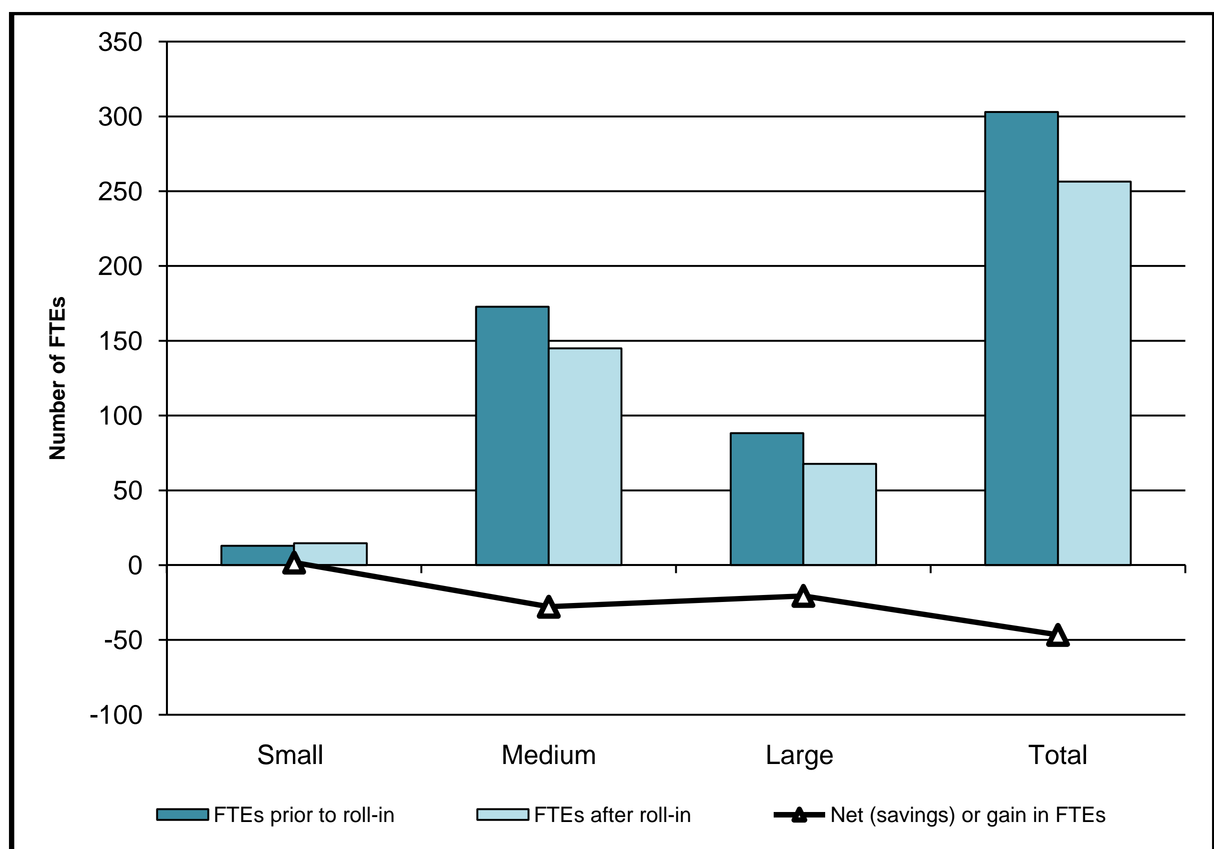
The data collected included the impact on FTEs and employment costs pre and post transition, the cost of transitioning to the DTFSSC, costs relating to 'pushback' and 'workaround' of activities and tasks by agencies and any other relevant costs and savings

achieved as a result of the transition. These costs were omitted from the original (2003) and subsequent (2007) business cases submitted to government for approval.

Responses on behalf of 49 of the then 55 rolled-in agencies were received.[60] Most agencies were able to provide actual data from accounting records whereas others provided estimates where the data was unavailable or difficult to extract. Some agencies were unable to source the data and provided a nil response for certain elements of the dataset. In addition, there were data omissions in submissions from six agencies and no costs included where records were unavailable because of the length of time since the affected agencies rolled-in.

The charts below show that surveyed agencies were able to reduce some of their ongoing FTEs but not in sufficient numbers to fund the savings 'harvest' by government and the payments agencies are making to DTFSSC for the services they receive.

Figure 3.2 Surveyed agencies FTEs operating in corporate services for 12 months before and after rolling-in to DTFSSC



Source: Information provided by rolled-in agencies (including DTF).

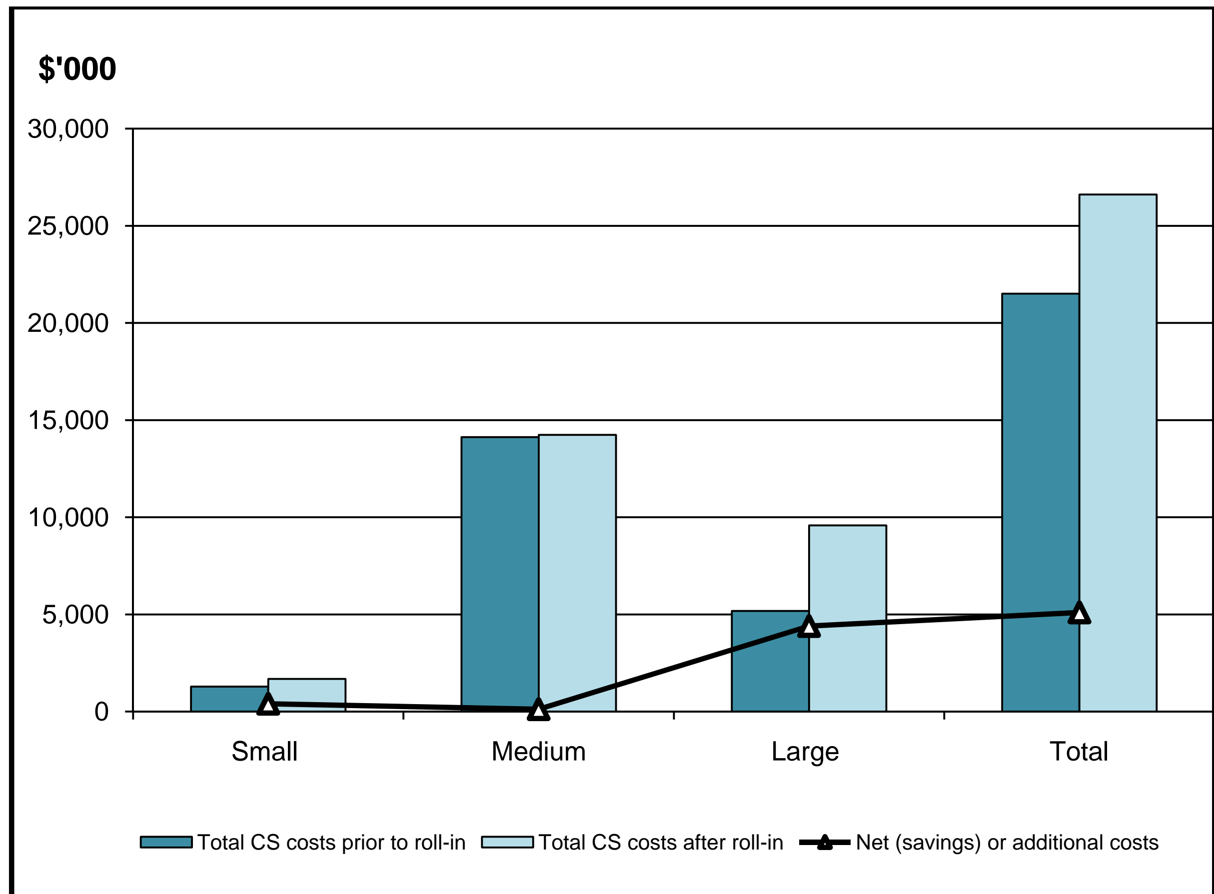
Figure 3.2 shows that there was a small increase in the number of FTEs for small agencies after they rolled-in to shared services, while there where decreases in the number of FTEs for the medium and large size agencies after they rolled-in. Overall, there was a reduction of 46.6 FTEs following the roll-in of agencies.[61]

[60] The Department of Agriculture and Food, the Rural Business Development Commission and the Agriculture Produce Commission rolled-in to DTFSSC after this data gathering exercise was conducted.

[61] These include FTEs saved at DTF.

According to the original business case, a reduction of 489 FTEs was anticipated on the 28,658 total rolled-in FTEs. If this ratio is applied to the 10,000 FTEs rolled-in at present, the Authority would have expected a reduction of 180 FTEs thus far.

Figure 3.3 Employment costs of surveyed agencies' corporate services for 12 months before and after rolling-in to DTFSSC ($'000s, nominal)



Source: Information provided by rolled-in agencies (including DTF).

Figure 3.3 shows that the employment cost of agencies' corporate services increased after they rolled-in to shared services, despite the reduction in FTEs.

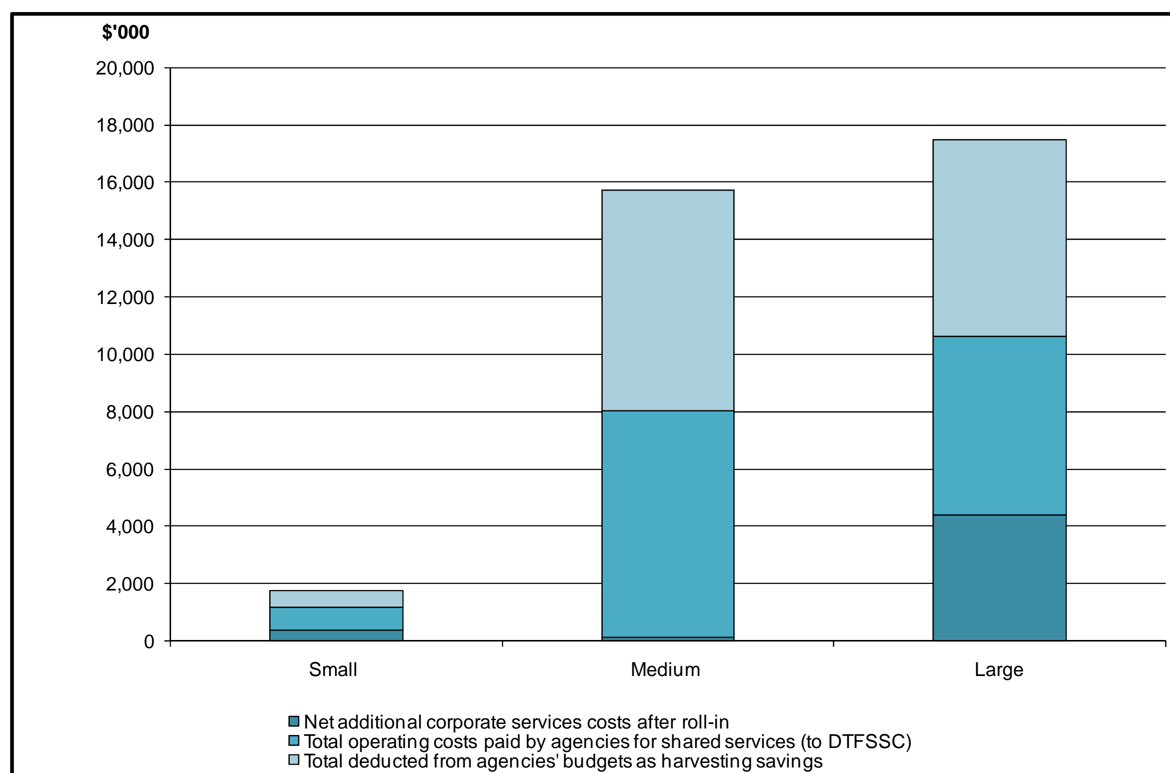
For the small and medium-sized agencies, there was a small increase in the employment costs of corporate services after they rolled-in to shared services. The increases in costs were largely the result of the extra costs incurred by the large agencies.[62] The cost per FTE has increased after roll-in and this is why the employment cost has increased even though the number of FTEs has been reduced. For example, in medium sized agencies the average pre-roll in cost per FTE was $99,000 and after roll-in this increased to $114,000 per FTE.

The costs agencies face from shared services are shown in Figure 3.4 below. These are comprised of:

- the employment costs in Figure 3.3; *plus*
- the service charges they pay to DTFSSC for shared services; *plus*
- the harvesting savings paid to DTF.

[62] There are two large agencies included in the above analysis, one of which is DTF.

Figure 3.4 The costs faced by rolled-in agencies from shared services ($'000s nominal)



Note: The operating costs paid by large agencies for shared services to the DTFSSC includes an estimate for the DTF, as it did not provide a figure to the Authority. This estimate is based on the fee paid by the Department of Transport, which is a similar size agency to the DTF if the Building, Management and Works business unit is excluded.

Source: ERA analysis

Figure 3.4 shows that all of the different categories of agencies are incurring additional costs following their transition to shared services. The original business case was based on agencies achieving savings from rolling-in to shared services that at least offset the charges agencies would pay to DTFSSC and the harvest paid to DTF. So far this has not been the case.

Information on Financial Impacts of Shared Service Delivery

The financial data received from agencies shows that they incurred additional costs in transitioning to shared services over and above the service charges already paid to DTFSSC. The analysis of this data is shown in Table 3.5 below.

DTF submitted that transitioning and other ongoing costs should be excluded from any analysis undertaken by the Authority as these costs would eventually be offset against the cost of agencies' technological upgrades that would have occurred if agencies had retained their legacy systems. The Authority has not accepted DTF's assumption and, instead, has costed the two components separately (transitioning/other agency costs associated with shared services and the cost of updating agencies' legacy systems). This is on the basis that, if these transitional and ongoing costs are not offset by reduced technological upgrade costs, they represent unfunded shared service project costs and are therefore relevant to the analysis and viability of corporate shared service provision in the public service.

The different types of costs in Table 3.5 below are explained as follows:

- **Roll-in costs** – are the costs associated with contractors, staff or any of the other costs incurred to enable the agencies to roll-in to shared services.
- **Workaround costs** – refer to staff and other costs used in processes that 'work-around' a lack of functionality in the Oracle system.
- **Pushback costs** – relate to the costs associated with those services that were 'in scope' when the original OSS was established but were later devolved back to the agencies by DTFSSC.
- **Other costs** – include decommissioning costs, legacy system costs to maintain data, lease costs, contract cessation costs, retention of surplus staff costs, data warehousing costs and additional employee and management workload costs.

Table 3.5 Surveyed agency costs of shared services ($'000s nominal)

Agency costs	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Roll-in costs	180	278	1,069	1,454	3,370	730	2,744	1,260
Workaround costs	-	-	-	-	792	2,049	2,489	4,196
Pushback by shared services	-	-	-	42	59	40	372	1,156
Other costs	-	-	-	-	308	637	2,684	3,523
Agency costs of shared services	***180***	***278***	***1,069***	***1,496***	***4,529***	***3,457***	***8,289***	***10,135***

Source: *Information provided by rolled-in agencies surveyed by the ERA.*

The agency costs in Table 3.5 are based on a sample of information provided by agencies that are rolled-in to shared services. Analysis indicates that the transitioning (and other ongoing) costs are related to the size of the agency. On average, transitioning costs increase with the size of the agency.

Description of Problems Impacting Agencies' Day-to-Day Operations

The submissions received from agencies contain numerous examples of instances where current DTFSSC processes are increasing risks for agencies' core functions. For example, some agencies yet to roll-in indicated that core business requirements for the agency will not be provided by current DTFSSC processes.

Whilst the provision of financial services by the Oracle system has not emerged as the main problem area in shared services provision, some agencies reported increased risk within their core businesses as a result of the provision of financial services through DTFSSC. In particular, these problems relate to the late payment of suppliers, with several agencies submitting that invoices are paid outside of the standard 30-day payment terms of most suppliers. In response, DTF claimed that this delay is largely because the agencies have not followed the correct procedure. Nevertheless, one agency reported that as a result of poor payment history some suppliers were threatening to cease supplying. This risk is particularly significant where residential institutions (e.g. prisons or care homes) would be affected by interruptions of food supplies.

Some agencies reported that the current DTFSSC process results in an invoice being paid when there are receipted values that do not necessarily match the invoice in question. Consequently, invoices can be paid when not supported by the client agency or not paid

within credit terms. One agency reported the mismatch of a $200 receipt on a $40,000 invoice prevented the payment of $20,000 to a supplier within the 30-day period. Another agency commented that reports for 'on-hold' invoices were spread across four different systems. This required a considerable degree of effort by the client agency to link the four reports before action could be taken to resolve the delay.

The speed and accuracy of DTFSSC transactional payments is of particular concern when small payments are required to be made to individuals in emergency situations or in response to frequently incurred expenses. Agencies indicated that in these circumstances payment by credit card cannot occur as recipients do not have card payment processing facilities. DTFSSC processes means that payments cannot be made without the recipient having an ABN number, and that the payment is unlikely to be paid in less than five working days. These delays compromise agencies' operational efficiency and are of particular concern in emergency situations.

However, the main area identified by agencies as problematic was in the provision of HR and payroll services. Problems were identified with the recruitment process in particular. A number of agencies have employees that cannot be readily catered for in the Oracle system, such as employees on rostering schedules or temporary and casual workers. Payments to these employees require a high degree of manual intervention which can result in errors.

Common issues with recruitment services raised in submissions included:

- lengthy delays (e.g. around a month) in getting draft advertisements returned once vacancies have been approved internally;
- external applicants (e.g. one in three) experiencing difficulties in applying for positions though the WA Jobs website. Applicants are instead emailing their applications to the contact person on the advertisements in the hope of getting their applications accepted;
- once job applications have closed it can take DTFSSC an average of 11 working days to forward the file to the agency (the longest time recorded by one agency was over 30 days). Forwarded files are often incorrect or missing applications; and
- once the selection panel has signed-off on the appointment of an applicant it takes DTFSSC an average of 8 days (with the longest time recorded by one agency at over 35 days) to process the action and return a recommendation letter. At least one agency has reported that delays of this nature have led to them losing their desired applicant to another employer.

Agencies raised concerns about DTFSSC's ability to cater for positions that can be occupied by multiple employees or staff that are rostered to work in a 24 hour a day, seven day a week environment. These agencies indicated that the current Oracle system has insufficient functionality to cope with these arrangements and requires manual workarounds or expensive interfaces. Manual intervention can produce errors and delays. This can result in staff being under or over paid and unable to reconcile their payslips with their rostered shifts. The agencies indicated that a sustained poor quality of service in the HR/payroll area frustrates agency staff and could lead to industrial relations unrest.

Other concerns were raised by agencies with large numbers of casual and contract employees which are not linked to a pay award, such as election staff, child minders or after school coaches. These agencies indicated that DTFSSC's system is not currently able to pay these employees. Similar instances occur where employees are highly mobile and move between different facilities for work, such as residential care workers. This situation creates a requirement to process high numbers of transactions per day. However, DTFSSC cannot action these requests in less than five working days. This

results in a situation where wages paid may not reflect the actual level earned as hours worked, leave and overtime are calculated in the next pay period.

Furthermore, DTFSSC has established a claims management function which duplicates many of the claims management processes currently undertaken by RiskCover. Submissions indicated that this duplication has created delays in decision making and the claims process, without achieving improvements in claims outcomes or reducing the workload of agencies.

3.2 IT Consultant Technical Review

Stantons was engaged by the Authority to conduct a technical review of the Oracle eBusiness system used at DTFSSC. The Terms of Reference required Stantons to analyse and report on:

- The suitability, performance and security of the Oracle system[63], taking into account:
  - the core products (finance and HR/payroll) of the Oracle system and any agency specific solutions that have been implemented;
  - an analysis of the Oracle system's integrity and security;
  - the expected ability of the Oracle system to accommodate the increased volume of transactions that will result from further Agency roll-ins; and
  - the potential for upgrading the present Oracle system to newer versions as they become available.
- The compatibility of the Oracle system with a selection of individual in-house systems that are maintained by agencies for their own needs (e.g. specific Agency system requirements such as licensing databases). This compatibility assessment was to include the options (or otherwise) for such individual systems to be eventually incorporated into the Oracle system.
- The identification of any steps that would need to be taken to 'upgrade' the Oracle system to achieve a satisfactory level of operation and security given the current and any future levels of service.
- Compare and contrast the operation of the DTFSSC Oracle system with shared service IT systems in use at HCN and ETSSC to identify any reasons for the observed differences in performance between the three shared service centres.

Stantons delivered its final report on 3 May 2011. A summary of the main conclusions from this report are outlined below.

Stantons considered that the core Oracle products are suitable for a shared services provision. However, available upgrades (version 12 and above, which DTFSSC does not currently have) are more shared service centric. This means that the upgraded version of the Oracle product is more user-friendly and can facilitate greater data access by agencies.

Middleware allows data contained in one database to be accessed through another. Middleware has been developed within shared service provision to ensure data held on an agency's in-house database can be accessed by the Oracle system and vice versa.

[63] This review excluded consideration of the procurement module.

Stantons identified that it is the 'middleware' layer that presents the most problems for the accuracy and security of data transferred between agencies and the DTFSSC and the accuracy of reports produced by the Oracle system. However, Stantons also acknowledged that work is ongoing in this area with a Middleware Refresh Strategy which, in Stantons' opinion, should address concerns in relation to this custom layer.

In terms of system integrity and security, Stantons noted that there were 615 outstanding defects and enhancements[64] for the Oracle system at the end of February 2011. Stantons recommended that these existing defects and enhancements be reviewed prior to any upgrade to a later version of Oracle. Such a review would be required because any defects and enhancements that exist prior to an upgrade would have to be separately accounted for as part of the upgrade process. This, in turn, would increase the time taken to upgrade and the cost of the upgrade. If agencies were to continue to roll-in during the upgrade process the complexity of the upgrade would be substantially enhanced.

The term 'vanilla' is used to refer to a software package that has minimal customisations from its original standard form. The customisation of software refers to instances where a standard function has been changed to better meet the functional needs of an organisation. The least number of customisations ensures the software operates as near as possible to how it was originally intended and this makes for more efficient operation and upgrading to new software versions. Stantons advised that no customisation to an 'off the shelf' eBusiness software suite is rare and that some level of customisation is usually required when a new IT system is introduced into an organisation.

If a 'vanilla' approach had been taken for the shared services project, agencies would have been required to adapt their business processes to ensure that they are compatible with the Oracle software rather than customising the software to ensure that it is compatible with agencies' business practices.

The vanilla software solution was not adopted for shared services and, since the start of the shared services project, the Oracle system has been repeatedly customised to meet specific agency requirements. Moreover, these customisations have occurred whilst other agencies are rolling-in. Stantons reported that this approach has not allowed a period of stabilisation of the Oracle system to optimise service delivery to rolled-in agencies. Stantons noted the trade-off that exists between allocating staff to either roll-in new agencies or solve the problems for agencies that have rolled-in already. Stantons also noted that employing additional support staff to alleviate the trade-off would add to the cost of the project.

The current version of the Oracle system (11.5.10) has extended support (from Oracle) until November 2013 and would need to be upgraded to a newer version before that time. The current level of customisations (to provide agency specific processing requirements) stands at 1,165, of which just under 50 per cent relate to payroll and HR functions. This level of customisation stems from the high number of pay awards in use within the Western Australian public sector. Based on its assessment, Stantons suggested that the process to upgrade to a new version of Oracle could take up to 27 months and recommended that the upgrading process should start as soon as possible. To enable smoother upgrades in the future, Stantons considered that as much customisation as possible needs to be removed from the system.

Stantons identified that the main difference between the provision of shared services through DTFSSC and provision of shared services through HCN and ETSSC was that the core financial and HR/payroll IT systems for HCN and ETSSC remained the same after centralisation, only the processing of financial and HR/payroll transactions was moved to

[64] Defects mainly relate to software problems and 'enhancements' relates to the middleware layer and customisations.

shared services. This ensured that the majority of the users of the centralised systems were familiar with the processes. In contrast, DTFSSC introduced a new IT system (Oracle) to agencies and gave agencies no option but to roll-in and start using Oracle. Stantons also note that, prior to centralisation, HCN embarked on a project to harmonise pay periods and dates within the various health sectors with the Department of Health to limit the number of customisations required by individual agencies once shared services was centralised.

In conclusion, Stantons reported that:

- an upgrade to the newer version of the Oracle system would be required given that the current version will shortly not be supported;
- prior to upgrading, there would need to be a considerable review of the existing defects and enhancements and degree of customisation. Stantons estimated the upgrade, including such a review, could take up to 27 months;
- there would have to be a move towards more standardised finance and HR/payroll products for the Oracle system to be successful;
- there is functional capacity within the Oracle system to delegate responsibility for some functions (including HR/payroll) back to agencies whilst maintaining a single shared services environment/location; and
- the Oracle upgrade is likely to be costly because of the number of customisations currently in place and in most cases renegotiation with agencies would be required to simplify the system.

3.3 Financial Analysis - Tracking of Progress of the Project Against Budget and Timelines

3.3.1 From 2003-04 to 2006-07

The initial (2003) business case, outlined in section 2.1.3, suggested that the shared services project required $82 million in capital expenditure to establish the shared services centres. There would be an overall net benefit to government of $30.5 million over the establishment period (2003-04 to 2007-08) after which the provision of shared services would deliver recurrent annual savings to government of $56.6 million from 2008-09. The internal rate of return of the project was calculated at 87 per cent.

During implementation of the shared services arrangements it quickly became apparent that the project required additional funds. These additional funding requests, most of which were outside of the amounts identified in the initial business case, were approved by Government in November 2004 ($26.99 million), April 2005 ($19.59 million) and November 2006 ($56.28 million). Additionally in June 2006 DPC and DTF transferred $4.25 million to OSS to create additional modules not outlined in the original program scope. By June 2007, $147.3 million had been spent out of total approved project funding of $198 million (to 2008-09).[65]

As noted in section 2.1.6, none of the options considered in the 2007 business case were predicted to generate a positive financial return to government. Therefore it was unlikely that the project would ever recover costs. The business case showed that the expected 87 per cent return from the project was unattainable had and it would take just under 10

[65] As detailed in sections 2.1.3 and 2.1.4 above

years to realise a positive cashflow from the shared services project. At this stage the main impetus of the project moved from benefit maximisation to cost minimisation.

3.3.2 Since 2007

Responsibility for shared services was transferred to DTF in 2007. Following this the DTFSSC requested additional funding of $242.98 million from the ERC. This funding was needed to continue with a full ERP solution and to roll-in all identified agencies by 2012.

Based on this funding request, the DTFSSC's total operating and capital cost estimated for the four financial years to 2010-11 was $326.61 million. During this time DTFSSC received $40 million in revenue. Table 3.6 below provides the annual estimated costs of the program over the four year period.

Table 3.6 Estimated costs of shared services program based on 2007 ERC minute ($ million nominal)

Cost	2007-08	2008-09	2009-10	2010-11	Total
Operating costs (excluding depreciation)	43.433	49.791	52.214	53.130	198.568
Less revenues	4.576	6.441	9.538	19.453	40.008
Net cost of services	*38.857*	*43.350*	*42.676*	*33.677*	*158.560*
Capital expenditure	43.001	41.337	25.581	18.127	128.046
Total costs (operating costs + capital costs)	***86.434***	***91.128***	***77.795***	***71.257***	***326.614***

Source: 2007 ERC minute requesting additional funding for DTFSSC

There was a difference between the total operating costs included in the Ernst and Young options review and the DTFSSC funding request in November 2007. The difference reflected the inclusion of the original depreciation estimates for the Oracle system in the 2007 ERC funding request. The Ernst and Young report excluded these depreciation estimates as it was a forward-looking cost benefit analysis, similar to this review.

Table 3.7 Actual costs of shared services program based on Annual Reports (2007-08 to 2009-10) and 2010-11 Budget estimate ($ million nominal)

Cost	2007-08	2008-09	2009-10	2010-11	Total
Operating costs (excludes depreciation and includes corporate overheads)	41.327	58.732	58.827	61.894	200.780
Less revenues	5.711	7.941	9.501	17.747	40.400
Net cost of services	*35.616*	*51.291*	*49.326*	*44.147*	*180.380*
Capital expenditure	18.676	43.127	42.189	30.227	134.219
Total costs (operating costs + capital costs)	***60.003***	***101.859***	***101.016***	***92.121***	***359.905***

Source: Annual Reports and 2011-12 Budget papers

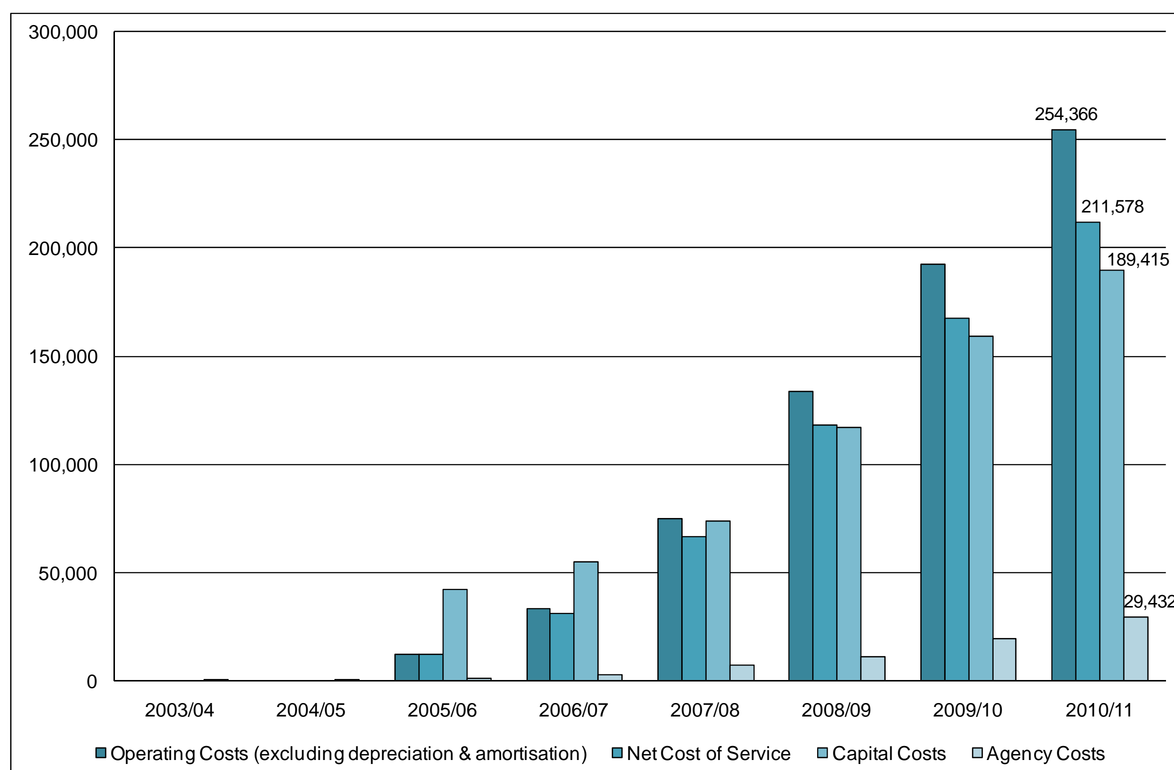
The actual program costs as reported in Annual Reports between 2005-06 and 2009-10 and the estimated costs in the 2011-12 Budget papers are provided in Table 3.7.

Comparison of the total actual costs ($355 million including an allocation for DTF corporate overhead) of the shared services project over the years 2007-08 to 2010-11 and

the total budgeted costs over the same period ($327 million) support DTF's claim that it has delivered the project on budget (see section 3.1.2).

The total cumulative costs of the shared services program are shown in Figure 3.5 below.

Figure 3.5 Total cumulative cost of shared services program ($'000, nominal)



Source: ERA analysis

By the end of 2010-11, these costs comprise actual operating costs (excluding depreciation) of $254 million, net cost of service of $212 million, capital costs of $189 million and agency costs (provided by agencies as part of the inquiry) of $29 million (see Table 3.5).

The total cost of the program at the end of 2010-11 is estimated to be $473 million; this is the sum of operating costs, capital costs and agency costs.

3.3.3 Comparison of 2003 Business Case with Actual Outcomes

Elements of the total estimated costs of the shared services project at 2010-11 can be compared with the assumptions made in the original 2003 business case. The initial business case estimated capital expenditure of $82 million ($68.5 million of which was for the OSS) to build the business system and roll-in agencies. However, by 30 June 2011 capital expenditure is estimated to reach $189 million, which represents nearly a threefold increase compared to what was initially assumed.

In order to compare the original business case with actual outcomes on an equal basis, the Authority compared the net present value (NPV) of DTFSSC costs and benefits anticipated in 2003 (an ex-ante cost benefit analysis) with those that have actually been incurred (ex-post cost benefit analysis). This analysis is presented in Appendix F.

This assessment shows that, in 2010-11 prices, the DTFSSC project (excluding health and education shared services) was expected in 2003 to result in an overall NPV of $171 million up until 2010-11 (in 2010-11 prices), for a capital expenditure of $88.4 million. By comparison, in 2010-11 prices, the project to date has an NPV of –$345 million.

Additionally, agencies have estimated that up until 2010-11 they have incurred costs of $29.4 million as a result of rolling-in to DTFSSC. No agency costs were estimated in the 2003 business case.

3.3.4 From 2010-11 Onwards

A comparison of anticipated shared services project costs (Table 3.6) and actual project costs (Table 3.7) shows that DTF has delivered the project largely on budget between 2007-08 and 2010-11. However, new funding requests have recently been made.

The DTFSSC is seeking additional funding to upgrade to Oracle version 12 as part of the 2011-12 Budget process. Additional funding has also been sought for 2010-11 and for the later Budget years to 2014-15. This funding aims to meet the additional costs of providing shared services (e.g. client account management and award maintenance) and to offset the loss of revenue caused by the pause in roll-ins requested by the Government.

3.4 Authority Assessment

In this section, the Authority evaluates the shared services project to date. This includes a summary of the problems associated with the current shared services arrangements, identification of the underlying causes of the problems and an assessment of the current arrangements against the Terms of Reference for the inquiry.

3.4.1 Findings from the Review of Current Shared Service Arrangements

The information received by the Authority in response to the issues paper presents a consistent message that there are significant problems with the existing arrangements for shared corporate services delivery in the public sector.

The Authority accepts that, from the information received and analysis undertaken, problems exist with current shared service arrangements.

Over 90 per cent of surveyed agencies that have rolled-in commented that service delivery has deteriorated post roll-in to DTFSSC and 86 per cent of surveyed agencies that are scheduled to roll-in anticipate that service delivery will deteriorate upon transition to DTFSSC. In contrast, the DTFSSC does not acknowledge that there is a major service delivery or operational problem. Authority discussions with DTFSSC staff and internal DTFSSC briefings indicate that DTFSSC places the responsibility for any observed issues with agencies.

The problems reported by agencies are predominantly in the HR/payroll system of shared service delivery. This is supported by the fact that 574 out of 1,165 customisations to the Oracle eBusiness suite relate to HR/payroll issues. In the absence of any SLAs between agencies and DTFSSC a full assessment of service delivery issues is not possible.

In addition, the following issues have been raised by agencies:

- DTFSSC does not respond to agencies' concerns regarding the poor level of service provided;
- the use of DTFSSC services results in lost time and productivity. For example, one agency compared the time taken to conduct corporate service tasks by one of its customer service divisions pre and post roll-in. By costing the additional time taken to complete these tasks after roll-in, the agency was able to measure productivity losses associated with using DTFSSC services. Over a three month period, productivity losses associated with using DTFSSC cost the division $1.2 million; and
- agencies do not trust the information provided by DTFSSC. Consequently they are running their own legacy systems in-house to ensure the validity and accuracy of information received from DTFSSC.

Several agencies supported the view that DTFSSC staff take longer to process functions than was the case with in-house staff. The Oracle system, particularly the procurement module, can be very slow, which causes delays in completing work. Agencies also submitted that over the past three years invoices have gone missing, which has damaged relationships with supplies. Agencies also identified a number of system problems that can take a long time to resolve.

In addition, cash management, a staple of public sector management reporting, is still provided via a major Alternative Work Process until such a time as there is a clear resolution through an upgrade, patch/release, fix or customisation within the Oracle system.

There have been a number of positives expressed by agencies. For example, agencies generally agree that the provision of finance services by DTFSSC, with the exception of financial reporting, is of an acceptable standard.

The Authority is concerned that service levels are likely to deteriorate as more agencies roll-in.

According to DTF, the actual number of FTEs in the DTFSSC as at 30 March 2011 was 298 (excluding project staff). Currently, these staff service 58 agencies accounting for 10,598 FTEs.[66] This translates to approximately 1 FTE at DTFSSC for every 36 FTEs serviced. DTFSSC claims that when all agencies are fully rolled-in it will need 510 staff. However, when all agencies are fully rolled-in, DTFSSC will be servicing approximately 28,658 FTEs,[67] raising the ratio to 1 FTE at DTFSSC to 56 FTEs serviced. If the current ratio of 1:36 were to be maintained, remembering that agencies are already concerned about current service levels, DTFSSC will require approximately 800 FTEs when all agencies have rolled-in.

These calculations do not include any consideration of factors that may decrease future staffing levels, such as any economies of scale that may develop over time. However, other factors may *increase* staff requirements, such as:

- managing the extra workload associated with migrating to the full ERP system those agencies that only receive partial services at the current time; and

[66] These figures are taken from the Public Sector Commission's Western Australian Public Sector Workforce Report (September 2010) and do not include the Department of Corrective Services as it only receives procurement services. They exclude the Department of Agriculture and Food.

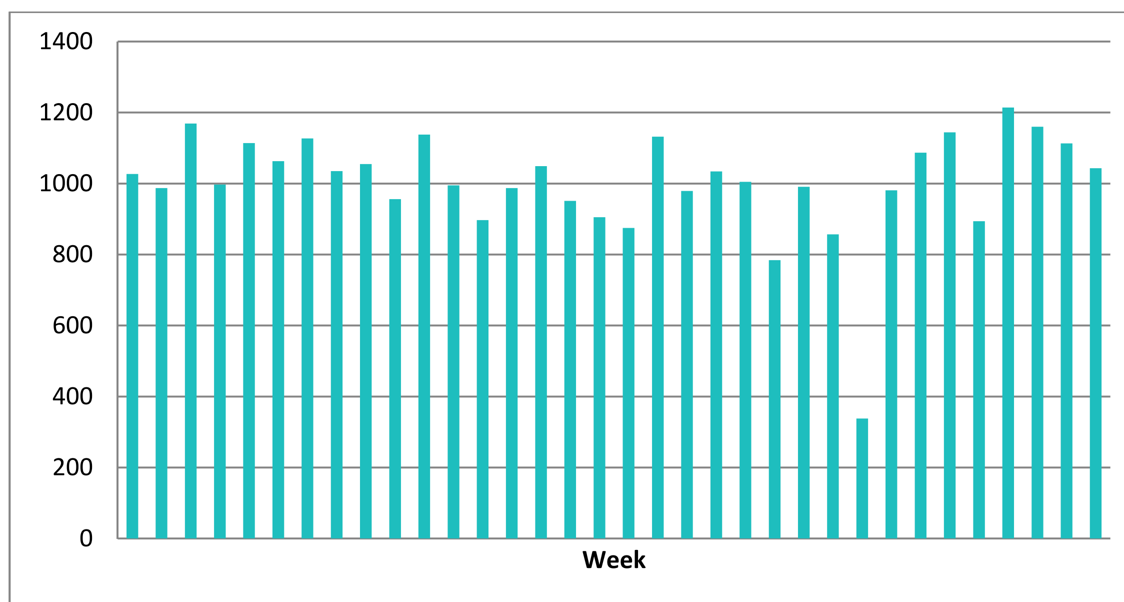
[67] Public Sector Commission's Western Australian Public Sector Workforce Report (September 2010)

- the additional workload resulting from the complexity of large agencies yet to roll-in.

One key, although still incomplete, measure that provides an indicator of service levels experienced by agencies is the number and turnaround time of queries that client agencies raise with DTFSSC. These service requests (**SR**) are completed by customers, including employees for HR/payroll matters, creditors for payment of invoices and agency staff for processing/error issues. The SRs are created on-line and progress through an established process at DTFSSC until the matter is resolved. They exclude telephone enquiries to the Customer Service Centre but may result from an unanswered query from the centre.

The following chart shows the number of SRs received each week by DTFSSC.

Figure 3.6 Weekly service requests received by DTFSSC July 2010 to February 2011



Source: ERA Analysis

Figure 3.6 indicates that DTFSSC receives an average of 1,002 service request per week at current capacity. These range from simple password resets to complex queries regarding recruitment.

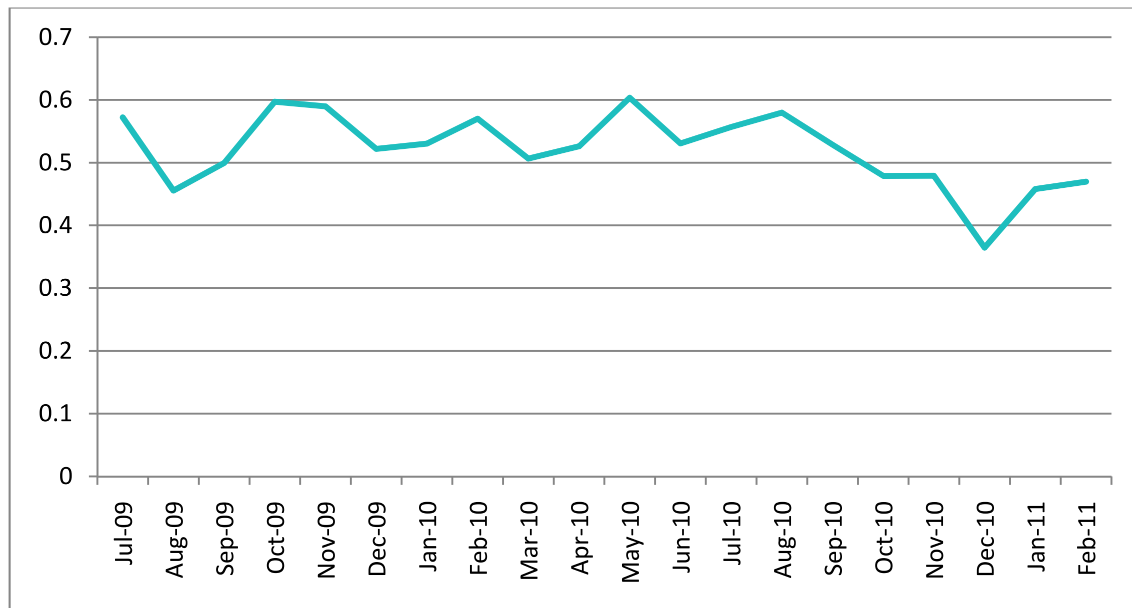
Table 3.8 Resolution of service requests by DTFSSC

Dates	Average calendar days taken to close	Number of SRs outstanding
Overall (July - February)	7.49	119
2010 (July – December)	6.42	36
2011 (January – February)	10.56	83

Source: ERA Analysis

Table 3.8 above shows that, over the first two months of 2011, it has taken 10 calendar days on average to close a SR. This represents a deterioration in performance when compared to the last six months of 2010.

Figure 3.7 Ratio of total monthly service requests to number of FTEs serviced (July 2009 to February 2011)



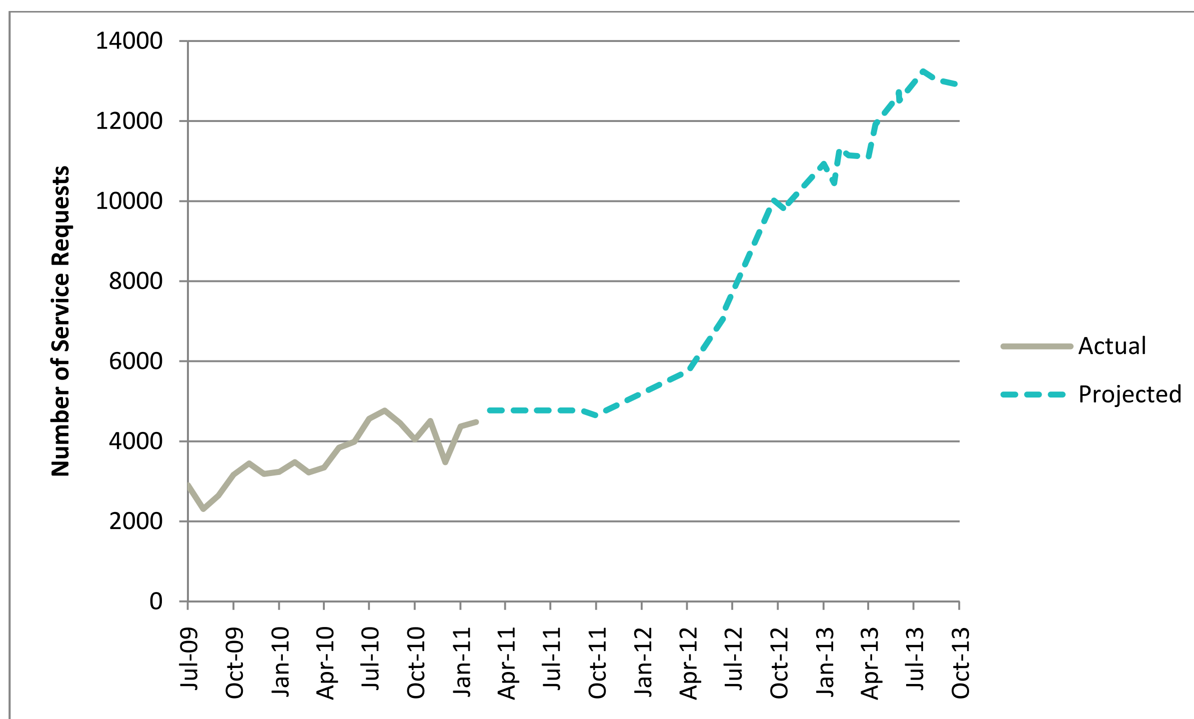
Source: DTFSSC data

Figure 3.7 above indicates that the ratio of monthly service requests to the number of FTEs serviced by DTFSSC remains reasonably steady throughout the period. The reduced ratio at the end of the period can be attributed to the reduced business activity among clients during December and the fact that agencies have not been rolling-in during this period.

By analysing the number of service requests raised by medium and large agencies immediately after rolling-in, the Authority has been able to determine the average number of service requests for an agency per FTE each month. This analysis indicates that the ratio of agency service requests to agency FTEs is approximately 0.65 per month for the first four months after roll-in and then stabilises to 0.5 in the long term.

Using these ratios and DTF's suggested roll-in schedule, the Authority has projected the future growth in service requests. Note that small agencies were excluded from this projection because the ratio of service requests to FTEs for small agencies was found to be highly variable and there are a minimal number of small agencies scheduled to roll-in. This projection is provided in Figure 3.8 below.

Figure 3.8 Actual and projected monthly service requests (July 2009 – October 2013)



Source: ERA Analysis

Figure 3.8 shows that there is likely to be a substantial increase in the number of service requests. This growth is a function of the heavy roll-in schedule in 2012 and 2013.[68] These figures do not take into consideration the effect that upgrading of the business system will have on service delivery, any economies of scale that could be achieved or the complexity of agencies yet to roll-in. Furthermore, it is anticipated that once all agencies have rolled-in there will be approximately 15,500 service requests per month. It is unclear whether DTFSSC would be able to manage this level of service requests without a substantial increase in resources.

The DTF has noted in its submission to the draft report that a cut in service levels for shared service delivery has been mandated by Government. The Authority expects that this would be associated with a reduction in costs. However, according to the analysis undertaken by the Authority, the converse has happened and agencies are reporting a demonstrable reduction in service levels while facing increased costs.

The Authority accepts that there are costs to agencies that transition to DTFSSC.

From information provided by rolled-in agencies the initial and ongoing costs borne by agencies has been calculated. In 2010-11 these costs amounted to $10 million nominal (see Table 3.5 above). The Authority cautions that although these figures were calculated from actual and estimated costs provided by Chief Financial Officers they may not be complete or totally accurate. However, they do provide an indication that substantial costs are incurred upon rolling-in to DTFSSC. Additionally, the analysis does not include transitioning costs for those agencies that did not submit a financial return to the Authority when requested, so the figure for all rolled-in agencies could be higher. As transitional

[68] As proposed by DTF if roll-ins are commenced as soon as possible.

costs are incurred by agencies these should be accurately calculated and recognised as part of the analysis of any net benefit to the State.[69]

Subsequently, when determining if rolling-in remaining agencies to DTFSSC would provide a net benefit to the State, the analysis should also include an estimation of these additional transitioning costs, offset by the anticipated cost savings from agencies not having to upgrade their existing legacy systems. For example, one agency that is yet to roll-in to shared services has over 40 different business systems that are integrated with core finance, HR and payroll services. These various systems would need to be re-engineered to communicate with the Oracle system. This agency costed just this element of its transition costs at $2 million with ongoing costs of over $0.5 million per annum.[70]

The Authority accepts that there are ongoing costs associated with agencies complying with DTFSSC systems and procedures.

As an example of compliance costs, the Authority has information on agencies developing their own, in-house Oracle 'super users'. These are agency staff who have an extensive knowledge of the Oracle system and who agency staff prefer to approach for information or problem resolution rather than contacting DTFSSC directly. Some of the submissions received by the Authority report that, given the lack of trust of Oracle generated financial reports, some agencies use existing staff to ensure transactions and reports are accurate. Another agency has reported that the shift in resources toward processing and checking has been at the expense of strategic analysis of financial information. In addition, the lack of ease of use of the Oracle system (compared to the process pre roll-in) has increased the time taken for agency staff to undertake routine tasks; one agency commented that the creating of customers and raising of invoices in Oracle had increased one employee's workload by 90 per cent.

In addition, the use of staff and management self-service facilities pushes back workload and costs to staff and managers who may not be familiar with HR issues. Therefore they may either not recognise mistakes when they are made or raise unnecessary service requests through lack of experience with HR matters. One agency reported that as there is no obvious auditing of payroll variances it became the manager or employee's responsibility to report over payments. This agency also reported that contract employees often started without a signed contract in place, which exposed the agency to legal and insurance liabilities.

The Authority suggests that if shared services are to continue, then there are certain functions that, on efficiency grounds, should be transferred back to agencies to undertake.

For example the Authority believes that agencies should be responsible for their own recruitment. This would eliminate the uncertainty regarding the receipt of applications, the physical movement of recruitment files between the DTFSSC and agencies and the delays that this can cause in the recruitment process.

The Authority accepts that savings to agencies, if they exist at all, have fallen well short of the amount harvested by the DTF.

Savings were originally anticipated to be delivered through reduced staff numbers at the client agencies. While FTEs have reduced, staff related costs have not decreased by the same amount. This is because agencies have had to maintain a substantial corporate

[69] These transition costs were not identified or included in the 2003 or 2007 reviews of shared service provision.

[70] Whilst noting that this agency is an extreme example, a number of other large agencies have complex rostering arrangements and therefore are likely to incur additional transitional costs as a result.

services presence, often at higher levels than prior to rolling-in to DTFSSC. With these higher staff costs, the savings from shared services (when and if they materialise) are not likely to be managed through staff reductions and natural attrition alone and redundancies may be required.

DTF is the only substantive agency that is claiming savings from transitioning to shared services. However, the Authority is unable to substantiate this as DTF submitted an incomplete financial return to the inquiry that did not include an actual or notional charge for the services provided to DTF by the shared services business unit. Whilst the Authority does not doubt DTF's claim of an FTE reduction, these savings may have been more than offset if the notional service charge based on similar sized agencies' charges had been applied.

Overall, the Authority considers that the government-wide efficiency savings are minor compared with the costs of the project to date. Based on Authority modelling and agency submissions, the Authority considers that the gross savings to Government would have been just under $17 million had the delay in roll-ins during 2010-11 not occurred. These savings do not cover the DTFSSC's ongoing costs of operation, let alone produce a net benefit.

The Authority considers that the harvest taken from agencies is simply an accounting transaction not related to the efficiencies generated from the DTFSSC project. The Authority considers that the money already harvested has been an additional general 'efficiency dividend' on agencies that have rolled in. As such the Authority does not consider the existing or future harvest a benefit from this project.

The Authority accepts that where savings do exist for agencies, they do not start immediately after rolling-in. It is more likely that an agency will experience savings at least 12 months after they have rolled-in.

The current Government policy is that harvested savings start immediately after the agency has rolled-in. The Authority's analysis shows that harvest amounts are generally greater than anticipated savings. This has resulted in agencies having to immediately find funding from other sources, including their core business, following roll-in to shared services.

The Authority accepts that current shared service arrangements are negatively impacting upon agencies' operations.

The Authority accepts that, even if the net financial impact is less than what agencies have reported, there is still likely to have been a net cost to agencies (including payments to DTFSSC and harvest savings) in the provision of corporate services. These costs have been met by diverting funding from other sources. While agencies may have found some efficiencies it is likely that funds have been diverted from front-line service delivery.

Additionally, the pushback of work onto staff through the web kiosk functions of the Oracle system (particularly for managers through the eManager process) has increased the cost of providing those services. This is because these tasks are now undertaken by higher level employees who are not as proficient at these tasks as former corporate services staff. Additionally, these employees have less time to focus on their core tasks, which impacts directly and indirectly on core business. Submissions from a selection of agencies have also noted that their client and public services have been compromised, e.g. through shorter opening hours for public-facing services and facilities.

The agencies yet to roll-in are typically the larger, more complex agencies. Under the current arrangements, these agencies are likely to experience more disruptive transitions than those experienced to date. This results in higher numbers of problems, more service

requests and even higher costs. There are particular risks associated with those agencies that utilise rostering schedules for staff. This function is not currently offered by the Oracle system and would need to be developed through a customisation to the system.

The Authority notes that there may not be another opportunity to unwind the shared services arrangements, should this be the preferred option.

This may be the last opportunity for the decommissioning of DTFSSC to be realistically considered as a possible option. Following roll-in to shared services, agencies begin to 'lose' their corporate memory. This is because corporate services skills are transferred to centralised service providers and in-house knowledge on legacy systems dissipates. After this time, corporate intelligence diminishes and an agency may find it difficult to revert back to in-house corporate service provision. In this situation a shared service solution, however configured, would remain the only option. Discussions with representatives from other States noted that, despite significant issues with their shared service arrangements, the only option available was to continue with a centralised model as they could not go back to the previous system.

3.4.2 Major Causes Impacting on Agencies' Operations

The analysis of agency submissions, DTFSSC data and previous reviews has provided an insight into some factors that have contributed to the issues currently experienced by DTFSSC and client agencies. These problems and their underlying causes are presented below. The potential resolutions mentioned are applicable only if the Government decides to continue with a centralised shared services model.

Incentives

DTF has rolled-in agencies in line with the schedule set out in the 2007 business case. Once roll-in was complete the DTFSSC planned to achieve the anticipated economies of scale and service delivery improvements outlined in the 2007 business case.

From the analysis undertaken as part of this inquiry the Authority agrees that the shared service project under DTF is approximately on schedule and on budget.

Whilst undertaking its task, DTFSSC has paid less attention to service delivery for client agencies. At the present time DTFSSC is operating as a monopoly service provider, with a mandated customer base and no SLAs with client agencies. This has resulted in agencies incurring unanticipated costs from rolling-in to shared services without realising either the anticipated benefits or anticipated level of service.

The focus on the original principles may have been partly to blame for the project being behind schedule in 2007. However, the current focus on implementation and roll-ins has resulted in issues for agencies. Additionally this focus creates potential for greater problems, over the next 18 months, when the large and complex agencies are scheduled to roll-in.

Lack of Accountability for Service Standards

Agencies are required to endorse a non-negotiable Partnership Agreement with DTFSSC prior to receiving services. This agreement replaced the SLA that was introduced at the inception of the shared services centre.

The Partnership Agreement is a high level document that sets out the broad framework under which the agency and the DTFSSC agree to work cooperatively. The principles in each Partnership Agreement include:

- the general requirement for the parties to be flexible and responsive to each other's needs; and

- the need to be open and accountable in the provision of information relating to performance issues and matters that impact on agencies' services.

However, the Partnership Agreement provides little scope for agencies to shape or influence the level of customer service. This is because it lacks key performance and service measures needed to effectively gauge the efficiency of services. According to one agency, 'the Partnership Document allows Shared Services to proceed at their own pace without any accountability to their client agencies – there is simply no consequence for shared services for failure to meet service time frames'. Similar sentiments were expressed by other agencies.

An adequate SLA would specify, in detail, the responsibilities of each party, including the level of service standards that the shared service provider is required to meet and whether these service levels are sufficient. For example, a SLA would specify:

- agencies' responsibilities in terms of the provision of information to the shared service provider;
- performance measures for the shared service provider, with targets and thresholds to be met for each performance measure;
- reporting mechanisms to be used by agencies and the shared service provider;
- a framework for penalties on the shared service provider for failing to meet service levels (except where such failure is a result of actions by the agencies or events outside the control of the shared service provider).

Appropriateness of ERP Solution

The desire to roll-in diverse and complex agencies into the 'one-size-fits-all' solution represented by the Oracle eBusiness suite utilised at DTFSSC has led to the significant customisation of the 'vanilla' software package. Many of these customisations were implemented before DTF was responsible for the project. These customisations have created a complex middleware layer (between individual agency systems and the Oracle suite) which would be difficult to accommodate in the upgrade of Oracle to version 12. This upgrade is expected to take over two years and cost around $35 million. Due to this timeframe and the fact that external technical support for the current system will cease in November 2013 the upgrade will need to commence sometime in 2011-12. While the Authority does not expect that Oracle would leave the DTFSSC unsupported, the worldwide resources devoted to the old version of Oracle will cease, and so solutions to any problems will be much more difficult than under a globally-supported product.

It is the understanding of the Authority that no agencies can be rolled-in during the core upgrade period. Although it is possible to roll-in agencies in the first 3-4 months of the upgrade period, this is undesirable.

The existing ERP was intentionally designed to function as a commercial package, with full accrual accounting and reporting, and minimal cash reporting capabilities. However, cash management and reporting are one of the key requirements of government agencies, as funding and some reporting still occurs on a cash basis. DTF even monitors and penalises agencies for not effectively managing their cash, in accordance with its Cash Management Policy of December 2007.

A solution with greater government accounting functionality would have resolved some of these issues.

Additionally, agencies have found that the DTFSSC system is not suited to their needs. This is supported by agency submissions which showed that 83 per cent of rolled-in agencies who made a submission find the system too complex.

Lack of Learnings from Previous Agency Roll-ins to DTFSSC

The 2007 Auditor General's report found that weaknesses in project management are leading to uncertainty for agencies.[71] Despite the transfer of shared services to DTF in 2007, deficiencies in project management are still evident. Agencies indicate that multiple, stalled and aborted roll-ins are increasing costs, producing uncertainty and creating frustration. One large agency has experienced six different roll-in dates, all of which have failed or been deferred (2006, March/June 2010, August 2010, October 2010, February 2011, April 2011 and May 2011). This example signals to other agencies that rolling-in to DTFSSC is a long and costly process.

Additionally the two large agencies that rolled-in to DTFSSC in the second half of 2010 both experienced similar disruption to their businesses. The causes were attributed to:

- the lack of staff training, especially in regional areas;
- systems issues, including the lack of interfaces between agency core systems and Oracle;
- the inability to anticipate and resolve unique and complex operational issues. These issues often required workarounds and reengineering of procedures/processes in order to solve;
- the inability to test the data, structures and systems prior to rolling-in meant that errors were detected and resolved in a 'live' environment. This produced over and underpayments to staff and creditors, 'gridlock' in the processing of service requests, inability to procure goods and services, inability to recruit staff and late and incomplete management reports;
- the inability of agencies to quickly adjust to business process changes needed in the new environment; and
- agencies and DTFSSC not providing sufficient and stable resourcing to the project team.

For the shared services project to be successful a commitment was required from both DTFSSC and agencies. It is apparent that this commitment has not been present on the agency side. This probably resulted from the lack of a formal service level agreement that adequately met agencies' service delivery requirements.

Additionally, many agencies indicated that the impact of rolling-in has produced "emotional stress" to staff. One agency advised that "a number of staff are leaving the workplace citing stress and frustration with the DTFSS system as the cause for them leaving".

These issues have produced continuous adverse sentiment towards shared services in Western Australia. This has damaged the shared services brand.

Appropriateness of Business Model

There is no single model for the appropriate level of aggregation or the appropriate number of clusters needed for shared service provision. However, it appears that almost all other jurisdictions analysed have settled upon a range of clusters, reflecting the trade-off between economies of scale and the distinctive requirements of a few large

[71] Auditor General WA, Shared Services Reform: A Work in Progress, 2007, pg 35

departments. Initially, there were five shared services centres identified for Western Australia. This was then reduced to three (DTFSS, HCN and ETSSC). The original business case predicted that 8,000 FTEs per cluster was sufficient to generate the efficiency gains required.

When implementation commenced in 2006, all tactical (centres of excellence) and operational activities were to be transferred to DTFSSC. However, over time pushback by DTFSSC and growback by agencies has been evident. This has affected the key principles established by the Functional Review Implementation Team (FRIT) - aggregation, automation, simplification and standardisation. Consequently a high level of customisation of DTFSSC systems was permitted. This could have been minimised if the original five clusters, catering for similar agencies with unique requirements, had been implemented.

Also, the DTFSSC's original guiding principles meant that all agencies (small, medium and large) had to modify their business processes and comply with DTFSSC policies prior to roll-in. This meant implementing the full Oracle system which impacted on their procedures, processes and controls. In some agencies the solution was too large, complex and beyond their resourcing capacity. A smaller, simpler and less burdensome solution would have been more effective in meeting their requirements.

The inquiry has found that large shared service arrangements in other jurisdictions have often failed. For example, Queensland decommissioned its Health payroll system after experiencing numerous problems, including instances of staff not being paid.

Information provided by agencies also suggests that there are some services, such as recruitment and workers compensation management, that are unlikely to be managed efficiently by any shared service model. The Authority believes that these services be returned to the agencies regardless of the future of the shared service reform in Western Australia.

Degree of Competition in the Provision of Shared Corporate Services

The Government's policy of mandating that all identified agencies transition to the shared services centre produced an environment where agencies had no discretion in the timing of the roll-in or the service delivery standards received post roll-in.

The addition of new clusters, as previously planned by FRIT, would have provided a competitive environment where agencies could choose the cluster that best meets their needs. This arrangement would have provided competitive pressure on each shared service provider to achieve the best service at least cost, while helping to identify the best shared service model. The incentive to improve service quality and efficiency is likely to be lower when there is a single service provider compared with when there are a number of alternative service providers competing for clients.

In the absence of competition a shared service arrangement needs independent monitoring or regulation. However, this has been minimal, as DTFSSC is a business unit of DTF.

Governance Arrangements

The role of the Shared Services Governance Council is to provide strategic direction and monitor the performance of shared services reform across the whole-of-government. This Council is chaired by the Under Treasurer and accountable to the Treasurer. Further details are given in **Appendix C**.

A review of the Governance Council found that the body was not set up to receive information that the Authority believes is needed for effective decision making. This is especially evident with regard to the service issues experienced by agencies. For example, the DTF Shared Services Program Status Report delivered at the 25 November 2010 meeting did not address any of the significant service issues experienced by the Department of Transport at that time. While dealing with service issues is not the primary purpose of the Governance Council the Authority feels that the Council should be informed of major issues that affect the operation of DTFSSC.

Furthermore, as noted above, the absence of a SLA between DTFSSC and client agencies has contributed to the lack of agency ownership of the shared services project. The Council has tried to resolve this ownership issue by including agency representative in its membership. However this has achieved minimal success.

The transfer of shared services to the new Department of Finance would resolve the perceived conflict of interests that has existed since 2007 when DTF assumed responsibility for shared services. A new organisation and responsibility structure within the Department of Finance should be considered, if Government decides to continue with shared services arrangements in Western Australia.

If the DTFSSC is to continue any future shared services governance arrangements should have:

- clearly defined and separate roles for the Department of Treasury and the Department of Finance;
- accountability and responsibility for the success of the project assigned to an individual; and
- persons who are independent and with commercial experience as members of the oversight Board.

The Authority considers the CEO of DTFSSC should be responsible to a Board that contains at least two independent members. The Board should report to the Minister for Finance. The CEO would report to the Board for all planning, policy, strategy and operational matters and to the Director General, Department of Finance for all administrative matters. The Director General would also be a member of the Board.

Resolution of Technical Issues

The responses from agencies show that 70 per cent have experienced issues with the system. This can be partially attributed to the 615 outstanding defects and enhancements affecting the Oracle system as at 21 February 2011. Some agencies have experienced long term unresolved defects with some still remaining an issue after 98 weeks.

Given the large number of outstanding items, the Authority's technical consultant to the inquiry (Stantons) recommends that a full review be conducted prior to any planned technical upgrade to version 12. This is because these items 'will impact scalability, suitability and support of the eBusiness suite'.

Agencies also expressed concern on the level of hardware capacity/utilisation and the downtime suffered as a result of unplanned outages. Given the planned and extensive roll-in schedule and the current capacity and resources constraints, there may be issues with the ability to scale up the system, system integrity and security issues, the level of additional customisation that can be accommodated and the ability of DTFSSC to conduct the planned technical upgrade.

The recommendations from Stantons suggest that there has been far too much customisation of the Oracle system to date. They advise that this has to stop and then be reversed. Therefore, the Authority suggests that if DTFSSC is to continue then there needs to be greater standardisation of the services provided and a return to a 'vanilla' solution. However, this will require a commitment from agencies to standardise, where possible, their current processes and procedures.

Agency Resistance to Shared Services

The Authority acknowledges that there has been substantial agency resistance to the shared services program from its inception. While there have been genuine issues with the DTFSSC, agency resistance has probably made roll-ins and operation more difficult than it otherwise would have been. Additionally, even if the Authority were to recommend a continuation of a full ERP solution for corporate shared services there may be agency resistance to such a move. Although aware of this issue the Authority has not been able to estimate the costs associated with such resistance. A key point in any shared service arrangement would be to have commitment and support from agencies for shared service provision. As commented earlier, a simple and effective way to elicit such commitment would be through a functional SLA, agreed to by agencies prior to implementation.

3.4.3 Assessment Against the Terms of Reference

The first five Terms of Reference points relate to the current shared service arrangement model and require the Authority to investigate and report on:

1. The effectiveness and efficiency of the DTFSSC at its current level of operations.
2. How the effectiveness and efficiency of the DTFSSC is likely to vary with the number of agencies it services.
3. The impact that rolling-in to the DTFSSC has on the operations of a selection of representative agencies.
4. Whether the provision of shared corporate services within the public sector, as implemented thus far, has provided a net benefit to the State.
5. Whether rolling-in the remaining agencies to the OSS would provide a net benefit to the State.

These five points are discussed below along with the Authority's conclusions.

The original business case and the 2007 review both noted that DTFSSC would not operate at full efficiency nor would there be a net benefit to the State until all agencies had rolled-in. Therefore, the Authority's assessment under terms of reference one and four concentrates on the effectiveness of DTFSSC to date and comparison of the net benefits (if any) realised to date compared to what was expected at this stage in the reform process.

1. Effectiveness and Efficiency of the DTFSSC at its Current Level of Operations.

The DTFSSC currently services 58 rolled-in agencies, with a further 22 scheduled to roll-in.[72] However, the majority of agencies already rolled-in are small to medium sized and represent only 37 per cent of total number of FTEs scheduled to be rolled-in.[73] Despite

[72] DTFSSC website https://www.oss.wa.gov.au/portal/page/portal/SSC_DMZ/Home/About_Us/Our_Clients (not including Department of Agriculture and Food)

[73] This figure excludes the Department of Corrective Services as it has only rolled-in for procurement services.

only servicing 37 per cent of its ultimate customer base, DTFSSC has experienced service delivery problems and rising operating and capital costs to date. Issues experienced include:

- the shared services centre exceeding the original budget. The total costs of $473 million, which include capital costs of $189 million, operating costs of $254 million and agency costs of $29.4 million exceed the original (2003) budgeted capital costs of $82 million. The figure of $82 million was originally meant to fund the creation of a business system and the rolling-in of agencies at OSS, HCN and ETSSC);
- additional funding requests. Requests for additional funding are ongoing. They include requests for items such as client account management and account maintenance over the forward estimates period (2010-11 to 2014-15). These requests are unrelated to the delay in roll-ins caused by the inquiry;
- the poor service delivery experienced by rolled-in agencies; and
- the need to upgrade the system. The current version of the Oracle system (if it continues to be used) requires an immediate and costly upgrade to a newer, fully supported version. This is because technical support for the current version will cease in November 2013. During the core upgrade period no new agencies can be rolled-in.

Based on the evidence provided as part of the inquiry and the analysis undertaken, the Authority concludes that the DTFSSC is not operating effectively or efficiently under existing arrangements.[74]

2. *How the Effectiveness and Efficiency of the DTFSSC is Likely to Vary with the Number of Agencies it Services.*

In its submission, DTF supported the continuation of the shared service reform on the basis that the project was on track to deliver its current roll-in schedule by late 2012.

The Authority agrees that, to date, the project is broadly on track in terms of rolling-in agencies (although the order of agency roll-in changed due to challenges experienced by some agencies and machinery of government changes in 2008).[75] Given that the current issues at DTSSC exist when only the small, less-complex agencies have rolled-in, the Authority notes that, without significant changes, the existing problems will increase as larger, complex agencies roll-in. Larger agencies will have a higher FTE base and often more complex industrial and financial arrangements. This will present a step increase in the number of transactions to be processed and the number of service requests that result from these transactions. Higher numbers of service requests will also incur substantial additional costs to agencies.

If the implementation of shared corporate services continues to cater for agency specific requirements, then this will require ongoing customisation to the Oracle system. The implications of this would be a continuation of the same problems experienced to date. In its report Stantons advised that customisation of the Oracle system should be avoided to ensure that the existing problems are not replicated. However, the cost of this is that agencies will have to shoulder more work in-house to ensure that they comply with the standardised service provided by DTFSSC. The costs and benefits of this trade-off are examined in Chapter 6 below.

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[74] Although the Authority notes that efficiency is related to a critical mass of agencies that need to be rolled-in.

[75] DTF (2011) Response to second ERA data request, Attachment C

The Authority suggests that, despite DTF's comments, there is qualitative and quantitative evidence to support the conclusion that there are problems in agencies resulting from their roll-in to DTFSSC. The Authority has not received any evidence to suggest that these problems will recede if the roll-in resumes.[76]

Therefore the Authority concludes that without substantive reform the effectiveness of the DTFSSC is likely to deteriorate further as more agencies are serviced (see 3.4.1 above).

3. The Impact that Rolling-in to the DTFSSC has had on the Operations of a Selection of Representative Agencies.

The responses received from rolled-in agencies (see Figure 3.1 above) show high levels of dissatisfaction with service delivery, data integrity and operational performance. Most agencies have experienced reduced service level standards and performance from DTFSSC compared with their previous arrangements. Agencies advised that:

- employees and management spend more time (20 to 40 per cent) processing work;
- they have developed workarounds to resolve system and control issues as well as processing gaps;
- they have employed additional resources, for example Human Resources Liaison Officers, to provide services that had previously been 'in scope' DTFSSC functions but have subsequently been transferred back to agencies; and
- they have not received suitable or timely management and statutory reports from DTFSSC. For example, the lack of timely and accurate cash reporting needed for cash flow management is a concern.

Financial information obtained from agencies shows that agency costs of transitioning to and utilising shared services is over $10 million per annum in 2010-11. Furthermore, agencies have not realised the benefits they were anticipating following transition to DTFSSC. For example, large agencies still experience increased employment costs 12 months after transitioning (see Figure 3.3).

In conclusion, the Authority concludes that rolling-in to DTFSSC has had a detrimental impact on the operations of the majority of rolled-in agencies.

4. Whether the Provision of Shared Services within the Public Sector, as Implemented thus Far, has Provided a Net Benefit to the State.

As noted in the introduction to this section, the initial business case and the submission from DTF suggests that the full net benefit to the State cannot properly be calculated until all agencies are fully rolled-in. Moreover, the total net benefit includes the period 2003-2007 for which DTF was not responsible.

The Authority notes that even in the 2007 review every option considered incurred net future costs. Furthermore as the expected benefits have not been realised then there has been a considerable net cost to Government of shared service provision ($180.4 million from 2007-08 to 2010-11, see Table 3.7). Once the shared service costs incurred between 2003 and 2007 are added in, the net cost to Government increases further.

[76] This assumed resumption of the roll-in schedule after the temporary suspension imposed for the duration of this inquiry is lifted.

It is estimated that, in total, the shared services project has cost $473 million, with substantial net costs borne by agencies. Based on FTE numbers, the DTFSSC should be saving rolled-in agencies approximately 180 FTEs by now, compared to 46.6 FTEs as reported by the agencies (including DTF).

The Authority notes that the Government will not recover the capital put into the shared services reform project. These costs should be considered 'sunk' and unrecoverable. The 2007 ERC minute assumed that the full agency roll-in would only make the project cash flow neutral and as such the DTFSSC would never produce an overall net profit.

5. *Whether Rolling-in the Remaining Agencies to the DTFSSC would Provide a Net Benefit to the State.*

The 86 per cent of agencies that made a submission and are yet to roll-in indicate that based on the experience of already rolled-in agencies, their own levels of service will deteriorate once rolled-in to DTFSSC.

The Authority considers that, if mandated to roll-in, agencies will experience a decreased level of service, an increased workload, transition costs and a number of other issues. These factors will negatively impact agencies' operations, reputation and staff morale. This is supported by the fact that 79 per cent of submissions claimed that rolling-in to DTFSSC under the existing arrangements would deliver no net benefit to their agencies.

In addition, if the current ratio of DTFSSC staff to agency staff serviced (1:36) is to be maintained DTFSSC will require over 800 staff once all agencies are rolled-in, not the 510 staff DTFSSC are forecasting. This could result in either increased staff costs for DTFSSC or, if the ratio decreases, deteriorating service standards for agencies.

The Authority suggests that rolling-in more agencies into the current system is not sustainable. This matter is covered in more detail in sections 5 and 6 below, in the consideration of alternative arrangements for shared services.

3.5 Authority Conclusion

The Authority therefore recommends that the current roll-in of agencies cease immediately.

The key issue to address is whether to stop and fix the current arrangements or decommission DTFSSC. The development and assessment of these options is discussed in section 5 below, while the financial analysis is conducted in section 6 below.

3.6 Summary of Findings

Assessment of current arrangements

- On the basis of the analysis of shared corporate services and submissions to the inquiry, the Authority has found that:
  - problems exist with the current shared service arrangements. Analysis indicates that problems are largely associated with the HR/payroll services. Finance and procurement services appear to be functioning more successfully, although there are problems with these components;
  - service levels are likely to deteriorate as more agencies roll-in;
  - there are costs to agencies that transition to DTFSSC;
  - there are ongoing costs associated with agencies complying with DTFSSC systems and procedures;
  - savings to agencies, if they exist at all, have fallen well short of the amount harvested by DTF;
  - where savings do exist for agencies, they do not start immediately after roll-in. It is more likely that an agency will experience savings at least 12 months after they have rolled-in; and
  - current shared services arrangements are negatively impacting upon agencies' operations.
- As more agencies roll-in to DTFSSC the complexity and costs associated with decommissioning increase, making it more difficult to implement this option in the future.
- The Oracle eBusiness system is currently used within DTFSSC to provide shared corporate services. If this system were to continue to be used it would require:
  - an upgrade to the newer version (12), given that Oracle will cease support for the current version (11.5.10) in November 2013;
  - that, prior to any upgrade, there be a review of the existing defects, enhancements and degree of customisation of the Oracle system. The Authority's technical consultant, Stantons International, estimates the upgrade, including the review, could take up to 27 months;
  - a move toward standardised (or 'vanilla') finance and HR/payroll products for the Oracle system to be successful. However, this change would impose greater costs on agencies; and
  - responsibility for some functions that cannot be easily managed through the standardised (or 'vanilla') Oracle system, such as recruitment, be transferred back to agencies.
- From the information received, the Authority has estimated that the shared services project has cost $473 million in nominal terms, including net costs borne by agencies. According to the 2003 business case the DTFSSC should be saving rolled-in agencies approximately 180 Full Time Equivalents (FTEs) by now. However only

46.6 FTEs have been saved according to the agencies that responded to the Authority. This equates to 62 FTEs across all agencies that have rolled-in.

- As early as 2007, it was recognised that the Government would never recover the capital expenditure on the shared services program through agency payments to DTFSSC.
- Against the Terms of Reference (ToR) for the inquiry, the Authority concludes that:
  - the DTFSSC is not operating effectively or efficiently under the existing arrangements (ToR 1);
  - without substantive reform the effectiveness of the DTFSSC is likely to deteriorate further as more agencies are serviced (ToR 2);
  - rolling-in to the DTFSSC has had a detrimental impact on the operations of the majority of rolled-in agencies (ToR 3); and
  - as implemented thus far, the provision of shared services within the public sector has resulted in a total cost to the State of $473 million (ToR 4).
- In assessing whether rolling-in the remaining agencies to the DTFSSC would provide a net benefit to the State (ToR 5), the Authority concludes that rolling-in more agencies under the current arrangements is unsustainable.
- The Authority has identified that there are some shared services, e.g. recruitment and workers compensation management, that are unlikely to ever be managed efficiently by any shared service model and as such should be returned to the agencies. This is regardless of the future of the shared service program, should it continue.
- The Authority recommends that the current roll-in of agencies cease immediately.

4 Lessons Learned and Guiding Principles for Future Shared Services Provision

4.1 Lessons Learned from Previous Analysis

The Authority draws the following lessons from previous reviews and business cases. In doing so, the Authority acknowledges that there will inevitably be inaccurate forecasts in any forward looking project when looking at that project ex-post. The Authority is cognisant of this in drawing lessons from the previous reviews.

The assessment of risk must be central to any analysis.

Contrary to the high NPV and IRR of the 2003 business case, the margins of return on this type of reform are not large. This highlights the need to examine every assumption as carefully as possible, and consider what would happen if a particular assumption turns out to be incorrect.

The Authority notes that the difference in financial analysis results of the full ERP and the decommission options in the 2007 business case was only $5 million in 10-year NPV terms. Small changes in assumptions or cost inclusions could have changed this result.

The results of the financial analysis for the "proceed" options in the 2007 business case were highly contingent on:

- the associated roll-in schedule for agencies. Additionally it did not account for any risk of disruptions to that schedule, either through the fault of the program (e.g. the system not performing at the required level) or through exogenous events (e.g. machinery of government changes); and
- the level of performance of the DTFSSC, and hence the costs saved by agencies.

Hindsight has shown that the outcomes of both of these assumptions turned out to be less favourable than anticipated in 2007. It is recognised that forecasts will often turn out to be incorrect. Given this, it is important to account for the risk of expected outcomes for all assumptions, especially the most important assumptions.

The multitude of risks facing such a complex project cannot be adequately dealt with by incorporating contingency into project costs. Given the high degree of uncertainty and risks, there are potentially benefits in choosing options that provide the flexibility to change course at a future date. This allows decisions to be made when more information on risks becomes available.

An associated lesson is that a 'big-bang' approach is likely to be much more risky than an incremental approach. Stantons noted that ETSSC and HCN used largely existing systems when successfully aggregating services, unlike the DTFSSC that concurrently implemented new systems and new software.

The setting of any criteria for options analysis must have broad stakeholder representation.

In this regard, the criteria for the 2007 qualitative analysis were set by the DTFSS Steering Group, which only included DTFSSC, ETSSC and HCN staff. This group had no user representation, although the final recommendation was approved by the Governance Council, which contained representation from client agencies.

A more inclusive review committee structure may have provided a different perspective to the evaluation criteria. This is because a broader committee may have considered the needs of stakeholders and possibly given a different weighting to the selection matrix.

A decommissioning option should not be considered as part of any formalised qualitative scoring analysis.

This is because decommissioning would generally only be considered if the objectives in the other criteria were unlikely to be achieved. Consequently, shutdown would never rate highly in such analyses. For example, in the 2007 business case, the 'decommission' option could never score highly in the qualitative analysis against criterion such as 'maximise program confidence'.

For this reason the Authority has not undertaken a formalised qualitative analysis as part of this inquiry. Whilst the qualitative aspects of the options are considered, the Authority has concentrated more on a quantitative analysis of selected options.

The anticipated and actual savings to agencies must be revisited.

There should be a review of the savings to agencies, or harvest. This harvest is budgeted at $55 million per annum once all agencies are rolled-in. The review should consider the estimated savings which are likely to be achieved, taking into account the performance of the system given the agencies already rolled-in, the costs and FTE savings to agencies and the charge required by DTFSSC to recover its costs.

Previous reviews have lacked the information to re-visit the $56.6 million per annum harvest figure.

- In 2007, there was little or no evidence regarding whether the full cost savings to agencies could be achieved once DTFSSC was operating at its maximum efficiency. The review did not examine whether the harvest was achievable. Consequently the review did not revise the 2003 assumptions.
- The 2007 business case also assumed that the DTFSSC charges would still represent the same savings to agencies as in the 2003 business case. This is despite the fact that the rate of price increase for DTFSSC services to agencies were assumed to increase faster than in the original business case (6.5 per cent compared with 3 per cent previously), and faster than the assumed rate of increase in DTFSSC's own costs of 4 per cent.
  - In response to the draft report, DTF noted that over the past few years, fees have been increased at or close to CPI, rather than by the 6.5 per cent that was indicated in the 2007 business case. The Authority notes that escalating the charges by the CPI rather than by 6.5 per cent means that the actual benefits could never match those in the 2007 business case.
- The 2008 review used savings in the HCN as an indication of the potential for achieving the full savings from DTFSSC. At that stage, only the (then) Department of Local Government had a full ERP implementation. However this agency was not interviewed by the consultant.

Implicitly, not revising the harvest amount meant that the 2007 business case assumed that there were no costs to agencies over and above those foreseen in the 2003 business case. With the benefit of agency experience and hindsight, these costs can now be revised. While the Authority has not calculated a figure equivalent to the existing $56.6 million in this report, it has examined the costs of agencies from which a figure could be calculated.

Savings to agencies do not accrue from the date of agency roll-in.

Agencies generally bear considerable costs in the first year and subsequent years after rolling-in to DTFSSC. This is because it takes time to adjust to the new arrangements and shed staff. The 2007 business case did not re-visit the assumption that savings were forecast to be achieved from the day each agency rolled-into DTFSSC. With the benefit of agency experience this assumption needs to be reviewed.

There are substantial transition costs for any option chosen (including decommissioning).

The initial 2003 business case assumed that the shared service IT system would be built at the shared services centre and that staff would be transferred across to the shared services centre as demand necessitated. Excess staff would be managed by natural attrition, and little or no transitional costs would eventuate from roll-ins.[77]

In reality, the DTFSSC has required substantial staff before agencies have rolled-in. Additionally agencies have retained their surplus staff after roll-in. This suggests there is an excess of corporate services staff at the current time, either at DTFSSC (in the decommissioning option) or in the agencies (if efficiencies are generated through DTFSSC).

Option analysis should include all costs known at the time of the analysis, no matter how uncertain the costs.

Many of the costs identified in undertaking this type of analysis are uncertain in terms of their scale and timing. However, best estimates should be made for all costs and under no circumstances should costs be ignored because they are uncertain.

- In contrast the 2007 business case stated that:

> "no allowance is made for software upgrades or increasing costs of maintenance for obsolete or unsupported software. Additionally, no allowances have been made for a technology refresh – it is likely that two major upgrades of the Oracle e-business suite will be required between 2007 and 2016, with an expectation of budget required in the vicinity of $5-10 million".[78]

4.2 Review of Current Shared Service Delivery Against the Original Principles

The original business case had a series of principles that underpinned the (then) proposed reforms. The Authority has re-visited these principles (discussed in section 2.1.2 above) and assessed the current arrangements against these original principles.

[77] Deloitte, (2007), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p48

[78] DTF (2007) Shared Corporate Services Program – Options Case Review, p67

Table 4.1 ERA assessment of current shared service arrangements against original business case principles

Key principles in original business case	ERA findings
Clusters of agencies formed on the basis of economies of scale and standardisation	The Government reduced the number of clusters from five to three with no evidence of a resultant improvement in economic benefits or standardisation. Costs and customisation have both increased in the current, single cluster model of shared services.
High levels of ownership and commitment by agency Director Generals and CEOs	Submissions received from agencies indicate low levels of ownership and commitment to the shared services model.
Services agreed with agencies and cost recovery basis through Service Level Agreements underpinned by a transparent costing and pricing model.	Services are not agreed with agencies. There are no Service Level Agreements and no formal costing or pricing models.
Governance bodies established to oversee the operation of the shared service customers as distinct from project implementation.	There are two Governance bodies, established after the 2007 review. Their effectiveness and independence has been questioned by agencies.
Roles and responsibilities of agencies and clusters clearly documented and agreed.	There is a ‘Partnership Agreement’ between the agencies and DTFSSC. This is used as the primary document that identifies respective roles and responsibilities.
Strategic activities to remain with agencies, transactional services provided by clusters, tactical services provided where agreed with agency.	There has been a shift in the roles and responsibilities of the DTFSSC and agencies. Some functions that were initially provided by DTFSSC have been returned to agencies.
Process improvements can only be achieved where it was possible to implement consolidation, standardisation, re-engineering and automation.	Standardisation across agencies has not been achieved. There has been significant customisation of the system for individual agencies. This is especially evident in the award build and middleware solution implemented by DTFSSC.
While seeking to minimise the number of IT solutions each cluster retained the ability to choose either the ERP or ‘Best of Breed’ solution.	There have been changes to the IT solutions adopted by the clusters. The HCN elected to use Talent 2 instead of the Oracle HR/payroll implemented by DTFSSC. Also, to expedite roll-in some agencies’ functions (e.g. finance) have been transferred to DTFSSC whilst other functions (HR/payroll) are retained in-house or outsourced.
Clusters were to have a customer focused culture.	Submissions received from agencies indicate that there has been a lack of customer focus and customer concerns have not been adequately met.

Source: ERA analysis

Table 4.1 shows that the current arrangements have fallen short of the key principles established as part of the original business case for shared services. In particular, the development of customised solutions, while being necessary to allow rolled-in agencies to successfully provide their services, has prevented any benefits of standardisation from being realised. This has increased the future costs of shared service provision, due to the added complexity of software upgrades. Furthermore, there appears to have been a lack of partnership between the agencies and the DTFSSC, with the absence of SLAs, transparent costs and a transparent pricing model leading to reduced ownership by the agencies.

The (then) OSS's focus on the initial principles may have been partly responsible for the shared services reform project falling behind schedule by 2007. When these principles were side-lined in 2007, in line with policy direction from Government that mandated a primary focus on roll-ins, the project ran approximately on schedule and on budget. However this was at the expense of service delivery standards.

The original principles are based on the assumption that there are net benefits to the provision of shared services. They do not address the key objective, of ensuring that the provision of shared services brings net benefit to the State. As identified in the previous section, this requires independent assessment and ongoing review of all the costs and benefits of the different options for delivering shared services, including the option of not sharing services (or decommissioning). Maximising net benefits also involves the consideration of options that can be adapted over time, depending on changing circumstances. The original principles did not lead to flexible arrangements for shared services. They have instead resulted in arrangements that are difficult to adapt or unwind.

4.3 Guiding Principles

In order to guide the analysis of alternative arrangements for shared services provision (should it continue) the Authority has developed a set of guiding principles against which alternative arrangements can be assessed. The principles have been developed in light of the assessment of the current arrangements. This assessment has indicated some key problems in past decision-making which has contributed to the poor performance of shared services to date.

4.3.1 What are Shared Services Meant to Achieve?

The underlying assumption of shared services is that savings can be achieved by delivering selected government services through a centralised model. This can be achieved without compromising service standards.

Decentralisation can result in variable standards and approaches, duplication of effort, higher costs and less transparency across agencies. However it could potentially allow for greater flexibility in tailoring agencies' services to the needs of their customers. Centralisation can potentially simplify some functions that are common across agencies, resulting in resource savings, without adversely affecting the operations of the agencies. Maximising the benefits to government requires determining which services would be better delivered centrally. In any decision the impact on the agencies' own costs and the services must be considered.

The previous section on the assessment of the current arrangements for shared corporate services in Western Australia suggests that the key principle underpinning the shared services program – that of delivering net savings to government – is in doubt. In particular, a key point highlighted in section 3 was that the assessment of costs to date has been incomplete, involving an underestimation of the costs of agencies in transitioning

to shared services. Any assessment of shared service costs must be comprehensive, including not just the direct costs to DTFSSC, but also all additional costs incurred by the agencies.

The delivery of shared services in Western Australia must be constantly reviewed against the objectives that it is intended to achieve. The Authority is of the view that the lack of genuine review mechanisms at key points has led to the project being allowed to continue despite questions regarding its viability. For example the 2007 review gave limited consideration to the option of decommissioning, even though it indicated that no net benefits would be achieved over the next ten years by continuing with the current arrangements or progressing with alternative options.

Apart from the maximisation of net benefits, a key consideration in the assessment of options is the management of risks. The investment decisions for shared service arrangements involve large scale, lumpy investments (such as a particular hardware infrastructure or software platform) that have highly uncertain costs and benefits at the time the investment decision is being made. For this reason, the Authority's preference is for courses of action that involve staged decisions, which provide for time to collect further information, on which better informed decisions can then be made. Such an approach would favour the choice of solutions that allow for flexibility of design and implementation, rather than ones that result in being locked in to a particular option for the long term.

Another lesson learned from the assessment of the current arrangements is that the lack of defined service standards and independent monitoring of performance in service delivery can result in limited accountability of the shared service provider and a lack of acknowledgement of agency concerns. This strongly suggests the need for Service Level Agreements between DTFSSC and the agencies. These SLAs would replace the current Partnership Agreement. The Partnership Agreement does not allow agencies to participate in determining the type or level of customer service and lacks performance indicators that can be monitored to assess the efficiency of service delivery. SLAs would include defined service standards, agency responsibilities and key performance indicators, which could be independently monitored. The SLA would have to be agreed to by both parties before being implemented.

Given the past experience of the evolution of shared service arrangements, the following principles have been developed with the aim of guiding the assessment of options for shared services delivery. They will ensure any options chosen meet the overriding objective of maximising the net benefit to the State.

4.3.2 Recommended Guiding Principles

Guiding Principles

If DTFSSC is to continue then the following principles should apply.

Value for Money

- The DTFSSC must deliver value for money to the Western Australian Government. This would be achieved by providing shared services to a defined service standard at minimum cost over the long term.
- If there are net benefits to sharing some corporate services, then the choice between future shared services arrangements should take into account strategies for appropriate risk mitigation and management.
- Any harvesting of savings from agencies by government should not occur immediately after the agency is rolled-in to DTFSSC. Agencies require time to adjust to the new arrangements and therefore are unlikely to achieve savings immediately. Therefore any harvesting of savings should not begin immediately after agencies roll-in.

Clear Role

- The role of the DTFSSC should be to provide those services to government agencies which can be provided more efficiently by DTFSSC than by individual agencies.

Defined Level of Service

- The level of service delivered by the DTFSSC should be clearly defined through Service Level Agreements and independently monitored.

Cost Efficiency and Cost-Reflective Pricing

- Service fees to agencies should be independently monitored to ensure that fees reflect the efficient costs of service. Mechanisms should be put in place to ensure continuous improvement in cost efficiency over time.

Accountability, Transparency, Independence

- Governance of the DTFSSC should be transparent, accountable and independent of Government and the Executive of the DTFSSC.

4.3.3 Discussion

Value for Money

The shared services centre (DTFSSC) must deliver value for money to the Western Australian Government, by providing shared services to a defined service standard at minimum cost over the long term.

The DTFSSC must be able to provide a defined level of service for a lesser cost than agencies could provide individually (in Net Present Cost terms) when summed across the

Western Australian Public Sector, or the section of the public sector identified as suitable for the DTFSSC.

In assessing the costs and benefits of shared services, it is important to take a comprehensive view of the costs and benefits. For example, intangible costs and benefits (e.g. such as benefits from the use of a common financial reporting framework across agencies or the move away from paper requests, the costs of additional staff time required to interface with DTFSSC or the reassignment of work to higher level officers) should be taken into account.

The net benefit (i.e. net present value of costs saved), if it exists, must provide for a substantial margin of error.

It is important to allow for a substantial margin of error in the assessment of net benefits. The implementation of the DTFSSC is a long-term proposition. Hence, any uncertainty, errors and/or bias in the assumptions will compound over time. Furthermore, a business case should be robust to some variation in its estimates and should not depend on precise assumptions.

For some agencies, the benefits of rolling-in to a shared services arrangement could be outweighed significantly by the costs associated with transitioning from their existing systems and/or the detrimental impacts of using shared services. The decision on whether such agencies should be rolled-in will depend on whether the additional benefits to the whole-of-government from rolling them in (e.g. due to improved economies of scale in shared services provision) exceed the additional costs to the agencies.

If there are net benefits to sharing some services, then the choice between future shared services arrangements should take into account strategies for appropriate risk mitigation and management.

In selecting between shared service arrangements (assuming that there are net benefits to sharing services), the level and management of risks associated with each arrangement should be considered. This would include consideration of strategies to mitigate some risks, the appropriate level of risk and who should bear the risks.

Where possible, the Government should keep different options open until there is more certainty regarding the costs and benefits of proceeding. The DTFSSC model or software chosen should not lock the Government into a particular solution. DTFSSC could also be allowed some scope and budget to experiment with its service delivery methods for the purpose of improving service standards to client agencies.

Any harvesting of savings from agencies should occur when the benefits are delivered, rather than when the agency is rolled-in.

Harvesting of benefits before they are fully realised could have detrimental effects on agencies' operations and ownership of the shared services program.

If the costs and/or harvesting arrangements for future roll-ins are changed from the current model, then some approach should be found to ensure all agencies are treated fairly.

Clear Role

The role of the shared services centre is to provide those services to government agencies which can be provided more efficiently as shared services than by individual agencies.

The types of services that are most likely to be more efficiently provided on a shared basis than by individual agencies are basic transactional services that do not vary significantly between agencies. The provision of these shared services should not require excessive standardisation of agencies' processes as this may hamper their ability to deliver services.

In addition, there should be clarity regarding the roles and responsibilities of the agencies that are part of any shared service arrangements, and the role of the arbitrator.

Defined Level of Service

The level of service to be delivered by the DTFSSC to its customers should be clearly defined through Service Level Agreements and independently monitored.

The level, price and quality of service provided by the DTFSSC, and the responsibilities of each party, should be formalised in a document (a SLA) that gives all parties ownership of the services being delivered.

- The SLA should incorporate an agreement from the parties to work together in the development and delivery of shared services. Client liaison officers placed within agencies could enhance the working relationship between the agencies and the shared services provider.
- Stakeholders should be consulted in the development of the SLA. This could be achieved through a stakeholder reference group.
- Meaningful Key Performance Indicators (**KPIs**) must be developed for the DTFSSC (relating to the service it delivers) and for the agencies (relating to how information and service requests are made to DTFSSC). KPIs should be independently audited and performance against service standards should be independently monitored.
- The SLA should contain mechanisms to be invoked should either party fail to meet its requirements as specified in the SLA. This could include penalties for the party at fault. Dispute resolution could be outsourced to an independent party.

Cost Efficiency and Cost-Reflective Pricing

Service fees to agencies should be independently monitored to ensure that fees reflect the efficient costs of service. Mechanisms should be put in place to ensure continuous improvement in cost efficiency over time.

Given the absence of competition in the provision of shared services within the public service, the long-run costs of providing shared services should be minimised, subject to meeting the defined service standards.

In seeking to minimise costs over the long term, the costs of upgrades should be taken into account. Any arrangement for shared services must be technically feasible and be able to be updated over time at reasonable cost.

- The modifications to the core software and middleware implemented should be kept to a minimum so that upgrades to software are not excessively expensive.
- When considering middleware solutions, consideration should be given to whether the problem might be addressed in future versions of the core software, and whether a temporary manual solution could be implemented in the interim.

Agencies should be charged for the actual services they receive from the DTFSSC. This fee should be based on the cost to DTFSSC of providing the service.

The DTFSSC's costs of providing services should be independently monitored to ensure that they are efficient and to ensure that fees reflect the costs of service. This could be carried out by the Department of Treasury as from 1 July 2011 the DTFSSC will be relocated to the newly created Department of Finance.

The DTFSSC must have an incentive to achieve ongoing cost efficiency improvements. This could be achieved through the setting of efficiency targets by an independent body or receiving an efficiency dividend from government.

Transparency, Accountability, Independence

Governance of the DTFSSC should be transparent, accountable and independent of Government and the Executive of the DTFSSC.

The governance arrangements of the DTFSSC should be such that:

- any influence by Government is transparent (transparency);
- responsibility and accountability for the success of shared services is clearly assigned to an individual (accountability); and
- the governing body of the DTFSSC would be more actively involved in decisions regarding operational matters than the usual company board.

The DTFSSC could be established as an Office within the Finance Portfolio, with an independent board (independence). The Chief Executive Officer would be responsible to the board for policy, planning and strategy and to the Director General of Finance for administrative matters.

5 Options for Shared Services Provision

In section 3.5 above, the Authority concluded that the roll-in of agencies to existing shared service arrangements should be stopped immediately for the reasons outlined.

The Authority also identified that the key issue to address going forward is whether to:

- stop and fix the existing arrangements;
- decommission DTFSSC and return responsibility for corporate services to individual agencies; or
- outsource shared service provision to a third party.

The Authority considered the guiding principles for shared service delivery and the lessons learned from previous reviews in developing a selection of future options for shared service provision in the public sector under each of the above scenarios.

Overall ten options were developed and evaluated. These options are not comprehensive but represent different models the Authority has considered that attempt to solve a range of shared service problems. The option to continue with the existing roll-in schedule and range of services (**Option 1 – Business as Usual**) has been examined in previous sections and considered to be unviable so it is not analysed in this section.

Also in this section, several options are dismissed as impractical or inconsistent with the Authority's principles or aggregated into a class of options. Several of the options or classes of options cannot be ranked until a financial analysis is undertaken. Viable individual options and classes of options are then further analysed in section 6.

5.1 'Stop and Fix' Existing Arrangements

The stop and fix options were considered as they involve a way of fixing the issues currently experienced by DTFSSC while not abandoning the concept of shared services altogether. There are seven variations of the stop and fix option. These variations were chosen for consideration as they:

- were suggested in various agency submissions;
- have been used in other jurisdictions;
- were previously considered in Western Australia; or
- propose a solution to current issues experienced by DTFSSC.

5.1.1 Description of 'Stop and Fix' Options

Under these options, the rolling-in of further agencies would be paused while current problems with service delivery are fixed.[79] These options are not mutually exclusive and a number could be used in conjunction to modify the delivery of shared services in Western Australia.

[79] These include the existing defects, enhancements and customisations of the IT system

All of these options, if implemented, would require:

- Service Level Agreements;
- new governance arrangements; and
- some employees returned to agencies.

Option 2a − Full ERP

This option involves ceasing all scheduled roll-ins, upgrading to Oracle eBusiness version 12, fixing major problems in the system and resolving service delivery issues. The time to upgrade to Oracle version 12 is estimated at 27 months but progress should be reviewed after 12 months with a possible move to decommissioning if progress is not made in the upgrade. This is the equivalent to Option 1a in the 2007 business case. During the core upgrade period further agency roll-ins are not practical.

Agency submissions indicate that there are significant service delivery issues with the current system. This option represents an attempt to fix these issues without substantial changes to the business model. However, consistent with the Authority's consultant's advice, it would involve reducing the DTFSSC's services to a 'vanilla' product which would imply further agency integration costs.

Option 2b – Multi-portfolio clusters

Another option is to create additional shared services clusters. These multi-portfolio clusters would service similar agencies (based on agency size, nature of services or complexity). Once the existing technical, software and operational issues have been resolved, the existing IT infrastructure and the full Oracle eBusiness system would be retained.

This option was recommended in the original 2003 business case (with three clusters for general government) but abandoned during implementation. A number of submissions indicated that it may be a viable way of delivering shared services in the future.

Option 2c − Ministerial clusters

The Authority has also considered the option of providing shared services through separate clusters of agencies based on Ministerial portfolios (there are currently 17 Ministers). Under this option, the existing IT infrastructure and the full Oracle eBusiness system would be retained (once the existing technical, software and operational issues have been resolved).

This option has been considered and used in other jurisdictions and was identified in agency submissions as a possible way to deliver shared services in Western Australia.

Option 2d − HR/payroll by 'best of breed' system

Once the service delivery problems are fixed, agencies that have already been rolled-in would be migrated to Oracle Financials version 12, but HR/payroll functions would be provided by systems developed by another provider ('best of breed' system for HR and Payroll functions). This is equivalent to Option 1b in the 2007 business case.

Agency submissions and Authority analysis indicated that many of the problems with the shared services system stems from the HR/payroll module. This option seeks to fix these problems by using a different system for HR/payroll services.

Option 2e − Virtual cluster

Once the service delivery problems are fixed, agencies that have already been rolled-in (Cluster A) would continue to share services using the full Oracle eBusiness suite. These agencies would be migrated to Oracle Financials version 12.

New agencies would be rolled-in to a separate 'virtual' Cluster B. Agencies in Cluster B would use Oracle version 12 for financials, but would retain their existing HR/payroll systems, with interfaces developed between these systems and Oracle.

If the finance only shared service centre performs well and the suitability of the HR/payroll system is adequate in Cluster A, then consideration could be given to providing the additional services to agencies in Cluster B.

The virtual cluster was considered as an option as it is a way of fixing the problems with the current system while continuing to roll-in additional agencies.

Option 2f − Roll-in with legacy systems

Under this option agencies would be given the choice to roll-in to DTFSSC using their existing systems. DTFSSC already provides a similar service known as the Interim Payroll Solution (**IPS**). Under the IPS, DTFSSC provides HR/payroll services to the Department of Culture and the Arts (**DCA**) using DCA software.

A number of other jurisdictions have used this option when developing their shared services arrangements. It provides a way of rolling-in agencies to a shared service environment without creating many of the service delivery problems associated with standardised systems and processes.

Option 2g – Finance only − devolve HR/payroll services to agencies

Under this model, only financial services would be shared. Agencies that have already been rolled-in would be migrated to Oracle Financials version 12 but HR/payroll functions would be provided by the agencies themselves, using the system that works best for them. These systems would be interfaced with the Oracle (non-HR/payroll) systems.

Option 2g was considered as it represents another method of solving the problems associated with the Oracle HR/payroll module and was raised in agency submissions.

5.1.2 Assessment of 'Stop and Fix' Options

Option 2a − Cease roll-ins, fix system, review (full ERP)

Freezing the current environment for existing agencies would enable DTFSSC to stabilise and optimise the existing solution. This may resolve all current issues and improve usability and functionality. This approach would provide time to fully assess the integrated Oracle ERP and determine whether there are benefits that could be salvaged from the Oracle HR/payroll module.

Under this option it is assumed that:

- the system would be upgraded to Oracle version 12;
- the expected duration of the upgrade is 27 months;
- technical staff would be dedicated to undertaking this upgrade, as well as fixing the system and service delivery issues (by reducing the number of customisations);

- there would be no new roll-ins during the core upgrade period, meaning that DTFSSC will need continued financial support;
- FTE numbers and costs would increase over the short-term; and
- DTFSSC would move to a more 'vanilla' solution once the system has been upgraded.

The major risks with this option are that there could still be a number of issues with the system after the upgrade and the eventual system performance may offer no improvement over existing arrangements. There is no guarantee that the HR/payroll module would perform better than the current situation. The review of DTFSSC conducted after the upgrade may conclude that this option is not sustainable going forward, taking DTFSSC back to its current position.

As indicated above, this option would require additional staff and funding if implemented. The estimated cost to upgrade to Oracle version 12 is $35 million. There is also a cost associated with the freeze in agency roll-ins during the upgrade. This is reflected by the excess corporate services staff across the sector that will not be saved as well as the $32 million per annum in general government funding currently required by DTFSSC. This funding support is expected to cease once all agencies have rolled in.

Agencies would still be expected to incur considerable capital and ongoing integration costs with the 'vanilla' DTFSSC service.

The move to a more 'vanilla' solution may require agency expectations, regarding what services are to be delivered, to be reduced. However the services that continue to be delivered are expected to be of a higher quality. Agencies would be likely to incur higher costs if a 'vanilla' solution is implemented. This is because it would push back some of the services to agencies as well as increase any integration costs associated with the interaction of agency systems and the Oracle business system.

However, once the Oracle business system had been stabilised, it is expected that the performance of the shared services system would improve and the costs reduced over the long term.

Following the Authority's initial assessment, Option 2a was taken forward, fully costed and compared with other selected options in section 6.

Option 2b – Multi- portfolio clusters

Under this option, agencies would have a choice between three multi-portfolio clusters which would service similar agencies (based on agency size, nature of services or complexity). Each of these three clusters would be managed by a large agency.

Under this option, it is assumed that:

- the IT infrastructure and Oracle eBusiness system would be retained and replicated for three clusters;
- the system would be upgraded to Oracle version 12;
- the expected duration of the upgrade is 27 months;
- technical staff would be dedicated to undertaking this upgrade, as well as fixing the system and service delivery issues;
- there would be no new roll-ins during the upgrade; and
- FTE numbers and costs would increase over the short-term.

Although this option would reduce the number of system customisations, the creation of two additional clusters would increase the number of system components required overall. This is because the three clusters would require separate physical or logical computing environments as well as additional instances of the Oracle eBusiness system. This will significantly increase both staff and system costs.

Agencies would have a choice about which cluster to roll-in to, which would be based on the services that they require. Services would be likely to improve under this option, as they would be more targeted to the needs of the agencies in each cluster.

The major risk with this option is that there could still be a number of issues with the system that require fixing and additional funding after the upgrade is completed.

This option would also not achieve the principles of consolidation and standardisation across government.

Following the Authority's initial assessment, Option 2b was eliminated from further assessment on the grounds that it would be too expensive to replicate the business system for multiple clusters and impossible to determine the optimal size of the clusters.

Option 2c – Ministerial clusters

This is a modified version of Option 2b, where shared services would be provided through separate clusters of agencies based on Ministerial portfolios. The Authority expects there would be approximately 15 clusters. The Portfolio clusters would provide tailored and customised services unique to the requirements of the particular portfolio.

Under this option, it is assumed that:

- the IT infrastructure and Oracle eBusiness system would be retained and replicated for the 15 clusters;
- the system would be upgraded to Oracle version 12;
- the expected duration of the upgrade is 27 months;
- technical staff would be dedicated to undertaking this upgrade, as well as fixing the system and service delivery issues (by reducing the number of customisations);
- there would be no new roll-ins during the upgrade; and
- FTE numbers and costs would increase over the short-term.

The major risk with this option is that there may still be a number of issues with the system after the upgrade has been completed.

Although this option would reduce the number of system customisations, the creation of 15 Portfolio clusters would increase the number of system components required overall. This is because the Portfolio clusters would require separate physical or logistical computing environments as well as additional instances of the Oracle eBusiness system. This would significantly increase both staff and system costs.

Following the Authority's initial assessment, Option 2c was eliminated from ongoing assessment on the grounds that it would be too expensive to replicate the business system for 15 Portfolio clusters.

Option 2d – HR/payroll by 'Best of Breed' system

Under this option DTFSSC would utilise a new HR/payroll system that interfaces with the non-HR/payroll modules of their current system. It is envisaged that this option could rectify the issues currently experienced with the HR/payroll module.

It is assumed that:

- the non-HR/payroll modules of the current system would be upgraded to Oracle version 12;
- Government would select a best of breed HR/payroll system to replace the current Oracle HR/payroll module;
- an interface between the best of breed system and Oracle version 12 would be created; and
- there would be no roll-ins during the upgrade period.

Retaining the IT infrastructure and Oracle eBusiness but discarding the Oracle HR/payroll module and using a 'best of breed' solution may fix the HR/payroll issues in the medium term. Provided that customisations could be kept to a minimum and the system could be upgraded and integrated to an appropriate level this option could also provide a solution to the HR/payroll issues in the long term.

However, due to the two differing systems, any process updates would not be replicated across all business components in a seamless manner. An interface between the two systems would also be required to allow updating of general ledger balances. This is estimated to require a capital project costing approximately $4 million and ongoing funding of $2-9 million per annum. However, Stantons note that:

- it is possible to build such an interface; and
- performance of the 'best of breed' solution in terms of system integration would be very close to the ERP model.

With this option there is a risk that simultaneously upgrading to Oracle version 12 while creating an interface for a new HR/payroll system would be overly complex. Additionally, there is the possibility that the issues currently experienced with the non-HR/payroll modules, although minor in comparison to the HR/payroll issues, would not be fixed in the upgrade.

This option would allow DTFSSC to utilise much of its existing staff, systems, infrastructure and corporate knowledge, which would keep costs down. In this regard, many agencies who do not receive HR/payroll services from DTFSSC use the same HR/payroll system, so interface costs could be reduced. Additionally, depending on the HR/payroll system selected, there could be commonalities with existing agency systems, leading to greater staff mobility and better acquisition and retention of corporate knowledge.

Following the Authority's initial assessment and because of the reasons outlined above this option has been costed and compared with other selected options in section 6 below.

Option 2e − Virtual cluster

Option 2e would involve two shared services clusters. Cluster A would contain those agencies that are already rolled-in to DTFSSC under the current Oracle version 11.5.10. Cluster B is used to refer to a 'virtual cluster' of agencies that would roll-in straight in to Oracle version 12 for financials but who could retain their own HR/payroll systems.

Freezing the current environment in Cluster A could enable DTFSSC to stabilise and optimise the existing solution. This may resolve all current issues and improve usability and functionality. This approach would provide time to fully assess the integrated Oracle ERP and determine whether there are benefits that could be salvaged from the Oracle HR/payroll module.

Concurrently the new Cluster B could commence rolling-in agencies to the new Oracle version 12 for the financial and other non-HR/payroll modules. The existing HR/payroll modules could be retained by the agencies and interfaced with the Oracle eBusiness suite or the agencies could use the DTFSSC 'interim payroll solution' which is currently hosting the HR/payroll for the Department of Culture and the Arts.

However, according to analysis from Stantons, a similar set up phase would be required for Cluster B as the upgrade for Cluster A. It is doubtful that the DTFSSC has access to the necessary skills base to be able to upgrade Cluster A and set up Cluster B at the same time (or indeed roll agencies in to Cluster B if this set up is completed first). Hence, while not dismissed, this option was not costed as it is effectively a combination of Options 2a and 2g. It could be further considered as a way to implement Option 2g (finance only).

Option 2f − Roll-in with legacy systems

Stantons indicates that allowing agencies to roll-in with their existing legacy systems would increase the complexity of the shared services environment as each agency would be running a different implementation. Under this option staffing and costs, from both a DTFSSC and whole-of-government perspective, would increase as there would be a need to cater for additional computing environments and their required support staff. The majority of the benefits of a shared service arrangement, in the form of shared processes and systems, would be lost and management would become complex.

Due to these reasons it is unlikely that this option would provide a benefit to Western Australia and has therefore it has not been costed in detail.

Option 2g – Finance only − devolve selected services to agencies

This option would deliver a shared service 'vanilla' solution for agencies' financial needs, with individual agencies providing their own HR/payroll functions. Currently, 11 agencies operate such a model.

The finance only option would fulfil the principle of giving shared services a clearly defined role. This is because there would be a clear division of responsibilities regarding what service DTFSSC provides and what tasks agencies must complete in-house. This would be assisted by the adoption of a SLA which would help to overcome the current issues around service delivery. Clear delivery times and accuracy rates for given functions would assist with ongoing service improvement. Ongoing Governance arrangements for a 'finance only' DTFSSC would need to ensure the principles of accountability, transparency and independence.

There would be some risks with this option, particularly if the vanilla finance solution offered by DTFSSC is not sufficient to meet the needs of a particular agency. For example, DTFSSC may not be able to meet the needs of agencies that have a complex

payment system for clients, or require a large volume of relatively small payments in emergency situations.

The provision of a more ‘vanilla’ finance service from DTFSSC would reduce the number of customisations in Oracle, which in turn would reduce costs and ensure more efficient system upgrades in the future. However, if the vanilla finance service is insufficient for a particular agency’s needs then that agency would incur additional costs of running an alternative finance system in-house that has to be integrated with the DTFSSC system. The development costs associated with this workaround would reside with the agency in question. Furthermore, if only finance services are provided through a shared services environment then agencies would need to operate their own HR/payroll systems. This would involve costs in terms of FTEs, system development, maintenance and licensing. .

Under this option HR/payroll functions would need to be rolled back to agencies through a phased schedule. The agencies affected would need to take back FTE costs (possibly by transferring staff from DTFSSC back to agencies) to fulfil the HR/payroll functions. However, the transfer of staff may be minimal as agency financial data indicates that most agencies have kept a sizeable HR/payroll presence. Agencies would also need to develop new HR/payroll systems.

An interface would need to be developed between the agency HR systems and the DTFSSC finance systems. In addition to this interface DTFSSC will need to retain the maintenance of selected agency HR data. Without this data many functions of the finance module, such as the proper application of workflows, manager approvals, raising a purchase order or the processing of expenses, will not work efficiently. Therefore DTFSSC will require a team of FTEs to update HR data used in finance processes.

The service quality impacts associated with this option would probably be favourable overall as most agencies have had problems with the HR/payroll service provided by DTFSSC. Most agencies reported that they could undertake these functions more efficiently than DTFSSC. The main service impacts would be felt by agencies that have been rolled-in to DTFSSC for a long period of time. This is because these agencies would need to re-establish their HR/payroll corporate knowledge.

Following the Authority’s initial assessment Option 2g has been taken forward, fully costed and compared with other selected options in section 6 below.

5.2 Decommission DTFSSC

The option of decommissioning DTFSSC was considered as it is a viable option at this stage of the roll-in process. The Authority notes however, that it would cause a large disruption for DTFSSC and its staff. This is equivalent to Option 3 in the 2007 business case.

The Authority notes that the shared services reform project is at a critical stage, as this may be the last point at which the decommissioning of DTFSSC can be realistically considered as a possible option. This is because:

- to date, a third of agencies are yet to roll-in. This is significant as many of these agencies are the large and have more complex operational requirements;
- the larger agencies that are rolled-in have only recently rolled-in. Therefore they could be rolled-out relatively easily; and
- following roll-in to shared services, agencies begin to lose the corporate memory associated with their legacy systems. This is because corporate services skills are

transferred to centralised service providers. Once this corporate knowledge is lost, an agency would find it difficult to revert back to in-house corporate service provision.

5.2.1 Description of 'Decommission' Option

Under the decommissioning option, corporate service provision would revert back to individual agencies. Agencies would be given the option of utilising the left-over IT infrastructure from DTFSSC, including novation of software licences where possible.

Another possible option raised in agency submission relates to the software as a service option. Under this option multiple agencies can use the same software system independently of each other. This option may rectify some of the system issues currently experienced by DTFSSC. However, like DTFSSC, the use of a standardised system is unlikely to cater for the diverse needs of agencies. In order for the system to cater for agencies' needs it would need to be customised. This would result in increased integration costs for agencies and a risk that the software as a service option would produce the same outcome as the current DTFSSC arrangements. The Authority has not had time to cost software as a service, but believes that if Government were to consider this option it should undertake an expression of interest process to determine whether the private sector can provide this service.

5.2.2 Assessment of 'Decommission' Option

The option of decommissioning must be assessed primarily on the basis of its costs and benefits. Other principles, such as those relating to service standards and cost efficiency, become irrelevant in the assessment of this option.

The main risk associated with decommissioning is the uncertainty regarding the cost to agencies of reverting back to self-provision. This could involve reverting back to legacy systems, which could be difficult if corporate memory of these systems has been lost, or establishing a new corporate services capacity. Additionally, agencies have been barred from upgrading their systems since the creation of OSS on the grounds that they would eventually use the DTFSSC services. This means that many of these upgrades will be substantial. Another risk is that, having chosen to decommission, it would be difficult for any Western Australian Government to re-introduce shared corporate services in the future, even if other systems were to emerge that could produce net benefits. Finally, if the decommission option is chosen by Government, there is a possibility that the market may not be able to support every agency roll-in out in a relatively short time frame.

Under the decommissioning option, all the past costs incurred in the provision of shared services would be sunk and non-recoverable. However, as this is true of any of the options, the key factor used to determine the most viable option should be the net present value of all future costs and benefits. Under decommissioning, the costs associated with upgrading the current shared service system (including the associated customised middleware solutions) would be avoided. The number of staff at DTFSSC would be reduced as staff return to individual agencies. However, there would be an increase in whole-of-government costs over the short term as agencies develop their own systems. Additional staff may be required in the short-term to resource this re-implementation.

Any long term contracted liabilities for accommodation and IT support would also need to be incorporated into the costing of the decommissioning option. The use of existing DTFSSC IT systems by agencies would also need to be considered and costed.

Decommissioning DTFSSC would result in customised systems and solutions that are 'tailored' to agencies specific requirements. This would recreate the pre-DTFSSC

individual solutions and result in a loss of any future whole-of-government benefits that could be achieved through standardisation and centralisation.

A risk of decommissioning DTFSSC is the impact on staff morale and staff losses during the decommissioning period. A motivated DTFSSC staff compliment is required during the decommission phase to maintain finance and payroll services as well as roll agencies out. If the DTFSSC loses key staff then its operations could be placed in jeopardy. If decommissioning is pursued, then Government could consider mechanisms to keep DTFSSC staff during the decommissioning period. A memorandum of understanding between the Government and selected staff, guaranteeing them employment in another agency after DTFSSC is decommissioned, may mitigate this risk. However, it should be noted that this is a significant risk that may not easily be overcome.

Following the Authority's initial assessment, the option of decommissioning DTFSSC has been fully costed and compared with other selected options (see section 6 below).

5.3 Outsource Shared Service Provision

5.3.1 Description of 'Outsourcing' Option

Option 4 – Sell off DTFSSC

This option entails decommissioning or selling DTFSSC and seeking shared service provision from a private sector company.

Such a sale could include some or all of the DTFSSC hardware assets. The services to be delivered and service standards would be specified in the contract between the Government and the private service provider. However, it would be up to the private service provider to determine the best hardware and software solution needed to deliver the services as contracted.

5.3.2 Assessment of 'Outsourcing' Option

Option 4 – Sell off DTFSSC

This option assumes that shared corporate service provision in the public sector is provided by a third party. This option would fulfil the principles of providing a clear role for the shared service provider as its responsibilities would be determined by the contract details. It would also be expected that service provision by a third party would be in line with a mutually agreed SLA that could be linked to payment terms for the service provider. Similarly, terms could be written into the service contract that require the service provider to meet ongoing efficiency savings. In addition, provision of services by a third party would also meet the principles of accountability, transparency and independence.

There are some risks associated with this option, which include:

- the management of confidential government information by a non-government body. Although this could be managed through comprehensive agreements; and
- the risk of a private company being less financially secure than a public sector body. If a third party ceased trading then the Government would face difficulty in quickly finding a replacement provider.

It is impossible to identify and quantify the costs associated with this option without drafting an expression of interest for private sector companies to address. However, this

remains an option for Government to explore if the losses from other options are large. Care would need to be taken when pursuing this option to ensure risk and/or costs do not remain with government.

As with a transition to any alternative service provider, there would be costs associated with a changeover to a third party service provider. However, once the transition has been made the delivery of the ongoing service could be expected to improve, particularly if a SLA is in place.

Following the Authority's initial assessment, Option 4 was not taken forward for financial assessment because the Authority cannot cost this option. For this option to be properly assessed it requires the development and publication of an Expression of Interest document for third party service providers to review, cost and submit offers. Until these offers have been received the cost of selling DTFSSC or having corporate services provided by a third party will remain unknown.

If the Government decides to proceed with the option to decommission DTFSSC, then it could 'test' the outsourcing option at that time by offering an expression of interest. This would determine if the private sector could provide shared corporate services at a lower cost than decommissioning.

5.4 Summary of Options

As a result of the Authority's initial assessment of options the following have been taken forward for financial analysis in section 6 below:

- Option 2a − Full ERP (once current problems fixed);
- Option 2d − HR/payroll by 'best of breed' system (once current problems fixed);
- Option 2g – 'Finance only' − devolve HR/payroll services to agencies (once current problems fixed); and
- Option 3 − decommission DTFSSC.

5.5 Summary of Findings

Future options

The Authority was asked to investigate whether alternative arrangements for the provision of shared services would provide a net benefit to the State (ToR 6).

- Given the current situation is unsustainable, the key issue to address going forward is whether to:
  - stop and fix the current arrangements; or
  - decommission DTFSSC and return responsibility for corporate services to individual agencies.
- Following an initial assessment, the Authority undertook financial analysis of four of the ten options considered:
  - cease roll-ins, upgrade rolled-in agencies to Oracle version 12 and review. If review is positive, roll-in other agencies to the full Oracle eBusiness suite (Option 2a);
  - cease roll-ins and use a 'best of breed' system to deliver shared HR/payroll services at DTFSSC. Retain the current Oracle system for financial services only (Option 2d);
  - cease roll-ins and allow agencies to develop their own HR/payroll systems. Retain the current Oracle system at DTFSSC to deliver shared financial services (Option 2g); and
  - decommission DTFSSC (Option 3).

6 Summary of Draft Report Recommendations and Submissions

On 6 May 2011, as per the amended terms of reference, the Authority distributed a confidential draft report to public sector agencies, relevant unions and private sector stakeholders. These organisations were asked to comment on the Authority's proposed recommendations.

The Authority's draft findings and recommendations were based on its initial modelling of the costs and benefits of the four options identified in section 5 (full ERP; HR/payroll based on a 'best of breed' system; a finance only option, with HR/payroll services devolved to agencies; and decommissioning). The Authority's model is described in section 7, which also indicates any assumptions that have been changed as a result of the submissions received in response to the draft report.

This section summarises the recommendations and findings in the Authority's draft report, and the comments in submissions to the inquiry following the draft report.

6.1 Summary of Draft Findings and Recommendations

On the basis of its initial modelling and analysis for the draft report, the Authority concluded that the integrated HR/payroll and finance shared services option was likely to be the highest cost and highest risk option for general government corporate services provision in Western Australia. The Authority considered that there were two viable options: decommissioning DTFSSC, and providing a 'finance only' shared corporate service with agencies using their own HR/payroll systems.

The Authority's initial modelling showed that decommissioning was the least cost and most certain of the options evaluated. However, the finance only option was also considered to be viable, as there was a chance that current performance issues in the finance system could be resolved with the upgrade to Oracle Financials version 12, resulting in further FTE savings. The Authority also noted that the decommissioning option is not risk free, as rolling-out agencies would take time, and upgrade costs for individual agencies could be higher than expected.

The Authority's draft recommendation were that, if a finance only shared services model was pursued:

- the existing finance module in DTFSSC should be upgraded and improved, including; upgrading to Oracle financials system to version 12.0; instituting meaningful Service Level Agreements (SLAs) between the DTFSSC and agencies; and reducing the DTFSSC to a size commensurate with the provision of finance only services;
- the cost and performance of the DTFSSC services for rolled-in agencies relative to the internal services of agencies should be independently evaluated three months after the upgrade period. If this review showed that the costs and performance of the DTFSSC improved agency self delivery, then the remaining suitable agencies should be rolled-in to DTFSSC. However, if the performance and cost of the DTFSSC failed to improve agency self delivery, then the DTFSSC should be decommissioned;
- an initial set of cost-reflective per-unit prices for services provided by the DTFSSC should be developed, with prices updated by the DTFSSC as required and independently monitored, possibly by the DTF;

- the shared services centre should be established as an office within the Finance Portfolio, with a Governing Body responsible to the Government, through the Minister for Finance. The Chief Executive Officer of the finance only shared services centre would be responsible to the Governing Body for policy, planning and strategy and to the Director General of Finance for administrative matters; and
- agencies already rolled-in should roll-out of the HR/payroll service, but not the DTFSSC shared finance service. Micro agencies (30 FTEs or less), and/or other agencies that can show that shared finance provision is adversely impacting on their core service delivery should be given the option to roll-out of the finance only shared service model.

The Authority found in its draft report that shared procurement services appeared to have wide acceptance amongst agencies and recommended that these should continue, either as part of the 'finance only' DTFSSC, or housed at another location if DTFSSC is decommissioned.

6.2 Submissions in Response to Draft Report

The Authority received 30 submissions in response to the draft report. This included:

- 11 submissions from rolled-in agencies;
- 9 submissions from agencies scheduled to roll-in;
- 1 joint submission from 26 public sector Heads of Corporate Services from both rolled-in and yet to be rolled-in agencies;
- 3 submissions from agencies receiving services from the ETSSC;
- 1 submission from the relevant unions; and
- 5 submissions from private sector partners.

The over-arching theme of the submissions from agencies was that they support the decommissioning of DTFSSC. Excluding the submission from DTF, which is discussed in the following section:

- 8 out of the 10 rolled-in agencies who made a submission supported the decommissioning of DTFSSC. Of the two agencies that did not support decommissioning one did not express a preference for either option while the other supported a continuation of the full ERP model as it did not want to undertake the workload associated with rolling-out; and
- 7 out of the 9 agencies who are scheduled to roll-in to DTFSSC and made a submission supported the decommissioning option. The other two agencies did not explicitly support any option but stated that they did not want to roll-in to DTFSSC as it would be detrimental to their agencies.

In addition the Authority received a joint submission co-signed by 26 public sector Heads of Corporate Services. This submission stated that the DTFSSC arrangements are a failure and should be decommissioned. The submission also indicated that pursuing the finance only option would involve an unacceptably high level of risk.

The submissions received from agencies outlined the reasons why they support the decommissioning of DTFSSC. This option was supported because the agencies believed that:

- the use of DTFSSC services has resulted in no benefit for agencies or government;
- there has been a negative impact on productivity and operational effectiveness as a result of using DTFSSC services. Submissions indicated that the system is too complex for staff who only use it occasionally, resulting in lost productivity. This impact is disproportional to any perceived benefits or efficiencies;
- they can provide a better service in-house for less than the direct and indirect costs associated with using DTFSSC;
- DTFSSC is reluctant to be held accountable for the services that they deliver;
- the continuation of DTFSSC will result in a loss of reputation for agencies and the Government;
- the standardised corporate services solution offered by DTFSSC does not meet agency needs; and
- if decommissioned, agencies can revert back to a proven business model where CFOs will have greater control of the services they are responsible for.

The submissions received from agencies also indicated why they do not support the finance only option. This option was not supported because agencies believed that:

- the upgrade to version 12 will not fix the problems with the system. Furthermore the submissions indicated that agencies do not believe that DTFSSC or its private sector partners will be able to fix the issues with the system given that they have been unable to fix problems in the past;
- there will be interfacing issues between agency systems and the DTFSSC finance system. This view was supported by submissions from private sector stakeholders which stated that many DTFSSC functions (such as the proper application of workflow, raising of a purchase order and processing expenses) will not operate correctly without the proper maintenance of all HR foundation data. The submissions indicated that it is therefore difficult to use another HR/payroll system without introducing significant processing difficulties for the finance module;
- there is a significant level of uncertainty associated with this option. Agencies will not know the level of service they will be able to expect or whether DTFSSC will be decommissioned in the future; and
- the standardised solution has already been shown to be inappropriate for agency needs.

One submission from a private sector stakeholder supported continuation of the full ERP on the basis that costs would decrease after implementation of the reform program and benefits to agencies would be realised, particularly if the Oracle business system were optimised and stabilised prior to roll-in of further agencies. The submission expressed concern that the Authority had placed too much weight on submissions by agencies opposed to reform, and urged that a wider, whole-of-government, perspective be taken on further assessment of costs and benefits.

6.2.1 DTF Submission

The DTF, being both the operator and a client agency of DTFSSC, made a submission in response to the Authority's draft report, which covered four major topics:

- service delivery capability of DTFSSC;
- technological capability of DTFSSC;
- consideration of the Authority's options; and
- factual inaccuracies and clarifications.

Service Delivery Capability

The draft report highlighted service delivery standards as an issue with the DTFSSC. The DTF submission challenged some of the assumptions made by the Authority and raised issues that DTF considered should be included in the final report.

The DTF submission indicated that service delivery issues were encountered by agencies before they rolled-in to DTFSSC. DTF argued that many of these issues, such as processing timeframes, have improved once agencies have rolled-in to DTFSSC. Furthermore, DTF stated that the draft report did not recognise the responsibilities that client agencies have to control, manage and deliver the provision of shared corporate services. DTF submitted that it can only influence services with respect to centralised accountabilities, whereas agencies have responsibility for data capture, delegations and approvals. Therefore, DTF submitted that the Authority should consider the impact of non-compliance by agencies on service delivery standards.

Additionally, DTF indicated that the provision of shared corporate services have delivered a number of benefits that were not adequately considered in the draft report. These included:

- improved occupational, safety and health and workers' compensation claim management performance;
- efficient procurement and finance solution;
- the provision of a single chart of accounts;
- streamlined internal audits; and
- a single data repository.

Technological Capability

In its submission, DTF refuted many of the Authority's findings regarding technological issues. For example, DTF submitted that many of the process inefficiencies reported in agencies' submissions are a result of the agencies failing to remove internal approvals processes that are now the responsibility of DTF. Additionally, DTF indicated that the high level of system customisation was a result of the complex industrial instrument arrangements in Western Australia. Finally, DTF submitted that many of the issues associated with system reliability have been fixed in late 2010 or early 2011 and have therefore not been reflected in agency submissions.

Consideration of Options

As requested in the draft report, DTF provided the Authority with comments regarding the decommissioning and finance only options. DTF challenged some of the assumptions used by the Authority in costing the options.

DTF submitted that the modelling of the decommissioning option in the draft report was flawed because:

- the Authority had assumed an unrealistic roll-out schedule for agencies; and
- there were significant implications of splitting up the Oracle ERP for use by individual agencies.

DTF also considered that the modelling of the finance only option is flawed. They submitted this is because:

- as with the decommissioning option, the Authority has modelled an unrealistic roll-out schedule;
- the Authority assumed an upgrade to version 12 for finance only would take 12 months. DTF submitted that it is more likely to take 18 months; and
- the integration between finance and HR/payroll systems will be more complex than envisaged.

Additionally the submission outlines an alternative option for the delivery of shared corporate services in Western Australia. DTF proposed that the software as a service options should be considered. This option would allow a single standardised system to be made available to all shared service clients. Agreed processes could be centralised while other processes could be operated as required by a specific agency.

Factual Inaccuracies and Clarifications

The DTF submission included a section which outlined a number of factual inaccuracies and points on which DTF sought further clarification. These points outlined a difference of opinion regarding costings, analysis, language used and facts. A list of DTF claims and the Authority's response is included in **Appendix I**.

Recommendations

In concluding its submission, DTF provided the Authority with four recommendations. DTF recommended that the Authority:

1. note that there are significant factual errors and omissions in the draft report;
2. consider the facts and points of view presented in the response to the draft report to test the assumptions that underpin the Authority's recommendations;
3. provide further time for DTF or another independent third party to validate the assumptions, costs and modelling; and
4. reiterate that until the final report is submitted and the recommendations endorsed by Government, DTF Shared Services will remain 'business as usual' with no further roll-ins until the outcome of the review is known.

6.3 Authority Assessment

With regard to the factual inaccuracies and clarifications noted in the DTF submission, and the first two of the DTF's recommendations, the Authority has analysed each point on its merits and has updated the final report where appropriate. Furthermore the Authority has met with representatives of DTF to discuss factual inaccuracies, costings and modelling in the draft report. The DTF has also been given a copy of the model used by the Authority to determine the costings of options.

The Authority is not in a position to provide further time to allow for independent validation of the modelling results, as recommended by the DTF, given that the terms of reference for this review require the Authority to submit the final report to the Treasurer on 10 June 2011. Furthermore, the Authority believes that it is the independent third party that is reviewing the current arrangements and consequently another review of its findings by an additional independent party is not needed.

Finally, as the operation of the DTFSSC is not within the Authority's control, the Authority is unable to comment on the fourth recommendation.

Submissions in response to the draft report also indicate that the Authority underestimated the cost of integrating agency HR/payroll systems with the DTFSSC finance system under the finance only option. The Authority had assumed in the draft report that an interface could be built between agency HR systems and the remaining DTFSSC finance modules. However, submissions indicate that under this option DTFSSC will have to retain the maintenance of agency HR data. Without this data many functions of the finance module such as the proper application of workflows, manager approvals, raising a purchase order or the processing of expenses will not work efficiently. Given this, the Authority has reassessed its financial modelling of the finance only option.

7 Financial Modelling of Selected Options

This section describes the model developed to quantify the financial impact of the four viable options for corporate service delivery identified in section 5. Additionally the assumptions used to underpin the model are also outlined.

The model was described in the draft report, along with the model inputs and assumptions used. Some inputs have been changed in the final report due to information received in submissions. The following sections indicate where the final model and inputs have been changed from the draft report.

7.1 Modelling Overview

The Authority's model assesses the overall costs, within the DTFSSC and relevant agencies, of each option identified in section 5. It is a forward-looking cash-based model suitable for analysis of the least cost option for corporate services provision. Such models include only future cash costs. Sunk costs such as assets created, capital or depreciation costs are not included in the analysis, even though they could have budgetary impacts. Similar types of models were used in the 2003 and 2007 business cases.

The model calculates the Net Present Cost (**NPC**) of each option by adding the discounted cash flows associated with the cost of corporate services provision. All data are in 2010-11 prices, and cash flows are discounted by the current Western Australian Government bond rate adjusted for current eight cities consumer price index inflation (2.26 per cent real).

The model takes a whole-of-government perspective and includes estimates for all known DTFSSC and agency costs. Consequently, the 'agency harvest' is not explicitly considered, as it is a transfer between government agencies. As the Authority has attempted to find the least-cost option to the State Government, any calculation of a harvest is not a relevant consideration for modelling purposes. Furthermore, the modelling does not include a budget impact of each option as this was not part of the terms of reference for the inquiry.

The Authority cautions against literal use of the calculated NPC for each option as the sole criterion for a decision on the future of the shared services project. While the Authority has attempted to utilise the best estimate of each cost in the time available, many of the costs and assumptions (especially the performance of the DTFSSC after the upgrade to Oracle eBusiness version 12) are highly uncertain. A comparison of the expected and actual outcomes of previous analyses of the DTFSSC indicate the difficulty of quantifying the financial impact of this project. Additionally, there may be other non-quantifiable costs and benefits which the Authority is unaware of.

Instead, the results should be seen as a starting point for discussion around risk and the sensitivity of results to different scenarios. For example, a key sensitivity for each option is the required additional FTE savings required to have the same NPC as the lowest cost option.

The options modelled for this inquiry were:

- Option 2a − Full ERP (once current problems fixed);
- Option 2d − HR/payroll by ‘best of breed’ system (once current problems fixed);
- Option 2g – ‘Finance only’ − devolve HR/payroll services to agencies (once current problems fixed); and
- Option 3 − decommission DTFSSC.

The model quantifies the financial cost of each option at an agency level, including the DTFSSC. The model then aggregates the cost for each agency, to produce a whole-of-government cost for adopting each option. Agency costs were estimated on the basis of the impacts of each option on labour requirements, capital costs and operating costs. The model takes into account:

- whether the agency has already rolled-in to DTFSSC;
- whether the cost applies to those agencies that have already rolled-in, or those that are currently outside shared service arrangements;
- the size of the agency; and
- the period over which any costs, if applicable, are incurred.

7.2 Key Assumptions

In order to estimate the whole-of-government cost of each option, the Authority has made a number of key assumptions, which are discussed below. Where practicable, assumptions have been based on information provided by stakeholders.

7.2.1 Estimates of Corporate Service Size and Scope

In order to estimate the financial benefit from shared service arrangements, it is necessary to determine the number of staff within agencies who are performing functions that could potentially be shifted into DTFSSC (referred to as ‘in-scope staff’). These positions would either be transferred to DTFSSC or made redundant. This provides an indication of the labour savings that could be achieved from shared services.

It would be a complex and costly exercise to determine, on an agency-by-agency basis, the number of in-scope staff residing in agencies that have not yet rolled-in, and would take more time than was available to the Authority for this inquiry. For this reason, the Authority has relied on estimates of in-scope staff provided by agencies that have already rolled-in. Estimates of the ratio of in-scope staff to total FTEs were then used to extrapolate the number of in-scope staff for agencies that have not yet rolled-in.

Table 7.1 below illustrates the expected number of in-scope staff for each agency classification as a percentage of total agency FTEs.

Table 7.1 Percentage of total agency FTEs involved in in-scope HR/payroll and finance functions (per cent)

Group	Micro* (<50)	Small (50 –100)	Medium (101-1,000)	Large (1,000+)
HR/payroll functions	4.20	1.71	3.30	0.96
Finance functions	9.62	4.87	3.52	1.06

* This usually sums to about one corporate services person per micro agency.

Source: ERA analysis

7.2.2 Impact on Corporate Service Labour Requirements

A large part of the rationale for a shared corporate services model is to reduce the total number of FTEs providing corporate services in the Western Australian public sector. This comprises a build-up of FTEs in the DTFSSC and a greater reduction of FTEs in the agencies.

Consequently, the modelling results are highly sensitive to assumptions regarding the impact of shared service arrangements on agency corporate service staffing requirements. Because the eventual performance of the DTFSSC is uncertain at this stage, the Authority has based assumptions of changes to labour demand on information provided by agencies that have already rolled-in to DTFSSC. The Authority has then conducted sensitivity analysis to rank the options.

The Authority's modelling assumes that the ERP and 'best of breed' options requires 510[80] FTEs to be located in DTFSSC, while the 'finance only' (Option 2g) requires 317 FTEs. In the draft report the Authority assumed that the finance only option would require 267 FTEs. The inclusion of an additional 50 FTEs, as part of DTFSSC, within Option 2g reflects information received in submissions regarding the difficulty in interfacing Oracle and non-Oracle systems. Stantons suggested that under a worst-case integration outcome, 50 additional staff would be required to resolve integration issues between financial and HR/payroll systems in DTFSSC.

Agencies have provided an estimate of the number of FTEs responsible for corporate service delivery (disaggregated by functions) for the 12 months prior to, and following, roll-in to DTFSSC. This change in staff levels, as a percentage of total FTEs in the agency, is then used as a basis for forecasting the impact on agencies' corporate service FTE demands once rolled-in to DTFSSC.

The following table illustrates the agency estimates of change in demand for FTE staff due to DTFSSC roll-in, as a percentage of total agency FTEs.

[80] This is the number of FTEs DTFSSC indicated is required to operate shared services when all agencies are rolled-in

Table 7.2 Percentage change in total agency FTEs involved in in-scope functions following roll-in to shared services (per cent)

Group	Micro (<50)	Small (50-100)	Medium (100-1,000)	Large (1,000+)	Total in FTEs
HR/payroll functions	0.16%	0.33%	(0.35%)	0.03%	(19.40)
Finance functions	0.19%	0.42%	(0.52%)	(0.06%)	(51.90)
Total in FTEs	1.50	3.50	(71.00)	(5.30)	(71.30)

Source: ERA analysis

For example a small agency rolling-in to shared services would see its total FTEs increase by 0.33 per cent in its HR/payroll functions, and by 0.42 per cent in its finance functions. On the other hand, a medium-sized agency would see total FTE reductions of 0.35 per cent (HR/payroll) and 0.52 per cent (finance) due to shared services. However, it should be noted that across all agencies, the overall impact is that FTE numbers decrease in both HR/payroll (by a total of 19.4 FTEs per agency on average) and finance functions (by 51.9 FTEs per agency on average). This reduction is mainly due to the effect of the reductions in FTEs in medium-sized agencies.

While the Authority has utilised the estimates provided in table 7.2 as a starting point, it is recognised that the number of FTEs required in agencies will differ due to improved agency integration with DTFSSC and stakeholder's acceptance of the Oracle product. In response to this source of uncertainty, the Authority has undertaken sensitivity testing of the model.

7.2.3 Roll-in Schedule

The Authority has received advice from its consultants as to the feasibility of the existing roll-in schedule. Based on the advice received, a minimum 9-quarter (27 month) delay is required before additional agencies can be rolled-in to DTFSSC under Option 2a (Full ERP).

Table 7.3 sets out the delay schedule used in the model.

Table 7.3 Delay schedule for each option

Option		Assumed delay in roll-in (quarters)	Completion date[81]
2a	Full ERP	9	2016Q1
2d	HR/payroll by 'best of breed' system	6	2015Q2
2g	Finance only – HR/payroll by agencies	4	2014Q4
3	Decommissioning	0	2014Q4

Source: ERA analysis

For Option 3 (decommissioning), it is recognised that use of a zero delay functional roll-out may be difficult given the availability of qualified staff to manage HR and financial information systems (which agencies would require in order to implement their own corporate services systems). Therefore, staffing supply constraints could preclude

[81] Project completion date is calculated as on the last agency to roll-in to DTFSSC under option 2a, 2b and 2g, or the shutdown completion date of DTFSSC for option 3.

immediate decommissioning. However, it should also be noted that the final results are not sensitive to small changes in roll-in dates.

7.2.4 Other Assumptions

A number of additional assumptions are used in the model. It is assumed that the analysis:

- commences in the third quarter of 2011 and disregards any costs incurred before this time;
- uses real cash costs (based in quarter 1 of 2011); and
- uses an appropriate discount rate, currently 2.26 per cent real, approximating the Western Australian government's cost of capital less inflation.

A complete list of assumptions can be found in **Appendix H**.

7.3 Results

The model has been used to estimate the impact of each option from a whole-of-government perspective. Transfers between DTFSSC, the Government and agencies have not been considered. The analysis is used to determine the least cost option going forward.

The results, presented as net present costs for corporate service delivery within agencies that have rolled in or are due to roll-in, have been estimated based on a 5, 10, 15 and 20 year horizon.

Table 7.4 outlines the total cost of corporate service delivery for the Western Australian public sector. The least costly option is Option 3 (decommission).

Table 7.4 Net present cost of options

Option description	Net present cost ($ millions)			
	5 year	10 year	15 year	20 year
2a: Full ERP	-1,184.5	-2,225.8	-3,164.5	-4,011.9
2d: Oracle for financials and HR/payroll by 'best of breed'	-1,164.4	-2,184.4	-3,104.7	-3,935.7
2g: 'Finance only' - HR/payroll by agencies	-1,159.9	-2,137.1	-3,017.5	-3,812.7
3: Decommission	-1,074.9	-1,922.9	-2,690.3	-3,383.3

Source: ERA analysis

The result presented in Table 7.4 is the gross cost of providing HR/payroll and finance services for in-scope agencies in the Western Australian public sector, and not simply the net cost associated with DTFSSC's implementation of these options. The financial modelling undertaken by the Authority suggests that the gross cost of service for Option 3 is lower under every time horizon.

As previously noted, the results contained in Table 7.4 are a direct extrapolation from data provided by agency stakeholders, and therefore are unlikely to accurately reflect future DTFSSC and agency performance within a shared service environment. The Authority would expect that the upgrade to Oracle version 12 and greater organisational experience would improve the performance of DTFSSC. Consequently, the results included in Table

7.4 should be considered only as an indicative 'base case', and not representative of expected future performance.

The results presented in Table 7.4 differ from the estimates included in the draft report. Changes reflect the inclusion of new cost information and the revision of existing cost information based on stakeholder input during the draft report consultation period. Nevertheless, Option 3 remains the least-cost solution to providing HR/payroll and finance functions for in-scope public sector agencies.

Table 7.5 illustrates the individual cost components of each option. Individual costs are calculated on an agency-by-agency basis, and then summed across all agencies. Column totals may not sum to the reported total due to the deletion of commercial-in-confidence and Cabinet-in confidence information. A discussion of the assumptions behind each cost component is provided in appendix H.

Table 7.5 Components of the net present cost of the options over 10 years ($ million)

Cost components	Option 2a Full ERP	Option 2d 'best of breed'	Option 2g 'finance only'	Option 3 decommission
DTFSSC related				
Labour	523	523	343	61
Redundancy	0	0	26	34
Project staff – capital (1)[a]	14	15	7	0
Project staff – capital (2)[b]	8	8	4	0
Service update/integration	348	348	286	281
Interface to 'best of breed' HR/payroll	0	26	24	22
Sub-total DTFSSC costs	895	920	690	398
Agency related				
Labour	1183	1179	1220	1299
Integration	112	59	60	64
Legacy system maintenance	14	10	15	0
Alternative service provider payments	0	0	143	143
Micro data migration	0	0	1	2
Roll-in project	24	18	13	21
Sub-total agency costs	1333	1266	1452	1530
Total net present costs	**2228**	**2186**	**2143**	**1928**

Notes:
(a) Capital funded agency staff employed for a discrete period of time to address specific transition and integration issues associated with the current Oracle-based system.
(b) Capital-funded agency staff employed on projects other than transition and integration projects.

Source ERA analysis

Labour costs are the main driver within both DTFSSC and the agencies. Labour accounts for over 50 per cent of DTFSSC costs in the three 'stop and fix' options and accounts for over 85 per cent of the costs within the agencies for all options. Therefore, as concluded in previous analyses, the results of the model are highly sensitive to all assumptions affecting labour costs or labour savings rates.

Table 7.6 below presents the net present cost per annum of each option relative to the least cost, Option 3 (decommission). These results can be interpreted as the opportunity cost relative to decommissioning.

Table 7.6 Net present cost of options relative to Option 3 (decommission DTFSSC)

Options		Net present value relative to option 3 (Decommission DTFSSC), $million			
		5 Year	10 Year	15 Year	20 Year
Option 2a	Full ERP once problems are fixed	110	303	474	629
Option 2d	HR/payroll by 'best of breed' system	90	262	414	552
Option 2g	Finance only – HR/payroll by agencies	85	214	327	429

Source: ERA analysis

Consequently, based on the data available to the Authority at this time, there is evidence to suggest that the net present cost of proceeding with Option 2a is significantly greater than any of the other options under consideration. Additionally, decommissioning is likely to be the least cost option.

Table 7.7 Change in number of 'in-scope- agency staff required to make the options equal in net present cost over 10 years to Option 3 'decommission'

Options		Change in general government sector FTEs			
		5 Year	10 Year	15 Year	20 Year
Option 2a	Full ERP once problems are fixed	-209	-287	-299	-297
Option 2d	HR/payroll by 'best of breed' system	-171	-248	-261	-263
Option 2g	Finance only – HR/payroll by agencies	-162	-202	-206	-202

Source: ERA analysis

Due to the sensitivity to a number of key assumptions a certain level of caution must be taken when interpreting these results. For example, indicative modelling results suggest that if greater efficiency gains could deliver a 202 FTE reduction in in-scope agency staff under Option 2g (finance only), this would provide a sufficient level of savings for Option 2g (finance only) to displace Option 3 (decommission) as the least cost option.

Alternatively, reductions in the cost of agencies rolling-in to DTFSSC may occur as a function of the maturity of the DTFSSC project, although given the history of the project to date this is questionable. However, the proposed 'stop and fix' options explicitly assume that significant changes occur to existing DTFSSC service delivery standards. Therefore it is also necessary to recognise that the benefits realised from DTFSSC roll-ins may change.

7.3.1 Sensitivity Testing

Change in Agency FTE Savings Rate

The Authority acknowledges that changes in FTE levels reported by agencies are unlikely to be an accurate representation of future savings. Therefore, in addition to the scenarios presented in Table 7.4 (which uses agency reported savings to date), five possible FTE savings rates have been considered. The scenarios provide information on the degree to which future performance may impact on the recommended course of action.

- Scenario 1: Reductions in FTE levels were averaged by agency group. The medium group achieved the greatest level of savings, with approximately 11 per cent of HR/payroll and 15 per cent of finance staff no longer required due to roll-in. Under Scenario 1, the 'medium' level of savings was used as a benchmark and applied to all other groups;
- Scenario 2: HR/payroll and finance staffing levels in agencies do not change as a function of rolling in to DTFSSC. That is, a zero per cent reduction in agency HR/payroll and finance staff is achieved;
- Scenario 3: 25 percent of all in-scope agency HR/payroll and finance staff are no longer required;
- Scenario 4: 50 percent of all in-scope agency HR/payroll and finance staff are no longer required; and
- Scenario 5: 100 percent of all in-scope agency HR/payroll and finance staff are no longer required.

The resulting NPC (10-year) is contained in Table 7.8 below.

Table 7.8 Net present cost over 10 years at different FTE saving levels ($ million real)

Options	Base Case	Scenario 1 – Best to date	Scenario 2 – 0% FTE saving	Scenario 3 – 25% FTE saving	Scenario 4 – 50% FTE saving	Scenario 5 – 100% FTE saving
Option 2a (Full ERP)	2,226	2,064	2,294	2,045	1,803	1,295
Option 2d (Best of Breed)	2,184	2,009	2,256	1,991	1,735	1,196
Option 2g (Finance Only)	2,137	2,063	2,168	2,082	2,005	1,825
Option 3 (Decommission)	1,923	1,885	1,875	2,033	2,200	2,508

Source: ERA analysis

As Table 7.8 illustrates, the number of FTEs who are no longer required in agencies is positively correlated with the degree to which Option 2a (Full ERP) is the recommended solution. The greater the number of FTEs 'saved' in agencies due to DTFSSC roll-in, the better Option 2a compares with Option 3.

Based on an interpolation of the above results, it would be necessary for DTFSSC to deliver a reduction of 38 per cent of all in-scope agency staff for Option 2a to be preferred to Option 3. To put this estimate in context, the best outcome to date has been from medium-sized agencies, reporting an average reduction in FTE levels of 12 per cent. It is therefore appropriate to ask whether DTFSSC can improve performance by a factor of two, on top of what has been achieved to date.

Exogenous FTE Growth Rates

If total public sector FTEs grew faster than the rate assumed by the Authority, and the DTFSSC could realise significant economies of scale, then the benefits of DTFSSC (relative to alternative arrangements) are increased. Therefore, the sensitivity of the model to public sector FTE growth rates must be considered. Sensitivity testing is carried out within each scenario by varying the rate of agency FTE growth and thus the required number of HR/payroll and finance staff in agencies. It is assumed that DTFSSC continues to operate with 510 FTEs regardless of FTE growth rates in agencies. This is considered to be a conservative assumption, as increased agency FTE levels are likely to translate into increased demand for DTFSSC services.

The scenarios considered include an assumed FTE growth rate of:

- Scenario 1: 0.3 per cent per quarter, or 1.21 percent per annum;
- Scenario 2: 0.6 per cent per quarter, or 2.42 percent per annum;
- Scenario 3: 0.9 per cent per quarter, or 3.65 percent per annum; and
- Scenario 4: 1.2 per cent per quarter, or 4.89 percent per annum.

The outcome for each option in NPC (10-year) terms is contained in Table 7.9 below.

Table 7.9 Net present cost over 10 years at different levels of public sector FTE growth ($ million real)

		Assumed FTE growth rate (per annum)			
Options	**Base Case**	**Scenario 1 1.21%**	**Scenario 2 2.42%**	**Scenario 3 3.65%**	**Scenario 4 4.89%**
Option 2a (Full ERP)	2,226	2,294	2,369	2,449	2,535
Option 2d (Best of Breed)	2,184	2,253	2,327	2,407	2,493
Option 2g (Finance Only)	2,137	2,217	2,303	2,395	2,495
Option 3 (Decommission)	1,923	2,007	2,099	2,197	2,303

Source: ERA analysis

As Table 7.9 illustrates, high public sector FTE growth rates, combined with no change in DTFSSC staffing levels, have a disproportionate negative impact on Options 2g and 3 relative to Option 2a and 2d. Indeed, exogenous FTE growth rates of 1.2 per cent per quarter result in a 20 per cent increase to the 10-year NPC of Option 3, whereas Option 2a increases by only 14 per cent under the same circumstances. However, under the range of growth levels that the Authority considers likely, decommissioning remains the least cost solution.

In making this assessment it has been assumed that DTFSSC FTE numbers will not also increase as a function of wider public sector growth trends, but rather remain at the maximum level of 510.

Timing of any DTFSSC Roll-out

In response to the draft report, some stakeholders were concerned that the Authority had proposed an overly ambitious roll-out schedule under Option 3. Stakeholders interpreted the zero-quarter delay as a roll-out process lasting only one quarter. However, results included in the draft report were based on the assumption that the roll-out would commence in the third quarter of 2011 and conclude by the fourth quarter of 2012. The

zero-quarter delay indicated that the roll-out process could commence in the third quarter of 2011. The pace of roll-out has since been revised for the Final Report so that the roll-out process would not conclude until the fourth quarter of 2014.

In order to address stakeholder concerns, four additional scenarios were considered, in which DTFSSC is kept operational for varying lengths of time. In considering these options, it is assumed that all relevant agencies commence roll-out procedures in the third quarter of 2011. Consequently, both DTFSSC and agency HR/payroll and finance functions will be operational simultaneously for a limited period of time.

The impact of the four scenarios considered, in addition to the base case scenario, are illustrated in Table 7.10 below.

Table 7.10 Net present cost of decommissioning under different timings of agency roll-out from DTFSSC ($ million real)

	2012Q1	2012Q2	2013Q3	2014Q4	2018Q3
Option 3 Net Present Cost ($ million)	1,876	1,885	1,902	1,923	1,984
% change from base case	-2.5%	-2.0%	-1.1%	0.0%	3.2%

Source: ERA analysis

Based on the advice from Stantons International and submissions from stakeholders, the Authority has revised its expected date at which roll-out will be completed from 2012Q4 (draft report) to 2014Q4. The Authority considers this to be a conservative assumption. The sensitivity analysis suggests that any significant divergence from this assumption will have minimal impact on the final set of results.

It is important to note that the sensitivity testing considers a marginal change in the pace of roll-out, and does not consider the possibility of significantly reduced service standards as a result of a DTFSSC shutdown process. A structural change in the ability of DTFSSC to meet existing service standards as a function of closure would likely result in a significant increase in DTFSSC and/or agency costs, and would therefore need to be considered separately.

Changes in DTFSSC Staff Complement

The modelling process assumes a full staffing complement in DTFSSC of 510 FTEs. The Authority is not aware of any information to suggest that additional staff would be required. However, the impact of additional staff has been modelled for the purposes of sensitivity analysis. The sensitivity analysis demonstrates that for every percent increase (decrease) in DTFSSC FTE levels, the NPC of Option 2a would increase (decrease) by 0.165 percent. Unless a significant structural change occurs in the number in DTFSSC operations, then it is highly improbable that any change in DTFSSC FTE numbers would affect the final result.

7.4 Discussion

7.4.1 Ability to Offset Labour through Shared Service Delivery

The information on FTE levels associated with shared corporate services provides an insight into the challenges of a shared service delivery model. Based on the existing roll-in schedule, the baseline number of staff required across government to provide HR/payroll

and finance services in a non-shared service environment is approximately 1,064.[82] When fully operational, DTFSSC is expected to employ 510 staff, in addition to corporate service staff remaining within agencies. Therefore, in order to provide a net reduction in FTEs within the Western Australian public sector, shared services must reduce the number of in-scope staff employed in agencies by 52.1 per cent (from 1,064 to 554).

7.4.2 Staffing Requirements – Relative Costs

As shown in Table 7.2, rolling agencies into shared services contributes to a net reduction in the corporate service staffing requirements for medium and large agencies. While there is a small increase in micro and small agencies' FTEs, these only account for a small proportion of the corporate service FTEs in the sector. Therefore there is an overall reduction in FTE numbers across the sector. However, any expected reduction in agency FTEs, based on the assumptions discussed above, is not enough to offset the extra labour required to operate the DTFSSC. Thus, even when fully operational, Option 2a (Full ERP) and Option 2d ('best of breed') deliver a net *growth* in overall public sector FTE levels over a five to ten year planning horizon. For the full NPC of the ERP option to fall to the same level as under Option 2g (finance only), agency staff would have to reduce by 273 FTEs from current levels. The Authority considers this scenario highly unlikely.

The results of the model are highly sensitive to changes in FTE levels. The Authority believes this to be an accurate reflection of the corporate service delivery model in Western Australia as the costs and benefits of shared services are largely driven by labour costs rather than by capital costs (see Table 7.5). The model indicates that the total labour costs under Option 2d (HR/payroll by 'best of breed' system) and Option 2g ('finance only' − devolving HR/payroll services to agencies) are higher than under the remaining options (Full ERP, or decommissioning).

[82] The 1,064 staff number can be reconciled back to the public sector costs $315 million per annum and 5,000 employees in the original business case

8 Recommended Future Option

In section 3 the Authority determined that continuation of the current shared service arrangements is unsustainable. Given this, the Authority analysed alternative options for corporate services provision and conducted financial analysis of the most viable options. This section analyses the findings of the report and provides a recommended option for corporate services delivery in the Western Australian public sector.

Again, it should be noted that the assessment of alternative shared service arrangements has been concerned with identifying the option that will result in the lowest net costs to the State going forward, rather than maximising net benefits.

8.1 Summary of Assessment of Options

8.1.1 Full Service Options

The Authority concludes that the integrated HR/payroll and finance shared services options are likely to be the highest cost and highest risk options for general government corporate services provision in Western Australia. This includes both:

- Option 2a: full ERP, in which all shared services are provided using the Oracle eBusiness suite; and

- Option 2d: best of breed, in which Oracle Financials is used to provide finance services and an alternative 'best of breed' system is used to provide shared HR/payroll services.

The Authority considers that there is a much higher degree of risk with regard to agency FTE savings in the full-service models. This is especially evident in the full ERP option. Data regarding FTEs saved for large agencies rolled-in to DTFSSC for both HR/payroll and finance is limited to two agencies. These agencies include the DTF, which had a 50 per cent FTE saving and the Department of Transport, which had a 100 per cent increase.

While these figures have not been audited, it is worth noting that the DTF is a relatively straightforward agency, with most staff on the Public Sector General Agreement 2008, while the Department of Transport runs complex systems (e.g. TRELIS[83]), manages staff on a number of industrial instruments and maintains a rostering system for staff. The Authority notes that the agencies scheduled to roll-in include a number of large, complex agencies such as the Department of Corrective Services, the Disability Services Commission, the Fire and Emergency Services Authority, the Department of Housing and the Department for Child Protection. The Authority has assumed that rolling-in these large complex agencies would involve substantial roll-in and ongoing integration costs. Furthermore the Authority believes that rolling-in these agencies would generate no net HR/payroll FTE savings. There is also a risk that these costs could be higher than modelled.

The Authority's modelling shows that over 10 years the cost of the full ERP option is $303 million more than the cost of the decommissioning option. The equivalent figure for the best of breed option is $262 million. Consequently the Authority concludes that the net present costs of the full service models are almost certainly higher than the least cost option.

[83] TRELIS is the Western Australian Government's motor vehicle registration and driver' licensing system.

The cost and maintenance of the 'best of breed' HR/payroll has been costed at current Government common-use agreement rates in the Authority's modelling. While the Government could test the market to determine whether a lower cost option could be sourced, such savings are unlikely to be sufficient to bridge the gap between the cost of the best of breed and finance only options.

8.1.2 Finance Only Option

The Authority's draft report included the finance only option as a viable alternative for delivering shared corporate services in Western Australia. However, information received in submissions has led the Authority to refine the financial modelling of this option.

Submissions in response to the draft report indicated that when modelling the finance only option the Authority had underestimated the cost of integrating agency HR/payroll systems with the DTFSSC finance system. The Authority had assumed that an interface could be built between agency HR systems and the remaining DTFSSC finance modules. However, submissions indicated that under this option DTFSSC would have to retain the maintenance of agency HR data. Without this data many functions of the finance module, such as the proper application of workflows, manager approvals, raising a purchase order or the processing of expenses, will not work efficiently. Given this, the Authority has reassessed its financial modelling of the finance only option.

This additional cost means that the finance-only option is considerably more costly than decommissioning. Rather than requiring an additional 151 FTEs to be saved in agencies to equal the decommission option, this option now requires 202 FTEs to be saved in agencies.

Furthermore, information received from agencies indicates that they believe that decommissioning DTFSSC is the only viable option. The finance only option was dismissed because:

- there was a high level of uncertainty associated with this option, which would inhibit agencies' ability to effectively plan for corporate service delivery. This uncertainty arose from unknown service standards, the inability to determine how well agency systems would integrate with DTFSSC's systems and the fact that DTFSSC may still be decommissioned following the upgrade and review;

- agencies did not believe that an upgrade to Oracle version 12 would solve the issues with the system; and

- agencies did not believe that DTFSSC or its private sector stakeholder would be able to fix the issues with the system.

In isolation, agency opinions would not be enough to dismiss the finance only option. However, they do show that, among clients and potential clients, there is widespread dissatisfaction with the DTFSSC system. This dissatisfaction could stifle effective implementation of the finance only option in the future.

The Authority also believes that under the decommissioning option many of the benefits envisaged in the 2003 business case, such as standardisation, could still be achieved if a standard finance software solution was mandated for government agencies. However there are also disadvantages associated with a standard finance software solution such as inability to innovate and being locked into a single supplier.

In conclusion, while the Authority's draft report considered the finance only option to be viable, new evidence suggests that the cost of this option is considerably higher than decommissioning.

8.1.3 Decommission Option

Decommissioning is the Least Cost Option

The Authority considers that decommissioning the DTFSSC is the only viable option for corporate service delivery for general government agencies in Western Australia. Decommissioning represents the least cost and most certain outcome of all of the options costed. Over 10 years, the net present cost of decommissioning is:

- $214 million less than the 'finance only' model;
- $262 million less than the 'best of breed' option; and
- $303 million less than the full ERP model.

Using a reasonable range of assumptions, decommissioning represents the least cost option. Unless there are significant implementation issues, decommissioning is the Authority's recommendation.

Considerations for Implementation of Decommissioning

Decommissioning would involve rolling agencies out of DTFSSC, ceasing any further roll-ins of agencies and closing down DTFSSC. Agencies would need to provide their own in-house systems for corporate services. Agency data currently housed in DTFSSC would be transferred back to the agencies once they have rebuilt their corporate service capability. The Authority acknowledges that there would be considerable disruption for DTFSSC staff, contractors and suppliers from decommissioning. It also notes that such costs are usually underestimated in any major change. While the Authority has assumed in its modelling that 90 per cent of DTFSSC staff would receive redundancies, this is designed to be a conservative assumption so as not to understate costs, and it is expected that many DTFSSC staff would be able to transition into agencies rebuilding their finance and HR/payroll capacities.

The Authority also notes that the decommission option is not risk free. Rolling-out agencies could take some time, and there is no guarantee that all agencies would roll-out before Oracle 11.5.10 becomes unsupported in November 2013. This means that many agencies would have to undertake the upgrade individually.[84]

The Authority's technical consultant, Stantons, has noted that the export of data from DTFSSC to a similar agency-based Oracle ERP would be a relatively simple process costing $100,000 per agency (regardless of size). Consequently, if agencies wished to use the Oracle ERP, the risks and costs associated with rolling-out would be reduced.

However, the Authority's assessment is that agencies want to use a different HR/payroll system from the Oracle system used by DTFSSC. This will increase the time and cost required to roll agencies out. Nevertheless, the Authority has used a very conservative roll-out schedule (three years) to fully test cost assumptions. This schedule means that some agencies would be on an unsupported system after November 2013. However, the Authority notes that agencies are highly motivated to roll-out and consequently there is a reduced risk of agencies remaining in DTFSSC on an unsupported system.

[84] In its modelling the Authority has assumed that the least cost option for decommissioning is for the Oracle Licence to be novated to agencies as they roll-out. This would minimise data transferral costs.

A greater risk is the impact that decommissioning the DTFSSC would have on staff morale and staff losses during the decommissioning period. A motivated DTFSSC staff complement would be required during the decommissioning phase to maintain finance and payroll services as well as to roll agencies out. If the DTFSSC lost key staff then its operations could be placed in jeopardy. If decommissioning is pursued, then Government could consider mechanisms to keep DTFSSC staff during the decommissioning period. Submissions indicated that an memorandum of understanding between the Government and selected staff, guaranteeing them employment in another agency after DTFSSC is decommissioned, may mitigate this risk. However it should be noted that the loss of staff is a significant risk that may not easily be overcome.

The Authority supports keeping the roll-out time period to a minimum. The draft report considered advantages in upgrading to Oracle version 12 before rolling agencies out. This would mean that each agency would not have to conduct the upgrade individually. However this must be offset against the risk of DTFSSC operating for a longer period.

Furthermore, many agencies have aging finance systems, due to the freeze on agency upgrades imposed as part of the transition into shared services, and the costs of upgrade may be higher than assumed here. Finally, there is a risk that there are not enough IT firms in the Western Australian market to cater for the increased demand for corporate service systems resulting from the large number of agencies rolling-out of DTFSSC. If this is the case it would mean that some agencies may not be able to contract private sector companies to establish their corporate services systems. Additionally, because of the increased demand and fixed supply, the agencies who do contract private sector companies to establish their corporate services may incur increased costs.

Under the decommissioning option, Government could maintain or possibly novate the existing Oracle contract for use by agencies. This would have many of the advantages of the finance only option as identified in the draft report, such as:

- standard finance software across government;
- standard chart of accounts across government, making reporting to DTF easier;
- standard reporting across government;
- staff with the same knowledge and skills set across government;
- large system which is scalable and provides the latest software tools;
- the creation of centres of excellence (e.g. taxation, which agencies have commented favourably on); and
- centralised bank reconciliation.

The whole-of-government finance system may also be cheaper than agencies seeking their own solutions. Disadvantages with this option include:

- it would not allow agencies to seek out innovative solutions;
- it may require considerable redevelopment of some agencies' current arrangements; and
- the Government would be 'locked-in' to a single supplier.

The Authority considers that audited benchmarking of agencies' corporate service performance would allow Government to establish an understanding of the issues in this area. One of the difficulties of this inquiry has been the lack of available data. Such data would be useful when making whole-of-government corporate service decisions in the future.

Finally, instead of returning corporate service responsibility to agencies once decommissioned, Government may consider the software as a service option. Under this option multiple agencies can use the same software system independently of each other. This option may rectify some of the system issues currently experienced by DTFSSC. However, like DTFSSC, the use of a standardised system is unlikely to cater for the diverse needs of agencies. In order for the system to cater for agencies' needs it would need to be customised. This would result in increased integration costs for agencies and a risk that the software as a service option will produce the same outcome as the current DTFSSC arrangements.

The Authority has not had time to cost 'software as a service' but believes that if Government were to consider this option it should undertake an expression of interest process to determine whether the private sector can provide this service.

8.1.4 Procurement Module

The Authority found that there are minimal problems associated with shared procurement services. Additionally they appeared to have wide acceptance amongst agencies. Therefore the Authority recommends that shared procurement services should continue in some form once DTFSSC is decommissioned.

8.1.5 Agency Harvest

The Authority does not believe that DTFSSC has generated any efficiency savings for agencies. Therefore, as the Authority has conducted a forward-looking cash-based analysis, the amounts harvested by agencies, and written into the budget, have not been considered. Consequently the Authority has not provided a recommendation as to how to treat the harvest under each option.

8.1.6 Net Benefit since 2003

The Authority's analysis indicates that when all costs are considered (including sunk costs), the shared services project will never deliver a net cost saving for the Western Australian public sector. To date, the NPV of the DTFSSC is –$345 million (see Appendix F). In addition, substantial direct and indirect costs have been imposed on agencies. Furthermore any conceivable savings from this point will not give the project an overall positive return. While the knowledge available now is never available at the beginning of such a project, the shared services project offers valuable lessons on the treatment of risk in major public sector reform.

8.1.7 Assessment against Final Term of Reference

With regard to the final point of the Terms of Reference for this inquiry, the Authority is required to investigate and report on:

- Whether alternative options for the provision of functions currently provided by the Office of Shared Services would provide a greater net benefit to the State.

The Authority has established that continuation of the existing model is not sustainable for the DTFSSC or the agencies serviced. The Authority has identified and modelled options which are all preferable to the current arrangements.

The cost of corporate services provision under the alternatives modelled differs significantly and each option has its own set of risks. However the Authority's analysis has shown that decommissioning DTFSSC represents the least cost and most certain outcome

for delivering corporate services to general government agencies in the Western Australia public sector.

8.2 Final Recommendation

The history of shared corporate services projects in the public sector in Australia shows that it is a complex process with uncertain and distant returns. While there is some evidence of successes in the corporate sector, there has not been one fully successful implementation in the public sector of any Australian jurisdiction.

The Authority considers that the original 2003 business case was fundamentally flawed. The proposed benefits were overly optimistic, the true cost of the project was underestimated and the proposed roll-in schedule was not realistic. This, together with decisions made regarding customisation of the IT system during the initial stages of the project, has caused problems that are still influencing the service delivery of the DTFSSC today.

The principles for a shared corporate service arrangement contained in the original business case were sound and consistent with the Authority's own principles for such an enterprise. However these principles were never fully implemented. In particular, after 2007, the focus of the project revolved around implementation with little regard to the guiding principles.

In 2007 the DTF was tasked by the Government to roll agencies into the DTFSSC on a very aggressive timetable designed to minimise the financial loss from the project. Services were expected to deteriorate during the roll-in period, but were expected to improve once this process was complete. However, the Authority considers that the focus on rolling in agencies at the expense of service delivery inevitably led to the problems encountered by agencies and the low level of trust between the two parties.

The Authority concludes that the current structure of the DTFSSC is problematic. It is a monopoly provider, with a mandated client base and a lack of meaningful service level agreements. This means that there are minimal incentives for DTFSSC to improve service delivery and few ways in which client agencies can hold DTFSSC accountable for the service provided, or DTFSSC can hold client agencies accountable for meeting their obligations. This problematic structure is the key reason why the project has failed to meet expectations.

The Authority considers that, even after a 'stop and fix' period, the probability of successfully implementing shared corporate services in the public sector, at a cost that is less than the cost of decommissioning, is extremely low. This is because:

- attempting to service multiple agencies with differing needs by using a single system is very costly, fraught with challenges, and potentially unachievable. Servicing agencies with a system that is modified to meet all needs results in a system that is expensive, costly to maintain and prone to error, while the alternative of servicing agencies with a standardised product results in large integration costs being imposed on agencies;
- the project has a history of not being able to deliver on expectations and has instead resulted in substantial service delivery problems. Based on this past performance, the Authority sees considerable risk that any 'stop and fix' option would not be successful;
- the agencies that have rolled into the DTFSSC to date have largely been small to medium sized and relatively non-complex in their requirements, yet virtually all

have experienced problems with the DTFSSC product and service. The agencies yet to roll-in are generally larger with more complex requirements. These agencies are likely to have much higher implementation and ongoing compliance costs, as well as substantially higher risks of roll-in delays and system performance problems;

- there is a lack of trust between DTFSSC and agencies, largely caused by the centrally-driven mandatory implementation schedule and the lack of meaningful service level agreements. This lack of trust makes implementation of a difficult project, even more difficult.

Given these concerns, the Authority would only countenance an alternative to decommissioning if the expected cost of the alternative was substantially lower than the cost of decommissioning.

The Authority's financial modelling of alternative options indicates that the full ERP, best of breed and finance only options are unlikely to be the least cost way of delivering corporate services to government. While there are scenarios where any of these options could be less costly than decommissioning, the Authority considers these scenarios highly unlikely. Even if these scenarios occurred, they are only slightly less costly than decommissioning, and would be vulnerable to any future negative shocks.

The Authority's analysis indicates that decommissioning DTFSSC represents the least cost and most certain option for delivering corporate services. While this option is not risk free, it represents the most likely way to minimise the cost to government.

In addition, it is likely that as more agencies roll-in the DTFSSC the cost of decommissioning will rise substantially, limiting options if the system does not perform as expected in the future.

Recommended Option

- Decommission DTFSSC and allow agencies to provide their own corporate services.
- Shared procurement services should continue in some form once DTFSSC is decommissioned.
- The findings of this review are specific to the Western Australian general government sector and its particular circumstances. It should not be taken as evidence for the performance of any other shared corporate services arrangements in the public or private sectors, which should be evaluated on their own respective merits.

APPENDICES

Appendix A: Terms of Reference

I, CHRISTIAN PORTER, Treasurer (following consultation with the Premier), and pursuant to section 38(1) of the *Economic Regulation Authority Act 2003*, request that the Economic Regulation Authority (**the Authority**) undertake an inquiry into the benefits and costs associated with the provision of shared corporate services within the public sector.

In conducting its investigation the Authority is to report on the following matters:

1. The effectiveness and efficiency of the Office of Shared Services at its current level of operations.
2. How the effectiveness and efficiency of the Office of Shared Services is likely to vary with the number of agencies it services.
3. The impact that ‘rolling-in’ to the Office of Shared Services has had on the operations of a selection of representative agencies.
4. Whether the provision of shared corporate services within the public sector, as implemented thus far, has provided a net benefit to the State.
5. Whether rolling-in the remaining agencies into the Office of Shared Services would provide a net benefit to the State.
6. Whether alternative arrangements for the provision of functions currently provided by the Office of Shared Services would provide a greater net benefit to the State.

The Authority will call for submissions from public sector agencies, relevant unions and private sector partners of the Office of Shared Services.

A final report is to be completed no later than 31 March 2011.

Appendix B: Amended Terms of Reference

AMENDMENT TO TERMS OF REFERENCE

I, CHRISTIAN PORTER, Treasurer, in accordance with section 39 of the *Economic Regulation Authority Act 2003*, amend the Terms of Reference for the inquiry into the benefits and costs associated with the provision of shared corporate services within the public sector.

The amended Terms of Reference requires a draft report to be made available for consultation with public sector agencies, relevant unions and private sector partners of the Office of Shared Services and extends the due date for the final report from 31 March 2011 to 10 June 2011.

HON. CHRISTIAN PORTER MLA
TREASURER

Appendix C: Shared Services Governance Council

Purpose

To provide strategic direction and monitor the performance of shared services reform across whole-of-government.

Role and Responsibilities

- Provide leadership across the public sector during the implementation and ongoing operation of the Shared Service Centres (SSCs);
- High level decision making to be able to determine whole-of-government strategies, policies and standards for shared services;
- Identify opportunities to extend the scope of shared services to capture greater efficiency and effectiveness benefits for the sector;
- Be kept informed of the strategic and operational issues facing SSCs;
- Hold Directors General and Chief Executive Officers accountable for their agencies' readiness for implementation and ongoing operations with SSCs;
- Identify and manage strategic risks confronting shared corporate services;
- Consider and endorse annually the strategic business plans of each SSC;
- Provide advice and make recommendations regarding the shared services reform to the Expenditure Review Committee; and
- Receive regular reviews and reports from the Client Management Council as to the performance of the SSCs.

Accountability

The Shared Services Governance Council is accountable to the Treasurer.

Membership (as at 31 December 2010)

- Mr Timothy Marney, Under Treasurer, Department of Treasury and Finance (Chair);
- Mr Peter Conran, Director General, Department of Premier and Cabinet;
- Mr Brian Bradley, Director General, Department of Commerce;
- Mr Stuart Smith, CEO, Department of Fisheries;
- Ms Cheryl Gwilliam, Director General, Department of the Attorney General;
- Mr Ron Alexander. Director General, Department of Sport and Recreation;
- Mr John Leaf, A/Deputy Director General, Finance and Administration, Department of Education and Training;
- Mr Brian Roche, Executive Director, Shared Services; and
- Mr Gary Smith, Advisor.

Membership of the Shared Services Governance Council reflects the next large agencies that will roll-in to the DTF Shared Services during the next twelve months along with an agency already receiving services from Shared Services as well as representatives from the Department of Health and the Department of Education and Training.

Frequency of meetings

Monthly.

Duration of meetings

1 hour

Appendix D: Shared Services Formal Forums

CLIENT MANAGEMENT COUNCIL

The Client Management Council (CMC) was first formed in 2003, its Terms of Reference were revised in 2007.

Purpose

The CMC acts as an advisory board, overseeing the activities of the DTF Shared Service Centre only. This includes:

- establishing strategic direction;
- business planning;
- representing the interests of client agencies;
- risk management;
- resolving customer service issues; and
- fostering a supportive corporate culture.

The CMC also provides a forum where transition and service issues can be raised and resolved. The membership of the CMC consists of Directors General and CEOs, DTF Shared Services General Managers and the Executive Director of the DTF Shared Services.

Membership (as at 31 December 2010)

- Ms Jo Harrison-Ward, Fire and Emergency Services Authority (Chair)
- Mr Brian Bradley, Department of Commerce
- Mr Rob Delane, Department of Agriculture and Food
- Mr Warwick Gately, Western Australian Electoral Commission
- Mr Menno Henneveld, Main Roads WA
- Ms Allanah Lucas, Department of Culture and the Arts
- Mr Eric Lumsden, Director General Department of Planning
- Ms Jennifer Mathews, Department of Local Government
- Mr Paul Rosair, Department of Regional Development and Lands
- Mr Stuart Smith, Department of Fisheries
- Mr Barry Sargeant, Department of Racing, Gaming and Liquor
- Mr Brian Roche, DTF Shared Services
- Mr Gary Stainton, DTF Shared Services

HEADS OF CORPORATE

There are two Heads of Corporate Services Forums.

Heads of Corporate - Pre Roll-in

Purpose

Provide high-level solutions to business and operational issues across the cluster throughout the implementation phase. Provide advice and support to the Client Management Council to ensure the successful implementation of the DTF Shared Services Centre.

Membership

- Mr Frank Pasquale, Fire and Emergency Services (Chair)
- Heads of Corporate from agencies yet to roll-in to DTF Shared Service Centre.

Heads of Corporate - Post Roll-in

Purpose

To provide a regular forum to discuss service delivery and to provide networking opportunities for client agencies.

Membership

- Mr Gary Stainton, DTF Shared Services
- Heads of Corporate from agencies already receiving services from DTF Shared Services Centre.

Appendix E: List of Agencies Currently Rolled-in to DTFSSC, the Services they Receive and Agencies' FTE Numbers

Agency	Shared corporate service(s) provided by DTFSSC	Number of agency FTEs (as at September 2010)
Aboriginal Affairs Planning Authority	Full ERP	-
Agricultural Produce Commission	Finance Only	-
Art Gallery of Western Australia	Finance and Interim Payroll Solution	54
Commissioner for Children and Young People	Full ERP	14
Department of Agriculture and Food	Finance only	1186
Department of Commerce	Full ERP	941
Department of Corrective Services	Procurement Only	4214
Department of Culture and the Arts	Finance and Interim Payroll Solution	616[85]
Department of Fisheries	Full ERP	388
Department of Indigenous Affairs	Full ERP	151
Department of Local Government	Full ERP	107
Department of Planning	Full ERP	608
Department of Racing, Gaming and Liquor	Full ERP	122
Department of Regional Development and Lands	Full ERP	222
Department of the Premier and Cabinet	Finance Only	623
Department of the Registrar, WA Industrial Relations Commission	Finance and Interim Payroll Solution	36
Department of Transport	Full ERP	1154
Department of Treasury and Finance	Full ERP	1675
Department of Water	Full ERP	541
Economic Regulation Authority	Finance Only	52
Equal Opportunity Commission	Full ERP	28
Gaming and Wagering Commission of WA	Full ERP	-
Gascoyne Development Commission	Full ERP	13
Goldfield-Esperance Development Commission	Full ERP	12
Great Southern Development Commission	Full ERP	14
Heritage Council	Full ERP	25

[85] The FTE figure for the Department of Culture and the Arts includes FTEs from the Art Gallery, Museum, Perth Theatre Trust, Screenwest and State Library.

Agency	Shared corporate service(s) provided by DTFSSC	Number of agency FTEs (as at September 2010)
Kimberley Development Commission	Full ERP	13
Main Roads WA	Finance Only	1026
Mid West Development Commission	Full ERP	14
Office of Energy	Full ERP	72
Office of the Director of Public Prosecutions	Full ERP	230
Office of the Information Commissioner	Full ERP	10
Office of the Inspector of Custodial Services	Full ERP	14
Office of the Public Sector Standards Commissioner	Finance Only	30
Parliamentary Commissioner for Administrative Investigations (Ombudsman WA)	Finance Only	54
Peel Development Commission	Full ERP	12
Perth Theatre Trust	Finance and Interim Payroll Solution	44
Pilbara Development Commission	Full ERP	12
Public Sector Commission	Finance Only	99
Racing Penalties and Appeals Tribunal of WA	Full ERP	-
Real Estate and Business Agents Supervisory Board	Full ERP	10
Rural Business Development Commission	Finance Only	-
Salaries and Allowances Tribunal	Finance Only	-
Screenwest (Inc.)	Finance and Interim Payroll Solution	16
Settlement Agents Supervisory Board	Full ERP	5
Small Business Development Corporation	Full ERP	50
South West Development Commission	Full ERP	23
State Library of WA	Finance and Interim Payroll Solution	188
State Supply Commission	Full ERP	-
Swan Bells Foundation Incorporated	Finance Only	5
WA Health Promotion Foundation	Full ERP	15
Western Australian Electoral Commission	Full ERP	47
Western Australian Energy Disputes Arbitrator	Finance Only	-
Western Australian Museum	Finance and Interim Payroll Solution	220
Western Australian Planning Commission	Full ERP	-
Western Australian Sports Centre Trust, trading	Finance Only	231

Agency	Shared corporate service(s) provided by DTFSSC	Number of agency FTEs (as at September 2010)
as VenuesWest		
Western Australian Tourism Commission	Full ERP	89
Wheatbelt Development Commission	Full ERP	14

Note: Not all organisations have employees. Those organisations with (-) in the FTE column represent Government boards and committees that receive administrative support from larger agencies.

Source: DTFSSC, Public Sector Commission and Annual Reports

Appendix F: Comparison of 2003 Business Case with Actual Results

The purpose of this Appendix is to examine the 2003 business case and compare it to the actual outcomes for the project to date. In order to achieve this the Authority has conducted a cost benefit analysis (**CBA**) of:

- the 2003 business case before implementation (ex-ante); and
- the shared services project in its current form (ex-post).

The 2003 business case predicted:

- a capital expenditure of $82 million in 2003 dollars;
- a Net Present Value of $288 million over 10 years; and
- an Internal Rate of Return of 87 per cent.[86]

The Authority was not able to exactly replicate this analysis from the figures presented, although the business case noted that rounding may cause errors in calculations. The documents sighted by the Authority did not present a discount rate, so the figure of 3.1 per cent is derived from the cash flows and the NPV presented in the business case. Documents sighted by the Authority did not include the gross costs and benefits associated with the net operating benefit. The Authority's replication of the 2003 business case analysis is presented in Table 8.1 below.

While a separate OSS (now DTFSSC) CBA was not presented in any documents sighted by the Authority, only $68.5 million of the capital expenditure was due to the DTFSSC, with the remainder allocated for the HCN and ETSSC. $40.7 million of the $56.6 million in ongoing benefits were attributable to the DTFSSC. A separate CBA for the DTFSSC has been calculated by the Authority, which is also presented in Table 8.1. This analysis assumes that:

- the time profile for the capital expenditure in each of the DTFSSC, HCN and ETSSC is the same;
- the ongoing benefits materialise at the same rate for each shared services centre; and
- the avoided ICT capital expenditure is allocated in proportion to the ongoing benefits.

Finally, Table 8.2 shows the CBA in 2010-11 prices for comparison against the actual results. The 2010-11 price analysis uses the same discount rate of 3.1 per cent to illustrate the impacts of operational issues, rather than any changes in interest rates.[87] The analysis accounts for impacts from 2010-11 to include as much data as possible. However, because roll-ins of agencies stopped while this review was undertaken, 2010-11 figures represent forecast costs and benefits had this review not occurred.

[86] DTF (2003), Corporate Services Reform – Whole of Government Business Plan/Implementation Plan, Deliverable C Report, p150

[87] The Authority has used a discount rate of 2.26 per cent real for its modelling in this report.

Table 8.1 2003 business case – ex-ante cost benefit analysis

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	NPV
2003 Total Project Ex-ante ($ million real 2003 Prices)											
Capex	-7.1	-41.8	-29.5	-3.2	-0.4	0	0	0	0	0	-76.3
Net Operating Benefits	-0.7	-2	11.7	49.9	53.7	56.6	56.6	56.6	56.6	56.6	320.3
Avoided ICT Capex	9.7	9.7	9.7	9.7	9.7	0	0	0	0	0	44.3
Total Cashflow	1.9	-34.1	-8.2	56.4	62.9	56.6	56.6	56.6	56.6	56.6	288.1
Discount Rate	3.1%										
NPV	**288.1**										
IRR	87.6%										
2003 DTFSSC Only Ex-ante ($ million real 2003 Prices)											
Capex	-5.9	-34.9	-24.6	-2.7	-0.3	0	0	0	0	0	-63.7
Net Operating Benefits	-0.5	-1.4	8.4	35.9	38.6	40.7	40.7	40.7	40.7	40.7	230.3
Avoided ICT Capex	7.0	7.0	7.0	7.0	7.0	0	0	0	0	0	31.9
Total Cashflow	0.5	-29.4	-9.3	40.2	45.3	40.7	40.7	40.7	40.7	40.7	198.4
Discount Rate	3.1%										
NPV	**198.4**										
IRR	70.3%										
DTFSSC Only Ex-ante ($ million real 2010-11 prices)											
Capex	-7.4	-43.5	-30.7	-3.3	-0.4	0	0	0	0	0	-79.5
Net Operating Benefits	-0.6	-1.8	10.5	44.7	48.1	50.7	50.7	50.7	50.7	50.7	287.1
Avoided ICT Capex	8.7	8.7	8.7	8.7	8.7	0	0	0	0	0	39.7
Total Cashflow	0.67	-36.63	-11.54	50.10	56.42	50.74	50.74	50.74	50.74	50.74	247.3
Discount Rate	3.1%										
NPV	**247.3**				**NPV to 2010-11**	**171.4**					
IRR	70.3%				IRR to 2010-11	67.6%					
CPI	80.21	82.09	84.10	86.79	89.32	95.24	97.46	100	102.6	105.2	

Source: 2003 Business Case and ERA analysis.
Note: totals might not add due to rounding. Annual figures not discounted.

Table 8.1 shows that in 2010-11 prices, the expected 10-year NPV of the DTFSSC was $247.3 million with an IRR of 70.3 per cent. For the period ending in 2010-11, the NPV was expected to be $171.4 million with an IRR of 67.6 per cent.

Table 8.2 2003 business case – ex-post cost benefit analysis

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	NPV
Actual DTFSSC Costs and Benefits($ million nominal)											Sum
Capex ($)			-42.1	-13.1	-18.7	-43.1	-42.2	-30.2			-189.4
Operating Costs			-12.3	-21.3	-41.3	-58.7	-58.8	-61.9			-254.4
Operating Benefits			0	0.8	4.3	6.7	8.1	16.8			42.0
Net Operating Benefits			-12.3	-20.4	-37.5	-52.4	-50.7	-39.0			-212.4
Avoided ICT Capex			7.3	7.5	7.8	8.3	8.5	7.3			39.4
Total Cashflow			-47.1	-25.9	-48.4	-87.2	-84.4	-69.3			-362.4
DTFSSC Only Actual to date ($ million real 2010-11 prices)											NPV
Capex			-50.1	-15.1	-20.9	-45.3	-43.3	-30.2			-184.2
Operating Costs			-14.6	-24.5	-46.3	-61.7	-60.4	-61.9			-237.4
Operating Benefits			0.0	1.0	4.3	6.7	8.3	22.8			36.9
Net Operating Benefits			-14.6	-23.5	-42.0	-55.0	-52.1	-39.0			-200.5
Avoided ICT Capex			8.7	8.7	8.7	8.7	8.7	0.0			39.7
Total Cashflow			-55.9	-29.9	-54.2	-91.6	-86.6	-69.3			-345.0
Discount Rate	3.1%										
NPV ($)	**-345.0**										
IRR	na										

Note: Totals might not added due to rounding. Annual figures not discounted.

Source: OSS and DTF annual reports, budget papers and ERA analysis.

Analysis shows that the results of the 2003 business case never eventuated. Chapter 2 shows that the net financial impact of the DTFSSC has been substantially negative ($189 million in capital expenditure and $196 million in operating losses from 2005-06 to 2010-11). Converting this into a similar basis as the 2003 business case is not straightforward and requires some assumptions on the Authority's part.

As noted in section 3.4.1, revenues to DTFSSC or harvested agency savings do not necessarily represent net operating benefits of the project as stated in the original business case. To estimate the actual savings to agencies to date, the Authority extrapolated its agency survey results to all rolled-in agencies and found that 62 FTEs have been saved by agencies in 2009-10. This equates to a saving of $8.1 million in 2009-10 based on a cost of $130,000 per FTE. The Authority assumes that these savings are phased in at the same rate as revenue is collected.

The Authority also assumed that the projected ICT capital expenditure savings have been achieved, as the Authority has no additional information on which to assess this figure.

The nominal outcomes and results of the ex-post DTFSSC CBA (in real terms) are presented in Table 8.1 above.

Table 8.2 shows that, in contrast to the initial $171.4 million NPV that was expected to the end of 2010-11, an NPV of –$345 million has occurred. The Authority considers that these are the appropriate two figures on which to contrast the 2003 business case and the actual outcomes.

Appendix G: Interested Parties Invited to Submit a Response to the Issues Paper and Draft Report

Agency/Organisation	Invited to comment on issues paper and draft report	Submission made on issues paper	Submission made on draft report[88]
Aboriginal Affairs Planning Authority	Y		
Art Gallery of Western Australia	Y		
ASG Group	Y	Y	Y
Botanical Gardens and Parks Authority	Y	Y	Y
Central Institute of Technology	Y	Y	
Challenger Institute of Technology	Y	Y	
ChemCentre	Y	Y	
Commissioner for Children and Young People	Y	Y	Y
CPSU/CPA and WAPOU and RBT WA	Y	Y	Y
C.Y. O'Connor Institute	Y		Y
Department of Agriculture and Food	Y	Y	
Department of the Attorney General	Y	Y	
Department for Child Protection	Y	Y	Y
Department of Commerce	Y	Y	Y
Department for Communities	Y	Y	Y
Department of Corrective Services	Y	Y	Y
Department of Culture and the Arts	Y	Y	
Department of Education	Y	Y	
Department of Environment and Conservation	Y	Y	
Department of Fisheries	Y	Y	Y
Department of Indigenous Affairs	Y	Y	Y
Department of Local Government	Y	Y	
Department of Mines and Petroleum	Y	Y	Y
Department of Planning	Y	Y	Y
Department of Racing, Gaming and Liquor	Y	Y	
Department of Regional Development and Lands	Y	Y	Y

[88] Only includes submissions received by the due date of 21 May 2011.

Agency/Organisation	Invited to comment on issues paper and draft report	Submission made on issues paper	Submission made on draft report[88]
Department of Premier and Cabinet	Y	Y	
Department of the Registrar, Western Australian Industrial Relations Commission	Y		
Department of Sport and Recreation	Y	Y	Y
Department of Transport	Y	Y	
Department of Training and Workforce Development	Y		Y
Department of Treasury and Finance	Y	Y	Y
Department of Water	Y	Y	
Disabilities Services Commission	Y	Y	Y
Durack Institute of Technology	Y	Y	
Economic Regulation Authority	Y	Y	
Equal Opportunity Commission	Y	Y	Y
Ernst and Young	Y	Y	Y
Gaming and Wagering Commission of Western Australia	Y		
Gascoyne Development Commission	Y	Y	
Goldfields Esperance Development Commission	Y	Y	
Great Southern Development Commission	Y	Y	
Heritage Council	Y		
IBM	Y	Y	
Insurance Commission of WA (RiskCover)	Y	Y	
Kimberley Development Commission	Y		
Kimberley TAFE	Y	Y	
KPMG	Y	Y	Y
Landgate	Y	Y	
Main Roads Western Australia	Y	Y	
Mid West Development Commission	Y	Y	
Office of Energy	Y	Y	
Office of the Director of Public Prosecutions	Y	Y	
Office of the Information Commissioner	Y		
Office of the Inspector of Custodial Services	Y	Y	Y
Office of the Public Sector Standards	Y		

Agency/Organisation	Invited to comment on issues paper and draft report	Submission made on issues paper	Submission made on draft report[88]
Commissioner			
Oracle Corporation	Y	Y	Y
Parliamentary Commissioner for Administrative Investigations (Ombudsman WA)	Y		
Parliamentary Inspector of the Corruption and Crime Commission	Y	Y	
Peel Development Commission	Y	Y	
Perth Theatre Trust	Y		
Perth Zoo	Y	Y	Y
Pilbara Development Commission	Y		
Polytechnic West	Y	Y	
Public Sector Commission	Y	Y	
Public Transport Authority	Y	Y	
Racing Penalties and Appeals Tribunal of Western Australia	Y		
R Ciantar	Y	Y	
Real Estate and Business Agents Supervisory Board	Y		
Rottnest Island Authority	Y	Y	Y
Salaries and Allowances Tribunal	Y		
ScreenWest (Inc.)	Y		
Settlements Agents Supervisory Board	Y		
Small Business Development Corporation	Y	Y	Y
South West Development Commission	Y		
State Library of Western Australia	Y		
State Supply Commission	Y		
Swan Bells Foundation Incorporated	Y		
Talent2	Y	Y	Y
WA Health Promotion Foundation	Y		
West Coast Institute of Training	Y	Y	Y
Western Australian Electoral Commission	Y	Y	
Western Australian Energy Disputes Arbitrator	Y		
Western Australian Museum	Y		
Western Australian Planning Commission	Y	Y	Y

Agency/Organisation	Invited to comment on issues paper and draft report	Submission made on issues paper	Submission made on draft report[88]
Western Australian Sports Centre Trust, trading as Venues West	Y	Y	
Western Australian Tourism Commission	Y	Y	Y
Wheatbelt Development Commission	Y		Y

Appendix H: Assumptions Used in the Financial Modelling for the Inquiry

Wage Rates

The annual FTE wage rate is based on the cost of employing a level 6 under the Western Australian Public Sector General Agreement, with on-costs included. The DTFSSC wage rate is assumed to be the same as those working within agencies, and is consistent with the DTF's *Costing and Pricing of Government Services Guidelines.*

An explicit allowance for the cost of accommodation has already been included for DTFSSC staff. Therefore, the cost of accommodation was subtracted from the DTFSSC employment cost estimate.

Variable	Present Value Annual Wage Rate ($'000s)			
	Option 2a	Option 2d	Option 2g	Option3
Agency FTE cost	-130	-130	-130	-130
DTFSSC FTE cost	-120	-120	-120	-120
Redundancy wage multiplier	1x	1x	1x	1x

Integration Costs

Integration costs approximate the additional operating cost associated with a roll-in to DTFSSC, as reported by agencies. Integration costs are limited to IT-based solutions which were employed by agencies (as opposed to roll-in costs). The Authority has assumed that the integration costs for the finance only roll-in were assumed to be half that of a full roll-in for both HR/payroll and finance services.

Integration costs – full roll-in	Present Value ($'000s) per quarter			
	Micro	Small	Medium	Large
Option 2a	-	-37.5	-75	-150
Option 2d	-	-18.75	-37.5	-75
Option 2g	-	-18.78	-37.5	-75
Option 3	-	-18.75	-37.5	-75

Integration costs – Finance only roll-in	Present Value ($'000s) per quarter			
	Micro	Small	Medium	Large
Option 2a	-	-18.75	-37.5	-75
Option 2d	-	-9.375	-18.75	-37.5
Option 2g	-	-9.375	-18.75	-37.5
Option 3	-	-9.375	-18.75	-37.5

Legacy System Costs

Legacy system costs reflect the operating expenditure associated with maintaining legacy systems for a period of seven years after decommissioning. Legacy systems are only maintained to a minimum standard, and are not used for operational purposes.

Legacy system costs	**Present Value ($'000s) per quarter**				**Length of period**
	Micro	Small	Medium	Large	(Quarters)
Option 2a	-10	-10	-10	-10	10
Option 2d	-10	-10	-10	-10	10
Option 2g	-10	-10	-10	-10	10
Option 3	-	-	-	-	-

Data Migration Costs

Data migration cost estimates were provided by Stantons, and reflect the operating cost of removing data from the Oracle system for use within a different HR/payroll or finance environment.

Data migration	**Present Value ($'000s) per quarter**			
	Micro	Small	Medium	Large
Option 2a	-	-	-	-
Option 2d	-	-	-	-
Option 2g	-50	-50	-50	-50
Option 3	-100	-100	-100	-100

Roll-in Project Costs

Roll-in project costs were reported by agencies and reflect the cost of adapting internal systems and processes to the new environment. For the purposes of this project, it was assumed that the cost of rolling-out of DTFSSC was equal to that of rolling into DTFSSC originally. This would enable agencies to move to a non-Oracle product if desired.

Roll-in project costs – Agencies outside of DTFSSC	**Present Value ($'000s) per quarter**			
	Micro	Small	Medium	Large
Option 2a	-8.1	-73.9	-978.7	-2000
Option 2d	-6.1	-55.4	-734.1	-1500
Option 2g	-4.1	-37	-489.4	-1000
Option 3	-	-	-	

Roll-in project – Agencies inside of	**Present Value ($'000s) per quarter**			

DTFSSC				
	Micro	Small	Medium	Large
Option 2a	-	-	-	-
Option 2d	-	-	-	-
Option 2g	-4.1	-37	-489.4	-1000
Option 3	-8.1	-73.9	-978.7	-1000

DTFSSC Staffing Requirements

The DTFSSC staffing requirement was reported by DTF in response to the Issues Paper.

DTFSSC labour requirements	Option 2a	Option 2d	Option 2g	Option 3
Starting FTE level	298	298	298	298
Full complement	510	510	267	-

Implementation Delay

The delay associated with agency roll-in/out reflects technical advice provided by Stantons regarding the capacity for DTFSSC to continue rolling agencies in, given the need to upgrade to Oracle version 12.

Other parameters	Value
First period	2011Q3
Delay in implementation (quarters)	
Option 2a	9
Option 2d	6
Option 2g	4
Option 3	-
Exogenous FTE growth rate (per quarter)	0.0%

	Present Value ($'000s) per quarter				Length of period (quarters)			
Option	**2a**	**2d**	**2g**	**3**	**2a**	**2d**	**2g**	**3**
Recurrent								
Project staff (1)	-1920	-1920	-960	0	8	8	8	-
Project staff (2)	-1080	-1080	-540	-	8	8	8	-
Recurrent costs increases (staff transfers)	-800	-800	-800	-	4	4	4	-
'best of breed' integration costs	-	-615	-615	-615	-	Ongoing	Ongoing	Ongoing
Capital								
Interface to 'best of breed'	-	-4000	-2000	-	n/a	n/a	n/a	n/a

Appendix I: Authority's Response to Factual Inaccuracies Outlined in DTF's Submission

The DTF's submission included a section on factual inaccuracies made by the Authority in the draft report. This appendix details the Authority's response to each claim.

Page in Draft Report	DTF comments	Authority Response
vi and ix	The figures of $400 million net of revenue and $460.4 million (total cost) reported on these pages includes costs for Online Technologies which were transferred to DTFSS from Government Procurement in 2007-08. This was previously explained on page 4 in DTF's 13 March 2011 response to the ERA's request for additional information.	Figures of $460 million have been changed to reflect the net costs of the project.
	DTF also has a number of queries regarding the determination of the figures used in Table 2.4 which is used as the basis for these figures. These issues are further detailed in comments that relate to page 16 of the report below.	Table 2.4 has been changed.
	It is also noted that the figure of $460 million is inconsistently used throughout the report (e.g. pages xiv, 16, page 97). It is considered that the figure of $400 million more accurately reflects the actual cost of the program as this allows for revenue received from agencies. Using net costs and then total costs at different points through the report is in- consistent and confusing.	The $460 million and $400 million figures are defined each time they are used in the final report to avoid confusion.
	It is further noted that these figures do not take into account (and is not recognised elsewhere in the report) of the actual savings which have actually been made against agency budgets and therefore realised (i.e. $45.6 million cumulative to date and $21.2 million on-going for agencies already rolled in).	While agencies have been harvested the Authority has seen no evidence of efficiency savings arising from using DTFSSC services. The harvest is dealt with in a separate section but has not been used to alter these figures.
	Not to mention actual savings achieved is inconsistent with other parts of the report which continually detail the expected savings of $56.6 million detailed in the original business case.	
	Further comments on this matter are detailed in comments from page 23 of the report.	The comments regarding page 23 are dealt with there.
vii	A number of agencies, such as the corporatized agencies were never in the original scope and were not required to meet the service benchmarks. This requirement only applied to agencies originally in scope and subsequently exempted. This comment is repeated on page 9.	Wording regarding corporatised agencies has been changed to reflect DTF's comments.

Page in Draft Report	DTF comments	Authority Response
	The funding of $4.25 million was already appropriated to the Department of the Premier and Cabinet and Government Procurement. It was not additional or new funding. (this comment is repeated on page 10 and page 40).	While the $4.25 million may not have been appropriated for DTFSSC, it is still additional funding not in the original scope of the program. The wording of this section has been changed, but the intention remains the same.
viii	The report states that *"to date, 55 agencies have rolled in",* while other sections state different numbers (e.g. page xiv and page 15 state 56 agencies). The actual number of agencies rolled in to date is 58. Appendix E list 56 agencies but this excludes the Agriculture Produce Commission and the Rural Business Development Commission which rolled in with the Department of Agriculture and Food and takes the number to 58. Page viii also states that there are a further 23 agencies to roll-in (this is based on information on the Website). This excludes a number of small agencies "attached" to a host agency (e.g. Keep Australia Beautiful Council) and the actual number of agencies currently scheduled to roll-in is 27.	The number of rolled-in agencies mentioned in the report has been changed to 58 to reflect the fact that the Department of Agriculture and Food has rolled-in. It has been updated on other pages as well. The appendix has also been updated. The number of agencies listed as being scheduled to roll was previously 23. This number has been updated to 22 to reflect the fact that the Department of Agriculture and Food has rolled-in. The figure of 22 is taken from the OSS website. DTF claims that 27 agencies are scheduled to roll in, but does not list the additional agencies. The Authority will continue to use the figure of 22 as it is what DTF has published on its website.
ix	The report makes a number of misleading misrepresentations about the costs of the program. On this page and repeated throughout the report the report states " the costs of the program have increased from capital costs of $82 million identified in the original business case to $460.4 million by the end of 2010-11. The accurate comment should be to compare the original capital costs of $82 million capital cost to the capital costs of $200 spent to date. The $460.4 includes both capital costs and operating costs and is misleading unless put into context with what would otherwise have been spent as was/is being spent under the decentralised model.	Figures have been updated. The report now compares the net present values of the 2003 business case for DTFSSC only and the current situation.
ix	The comment *re "DTFSSC seeking an additional $35 million to upgrade the Oracle business* system *to Version 12"* should recognise this is a normal business expense as ICT systems all require upgrade whether located at DTFSSC or in the agencies themselves.	The Authority has acknowledged that upgrading the system is a normal business expense. However it has been stated that this funding represents a substantial upgrade not mentioned (in any detail) or funded in any

Page in Draft Report	DTF comments	Authority Response
	The comment re seeking budget funding in 2011-12 *"to offset the loss of revenue resulting from delays to the project"* should recognise that this occurred due to the current pause in roll-ins as requested by the Government. This comment is repeated in section 3.3.3	previous business case or request for funding and therefore is additional program costs. The Authority has acknowledged that the delay in roll-ins is caused by this review. However the Authority believes that the additional funding cannot solely be attributed to delays in this review.
ix	In relation to the comment re a transparent pricing model, the current fee estimates were discussed and formally advised to agencies between 2004 and 2006. It should be recognised that a full pricing and charging model was intended to be introduced based on volumetrics once all agencies had rolled in.	The Authority acknowledges that DTF's point is correct. However what was written in the draft report is not incorrect and has not been changed.
x	The net cost to government cost of $173.4 million may need to be reviewed once the issues surrounding the determination of the figures in Table 2.4 are resolved (see pages vi, ix and Page 16 of the report). As previously stated, actual savings achieved have not been recognised.	Table 2.4 has been updated. As previously stated the Authority has conducted a cost/benefit analysis. As the harvest is a transfer it has not been recognised.
xv	The cost of $489.8 million will need to be reviewed (see pages vi and ix of the report). Further comments on the FTE savings are also detailed under commentary on page 32 of the report. In the third dot point, a net cost of $489.8 million is referred to. This is a total cost as calculated by ERA, not a net cost. It also does not take into account savings that have been achieved to date as detailed previously. The comment that savings should occur when savings are delivered, rather than when the agency is rolled into DTFSSC is not considered practical as agencies would continually say that there are no savings and there would be no incentive to reduce costs (e.g. FTE numbers etc). All government savings initiatives (such as procurement harvest and 3 per cent efficiency gains had a defined start date similar to shared service savings)	The figure of $489.8 has been reviewed and changed. The comments regarding FTE savings are detailed below. DTF's concern is to do with implementation. The Authority rejects that this is not practical. The Authority has changed the wording to say that harvest will be taken after a period of time which it is reasonably assumed that savings would have been achieved. The Authority also recognises that all government savings initiatives have a defined start date. The Authority believes that this start date should not be the same as the roll-in date. This is reflected in the report.

Page in Draft Report	DTF comments	Authority Response
3	The figure of $198 million reported as budget allocations to the OSS by November 2006 is not correct and should be $176 million. The difference is the funding for ETSSC and HCN ($13.47 million) and the original FRIT funding of $8.6 million. This FRIT funding covered a range of issues, including procurement reforms and the implementation of other Functional Review Taskforce (FRT) recommendations. This was explained in DTF's 11 March 2011 response. It would appear that the ERA has used the figure in the Auditor General's Report which covered all three Shared Service Centres and in our view, incorrectly included the $8.6 million as a shared service cost (see also page viii of the ERA report where the $198 million is reported).	The report has been changed to reflect DTF's comments.
6	The background to the move to shared corporate services is not correct. The "Government Structures for Better Results" (MOG) Report in 2001, which primarily looked at amalgamating Departments, also made a recommendation that CEO's should investigate greater sharing of corporate services. There was no comment re indentifying savings of $56.6 million. The FRT report of December 2002 recommended shared corporate services be implemented and this led to the establishment of FRIT which developed the business case for corporate services, as well as other task such as the procurement business case.	The report has been changed to reflect DTF's comments.
8	Page 8 (and various other sections of the ERA report) refers to the original business case and details information such as savings of $56.6 million (which included non budget dependent agencies which could not result in direct savings to government) and savings of 770 FTEs. It should be noted that the savings amount also included ICT related savings such as maintenance costs, payments to external HR/payroll providers (e.g. Talent 2) and other related I CT costs. The report should also recognise that there were revisions to the original business case as the project proceeded which were endorsed by government. For example, some agencies were subsequently exempted; some scope changes were made for specific agencies (e.g. Public Transport Authority were to only use the Oracle HR/payroll component) while it was also agreed the OSH functions would remain in some large	Additional information provided by DTF has been added to the report.

<table>
<tr><th>Page in Draft Report</th><th>DTF comments</th><th>Authority Response</th></tr>
<tr><td></td><td>agencies.

These changes reduced the number of expected FTE savings for general government agencies to around 380 and the expected net savings from budget dependent agencies to around $49 million (including Education and Health). The government determined that the overall net savings from the project should be $55 million and consequently individual agency savings targets had to be increased by approximately 13.5 per cent to meet this target.</td><td></td></tr>
<tr><td>9</td><td>It should be noted that the funding of $19.59 million for ongoing costs was offset against savings i.e. it was not new funding.</td><td>DTFs point has been noted in the final report. However it has also been noted that this is additional (unanticipated) funding not originally envisaged.</td></tr>
<tr><td>10</td><td>Refers to the merger of the two Client Management Councils but then incorrectly states that the two DTFSSC General Managers reported to the Governance Council on the activities of the Shared Service Centre. It should be corrected to state the two DTFSSC General Managers reported to the Client Management Council on the activities of the Shared Service Centre.</td><td>The report has been changed to reflect DTF's comments.</td></tr>
<tr><td>16</td><td>The operating figures used in Table 2.4 cannot be reconciled to our records. The table indicates that it excludes depreciation, however these amounts do not appear to have been adjusted for 2005-06 ($0.239 million) and 2006-07 ($2.17 million). There are also unexplained differences for 2007-08 to 2010-2011 totalling $3.673million.

As explained in commentary on pages vi and ix, the figures from the annual reports includes costs and revenue for Online Technologies (which was transferred from Government Procurement) which are separate from shared service functions and needs to be adjusted. These amounts ($m) are:
<table>
<tr><th></th><th>2007-08</th><th>2008-09</th><th>2009-10</th><th>2010-11</th></tr>
<tr><td>Cost</td><td>2.8</td><td>3.9</td><td>3.8</td><td>4.0</td></tr>
<tr><td>Revenue</td><td>2.6</td><td>3.2</td><td>3.4</td><td>3.7</td></tr>
</table>
The capital costs in this table also cannot be reconciled back to our records.

Could you please provide information to support the figures that were used in Table 2.4 or make the necessary adjustments as outlined above.</td><td>Figure 2.4 has been changed to reflect DTF's comments.</td></tr>
<tr><td>16</td><td>The ERA Report states that harvested savings are not included in Table 2.4. The report needs to recognise the savings amounts that have actually</td><td>As previously mentioned the Authority does not recognise harvested amounts as benefits of</td></tr>
</table>

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	been achieved from agencies to date. This is required to reflect the actual net cost of the program to government as these savings adjustments have been made against individual agency budgets. Up until 2010-11, actual cumulative savings of $45.6 million (gross) have adjusted against agency budgets and the on-going amount for rolled in agencies is $21.2 million.	the project.
23	The amount of $460 will need to be adjusted once the issues with Table 2.4 are resolved. Adjustments are also required for agency numbers.	Figures have been adjusted.
32	Table 3.2 shows medium size agencies reporting a total of around 170 FTEs operating in corporate services prior to roll-in. This figure differs substantially from the data reported by agencies in 2003 to the number of FTEs in finance and HR/payroll functions at that time. The 2003 data (after allowing for finance only rolled in agencies) showed a total in excess of 250 FTEs involved in these functions. Given the increase in the size of the sector and additional resources required due to the splitting of agencies, this 2003 number would have been expected to increase. This large variance raises questions about the integrity of the data submitted to the ERA by agencies and whether the information provided by agencies should be independently tested for validity.	DTF is comparing different figures. The Authority measured the number of FTEs in rolled-in agencies that responded to a survey. DTF is measuring all staff in medium agencies in 2003. The authority has not changed this section. There is no large variance given that two different figures were being compared.
	As explained in commentary on pages vi, ix and page 16 (table 2.4), the revised number of FTE savings from general government agencies was expected to be 380, not 489 as per the original business case. The ERA Report uses an extrapolation (using the 489 FTEs) to determine that a reduction of 176 FTEs should have been expected. The approach is not correct as savings from different agencies varied according to factors such as the reported FTEs and the volume data being processed as per the data collected for the original business case. Based on the actual calculated savings for the rolled in agencies (and after allowing for finance only agencies), the expected FTE savings would	The revised assumptions have been noted. The extrapolation has been changed to reflect revised FTE numbers.

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	be 123 FTEs. No comment is made on this page (or elsewhere) as to ICT related savings that have been achieved, such as savings from payments made to external HR/payroll providers and other maintenance costs.	The Authority does not intend to comment on the ICT related savings in this section. It is included in Table 2.1.
32, 33	Table 3.2 shows a reduction in FTE numbers for large agencies, however, Table 3.3 shows almost 100 per cent increase in employment costs. Page 92 also refers to the Department of Transport having a 100 per cent increase in FTEs. This is not logical and caution would be needed when using information from the Department of Transport and/or Planning given the recent split of the (previous) Department of Planning and Infrastructure and the various corporate service arrangements that were in place between the two previous departments. Supports the earlier comment about the integrity of the data submitted to the ERA by agencies and whether the information provided by agencies should be independently tested for validity.	The tables in the draft report are correct, they have not been changed.
34	This table indicates that small agencies (less than 100 FTEs) have been harvested for approximately $500,000. Our records indicate that no agencies of this size had any savings harvested. Further, agencies with savings of less than $200,000 were exempted from having these amounts harvested by an ERG recommendation. Agencies assisted by this recommendation had an associated commitment to manage within their budget parameters and that savings were expected to occur through a reduction in minor cost and demand pressures being submitted for ERG's consideration. Agencies were advised of this recommendation in January 2006. Agencies are getting shared services harvested savings confused with other saving initiatives put in place by government over the last few years (e.g. procurement savings, 3 per cent efficiency savings).	DTF's comments regarding small agency harvest are correct. All of the harvest shown in the report is from Tourism WA (which has 99 FTEs and can almost be considered a medium sized agency). The report has not been changed. Other small agencies are not confused about the harvest. They have not been harvested and they did not report that they had been harvested.
40	3.3.1 Annual savings were to be achieved from 2008-09, not from 2007-08. 3.3.2 The $242.98 million covered the period to 2011-12, not 2010-11 as inferred in this paragraph.	Regarding the difference between 2008-09 and 2007-08, DTF is correct and the report has been changed. In regard to the $242.98 million the Authority has changed the

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	Again, the reported cost of $354 million is only the total cost and ignores the revenue to be received from agencies for services provided which would result in a net cost of $314 million.	report to reflect DTF's comments. Both the total cost and net cost have been mentioned in the final report.
41	As noted in Table 3.5 and acknowledged in footnote 77, the operating costs include depreciation which results in double counting. The footnote also states that the ERA was not provided with the depreciation amounts. These depreciation amounts are included in the November 2007 ERC minute (see Table 6 in that minute). This information was also provided to the ERA in DTF's 11 March 2011 response for additional information). The amounts for the period 2007-2008 total $27.388 million and this table needs to be adjusted to reflect these amounts.	Table 3.5 has been updated in light of DTF's comments.
41	As previously stated in page 23 of the report, the figure includes Online Technologies while there are also some unexplained differences which need clarification. The capital funding received in 2010 for BMW's business case is also not acknowledged (see comment in DTF's response to ERA dated 11 March 2011). The analysis which comments on the two tables on pages 41 and 42 (and Table 3.5) will then need to be revised. However, any analysis is not directly comparable as Table 3.6 includes additional DTF corporate overheads and BMW funding which are not in Table 3.5. (Note: The numbering of tales in this section, as well as other parts of the report is not correct).	Section has been updated.
42	The last paragraph states that the benefits of $56.6 million (ongoing) were to be from 2006-07. The correct year is 2008-09 as previously shown in Table 2.1 of the ERA Report. It is also unclear what this paragraph is concluding but it appears to be comparing benefits with the average net cost of service (i.e. the average of $34 million quoted in this paragraph. To compare benefits with net cost of service is incorrect as savings adjustments are made to individual agency budgets. Savings or benefits are not reflected in shared services accounts or net cost of services.	The year in which benefits will occur has been changed to reflect DTF's comments. As previously mentioned the Authority does not believe that using DTFSSC services has resulted in efficiency savings for agencies. Therefore the harvest

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		will not be considered. Furthermore the Authority is conducting a cost/benefit analysis. The harvest is a transfer, not a benefit, and will therefore not be included.
44	The ERA has done an extrapolation based on current staff numbers and agency FTE numbers from rolled in agencies to estimate that DTFSSC will require approximately 900 FTEs when all agencies have rolled in. These assumptions are not considered valid as a critical mass of staff was required when the OSS was established even though only a small number of agencies were rolled in. To date, all senior staff and management positions have been substantively filled, while other areas such as Solution and Technology Support, agency training and other areas are fully resourced. In addition, as staff become more familiar with the system, levels of recruitment as additional agencies roll-in is decreasing. Consequently, as future agencies roll-in, staff will not be recruited at the level of 1 FTE to every 32 FTES serviced as detailed in the ERA Report. This is evidenced by the minimal staff numbers being recruited during 2010- 2011 although a number of significant agencies have rolled in. The FTE level at June 2010 was 287 compared with the March 2011 number of 298.	This extrapolation has not been changed to reflect DTF's comments. The report already explains that this number is a simple extrapolation and lists factors that could affect it.
53	The assertion on this page that the Governance Council 'has *not always received full and transparent information'* is inappropriate and defamatory as it implies information was deliberately withheld particularly related to service issues experienced by agencies. Dealing with service issues was not the primary purpose of the Governance Council (as per its *'terms of reference'),* although at times it certainly discussed service issues experienced by agencies. The appropriate forum for this specific purpose was the Client Management Council. For your information the minutes from the 16 November meeting of the Client management Council make clear the Department of Transport's service issues were a specific agenda item, in fact an officer from DoT (who was on your Inquiry team) gave a powerpoint presentation which detailed the transition and service issues and what strategies	This section has been reworded to say that the governance arrangements were weak as the Council never received information on significant service delivery issues.

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	were put in place to resolve them. The Program Status Reports that went to the Governance Council and to the Treasurer were comprehensive in nature and reported progress against the various workstreams and projects. The relevant paragraph should be deleted or amended in the Final Report to remove the implication that information was being deliberately withheld from the Governance Council.	
55	The comparison of the $489.8 million with the $82 million is misleading. The $489.8 million figure used includes agency costs as well as all recurrent expenditure and states "exceeds the original (2003) budgeted capital costs of $82 million". A meaningful comparison would be with the $210 million of capital spent to date (which includes additional functionality for the Building Management and Works roll in) to the original 2003 budgeted capital costs of $82 million.	The report has been changed to reflect DTF's comments. The report now compares the net present values of the 2003 business case and the current situation.
57	Page ix of the Executive summary As outlined previously, this section does not recognise the savings that have actually been achieved to date (see commentary on page 23 of the report). Also the section uses net costs and total costs which is confusing and in-consistent.	Net costs and total costs have been defined in the final report to avoid confusion. Issues regarding the harvest have been dealt with previously.
59, 60	Changes to figures and **FTE** numbers will need to be changed once final numbers are determined.	Figures have been changed.
62	It is unclear what the second dot point is concluding regarding the reference to DTFSSC charges would still represent the same savings to agencies in the 2003 business case. Charges and savings are independent of each other. The 2007 ERC minute did indicate that a rate increase of $6.5 per cent would be required to ensure a breakeven point is reached (i.e. fees match DTFSSC operating costs). However, fees have not been increased at 6.5 per cent over the last few years with increases being at or close to CPI increases. Increases have also been made when headcount numbers have increased from that when the original fees were determined.	The report has been changed to reflect DTF's comments.
Appendix E	The FTE numbers include numbers for agencies such as the Museum and Art Gallery that are included in the overall Department of Culture and	The Authority's calculations already reflect the fact that FTE numbers for the Museum, Art

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	Arts FTE numbers. Additional, headcount numbers (rather than FTEs) are used for a number of agencies (e.g. Departments of Racing, Gaming and Liquor and Planning). These affect FTE numbers which are also quoted and used in other sections of the report.	Gallery, Perth Theatre Trust, State Library and Screenwest are included in the overall DCA figure. Headcount numbers have been changed to FTEs and have been updated throughout the report.

Appendix J: Glossary

Act	*Economic Regulation Authority Act 2003*
ACT	Australian Capital Territory
Authority	The Economic Regulation Authority
CAA	Corporate Administration Agency
CAPS	Corporate and Professional Services
CBA	Cost Benefit Analysis
CCSU	Central Corporate Services Unit
DCA	Department of Culture and the Arts
DET	Department of Education and Training
DPC	Department of Premier and Cabinet
DTF	Department of Treasury and Finance
DTFSSC	Department of Treasury and Finance Shared Services Centre
eBusiness	Electronic Business
EDRMS	Electronic Document and Records Management System
ERC	Expenditure Review Committee
ERP	Enterprise Resource Planning
ESS	Employee Self Service
ETSSC	Education and Training Shared Services Centre
FTE	Full-Time Equivalent
HCN	Health Corporation Network
HR	Human Resources
‘invited parties’	Public sector agencies, relevant unions and private sector partners of the OSS
IPS	Interim Payroll Solution
IRR	Internal Rate of Return
IT	Information Technology
ICT	Information and Communications Technology
KPI	Key Performance Indicator
MSS	Manager Self Service

NPC	Net Present Cost
NPV	Net Present Value
NSW	New South Wales
Oracle	Oracle Corporation Pty Ltd – provides software for DTFSSC
OSS	Office of Shared Services
PwC	PricewaterhouseCoopers
SA	South Australia
SLA	Service Level Agreement
SR	Service Request
SSP	Shared Service Provider
Stantons	Stantons International Pty Ltd. The Authority's IT consultants for the inquiry
ToR	Term of Reference
WoGSC	Whole-of-Government Steering Committee