



Delivering shared corporate services in Queensland

Report 3: 2018–19



Your ref:
Our ref:

27 September 2018

The Honourable C Pitt MP
Speaker of the Legislative Assembly
Parliament House
BRISBANE QLD 4000

Dear Speaker

Report to parliament

This report is prepared under Part 3 Division 3 of the *Auditor-General Act 2009*, and is titled *Delivering shared corporate services in Queensland* (Report 3: 2018–19).

In accordance with s.67 of the Act, would you please arrange for the report to be tabled in the Legislative Assembly.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Brendan Worrall".

Brendan Worrall
Auditor-General

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Audit objective and scope

The objective of the audit was to assess whether the Queensland Government's shared service providers are delivering value for money now and positioned to successfully deliver into the future.

We reviewed whether a sample of shared corporate service providers was:

- guided by a clear whole-of-government shared corporate services strategy and governance structure
- delivering the right type and range of corporate services
- efficiently and effectively meeting customer and whole-of-government needs
- focused on continuous improvement and the future needs of customers.

We audited Queensland Shared Services, the Corporate Administration Agency, and the Business and Corporate Partnership. In this report, we refer to these, along with other entities, collectively as shared service providers. We also engaged with their customers.

Appendix B provides more information about the audit objectives and methods.

Reference to comments

In accordance with s.64 of the *Auditor-General Act 2009*, we provided a copy of this report to relevant agencies. In reaching our conclusions, we considered their views and represented them to the extent we deemed relevant and warranted. Any formal responses from the agencies are at Appendix A.



Key facts

Organisations use shared services to achieve economies of scale through the efficient use of processes, technology, and skills.

Shared service models have been operating in Queensland since the late 1990s. There are at least seven formal shared service providers for corporate services in operation today.



Shared services in Queensland

Around 2 970 staff are employed in the delivery of shared corporate services (excluding the Departments of Health and Education).

Queensland's Public Service Commission acknowledges a growing number of tasks are being automated, which significantly impacts roles and occupations across government.

Source: Queensland Audit Office.



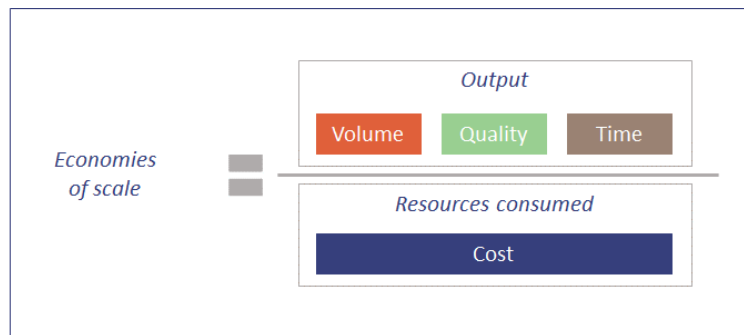
Introduction

Shared services

Shared service providers typically deliver processes that can be centralised, standardised, and automated. They aim to achieve efficiencies by simplifying processes or building expertise that means services can be delivered with less resources than its customers could do individually. Examples of services that are often shared are finance, procurement, human resources, and technology processes.

Shared services generate economies of scale by delivering more and/or better outputs from less (or the same amount of) resources. Figure A represents economies of scale as an equation.

Figure A
The economies of scale equation



Source: Queensland Audit Office.

Once a shared service function has sufficiently standardised its processes and systems, it can deliver further efficiencies through continuous improvement and innovation. Shared service providers who have developed their expertise often broaden the range and type of services they offer to include more complex services (such as legal or workforce planning) once they have achieved savings providing more routine services.

Shared services industry insights

In a 2017 Global Shared Services Survey run by Deloitte, respondents (from both public and private sectors) reported average annual savings of eight per cent. They also noted that providers were expanding into more complex, knowledge-based processes. They agreed that rapidly emerging technology will fundamentally change how shared services operate and will reduce the manual effort needed for routine tasks.

Public sector shared services insights

The Australian Institute of Management advised in 2012 that 'how people work and their preparedness to collaborate' are crucial to successful shared services initiatives in the public sector.



It identified the following factors to help explain why large-scale shared services in the public sector often find it difficult to achieve the expected efficiencies:

- There must be visible and durable political sponsorship.
- Agencies involved must be committed to the success of the shared services model.
- Benefits of ongoing investment in the model must be defined, measured, and delivered.

Queensland's shared service providers

Figure B lists examples of shared service arrangements delivering a range of corporate services. They fit the broad definition of 'shared corporate services', in that one agency delivers services to one or more customer agencies or statutory bodies.

Figure B
Examples of shared corporate service providers

Shared service provider	Lead agency/ governing body	Number of entities serviced	Annual budget \$'000	Full-time equivalent employees (FTE)
Queensland Shared Services (QSS)	Department of Housing and Public Works (DHPW)	25 agencies	140 130	1 090
CITEC	DHPW	Agencies, statutory bodies, commercial	146 951	361
Public Safety Business Agency (PSBA)	PSBA Board	4 agencies	473 746	1 146
Queensland Parliamentary Service	Queensland Legislative Assembly	4 statutory bodies	2 004	23
Corporate Administration Agency (CAA)	Department of Environment and Science	28 statutory bodies	10 975	76
Business and Corporate Partnership (BCP)	BCP Board	4 agencies	55 177	278
Department of Health (DoH)	Queensland Health	DoH and 16 hospital and health services	Not readily available	Not readily available

Note: Information about the annual budget and FTE of DoH's shared services provision is included as part of its overall departmental budget and not separately reported.

Source: Queensland Audit Office, from latest annual reports or service delivery statements for 2018–19 budgets.

There are other cross-government service providers within the Queensland Government that operate as commercialised business units, for example QFleet and Building and Asset Services. The Department of Education delivers corporate services through a centralised operating model to its schools, but not through a contracted arrangement. As a result of the 2017 machinery of government changes, some departments deliver corporate services on behalf of others, for example the Department of Child Safety, Youth and Women provides a grants management system to the Department of Communities, Disability Services and Seniors and the Department of Housing and Public Works.

In the context of rapid technological advancement and ongoing pressure on public sector financial resources, it is important to know whether Queensland's shared services models are positioned to take advantage of the best of what is currently available.

We examined three very different current operating models and considered how providers and customers focus on:

- efficiency, productivity, and economies of scale (which are the traditional reasons for shared services models)
- innovation and customer service delivery (which are what will make a difference in terms of delivering the best service in the future).



Summary of audit findings

Are shared services designed and governed strategically?

Shared service operating model

The design of the shared corporate services operating model in Queensland was reset in 2010 with a focus on transactional services like payroll and finance. A governance arrangement was established by the Department of the Premier and Cabinet to manage the implementation of the redesigned model across government. This was disbanded once the redesigned shared service providers became operational. Since then, additional providers have been established to help clusters of agencies better focus on frontline services by sharing delivery of more complex corporate services. These additional shared arrangements also emerged to help agencies transition through machinery of government changes and avoid dividing existing functions into teams too small to maintain continuity of service or satisfactory employee outcomes.

For a number of reasons, the current arrangements are not as efficient as they could be. In some cases, providers are expanding the type and range of services they offer without an evidence-based case that the service is best delivered through a shared arrangement. In others, customers are taking back services, automating services and providing them in-house, potentially increasing duplication across government. After the 2017 machinery of government changes, new agencies did not have a shared service strategy or framework to reference when making decisions about where their corporate services needs could be most efficiently met.

The operating model across government is now quite complicated. Some services are delivered by more than one provider, and some customers are serviced by numerous providers. This has evolved because, when it comes to public sector shared services, one size does not necessarily fit all. Providers and customers are not clear on what defines efficient shared service delivery. This has become even more blurry as technology has rapidly automated processes and raised customer expectations of return for that investment.

Governance framework

Entry and exit into a provider arrangement are typically based on service level agreement negotiations between a provider and its customer. The implications for other customers and for the Queensland Government as a whole are not being considered in these bilateral negotiations or monitored over time. Some providers operate without service level agreements at all.

Decisions relating to technology and the workforce are also being made on an individual (siloed) basis, by customers and/or providers. The consequence of automating manual processes is that the roles people perform will change. The Public Service Commission has established directives that help individual agencies to manage workforce change. There is a governance forum on cross-agency technology strategies in place, but it needs to be extended to align to decisions about the whole-of-government shared services operating model and its implications for the workforce.

The lack of a central strategy or value-for-money framework for shared corporate services that aligns to technology and workforce strategies means decisions are made that may not consider all relevant facts—or not made at all. Monitoring and reporting of progress against stated objectives for shared services is fragmented and incomplete. A whole-of-government governance framework is needed to sustain a shared services operating model that delivers maximum benefits.

The Department of Housing and Public Works is well positioned to have a view on what a whole-of-government strategy could look like because it:

- hosts two of the largest shared corporate service providers—Queensland Shared Services (QSS) and CITEC, and hosts other cross-government service providers within its portfolio (for example, QFleet and Building and Asset Services)
- hosts a customer governance board that engages all customers of CITEC and QSS that could be leveraged for customer consultation—Government Shared Services Customer Board
- is responsible for the whole-of-government technology strategy and is leading the digital agenda for Queensland government.

It will need to be supported by central agencies to have the impact across all departments that is required.

Are shared services delivered efficiently and effectively?

Customer views

We found that customers became increasingly satisfied with their shared corporate service provider as technology makes their work easier or costs cheaper. Unsurprisingly, customers value accurate, timely, and low-cost service delivered by providers who can demonstrate strong internal controls. Customers that have not seen improvements in their processes and systems, or lower costs over time, were less satisfied.

After a long period of relatively little change, high-volume services like payroll and accounts payable have been the focus of system consolidation and process standardisation. Significant improvements have recently been made possible through automating parts of these processes including data entry and validation steps. Some customers, however, still remain on versions of systems requiring significant manual effort.

Measuring value

Not all providers measure and understand their volumes, standards, and costs across the scope of services. It would help if providers had a consistent framework for demonstrating how they determine the value of each service and how effectively they monitor delivery of their objectives. This would enable them to demonstrate their contribution to overall value for money from investment in continuous improvement and innovation activities. It would also assist in comparing service across providers, which could help to drive greater efficiency within the sector.



Understanding costs

We found that providers need to improve their understanding of what it costs to deliver each service. This includes understanding all components of costs, including where public ownership supports or detracts from cost-effective service delivery. As the pace of automation increases, it can be hard for providers to quickly and accurately identify what the cost implications are for each of their services. This makes it difficult for them to pass on any savings and benefits in a timely way.

Customers also need to understand how the actions they take can contribute to, or detract from, effective and efficient shared services.

The price providers charge their customers for a service may be more or less than what it costs for them to deliver that service. This is because pricing strategies may take into account other goals, such as encouraging customers to use more efficient service options or ensuring the provider can sustain a certain level of service. While customers are often informed of this possibility, it is not always clear if services are being delivered at prices above or below cost, and why.



Audit conclusions

There is still significant benefit to be realised from the shared corporate services models that exist within the Queensland Government. When shared service providers have made the effort to consolidate, standardise, and automate corporate service offerings, they have demonstrated the ability to deliver improved services for government. But large providers (like Queensland Shared Services) have only just completed the required projects that have allowed some of these improvements to occur. For example, moving customers onto a less complex set of systems has meant they have been able to invest time in simplifying processes.

As some shared service providers have been slow to deliver benefits, their customers question what corporate services should be delivered by which provider, if any.

Over time a vision for Queensland's shared corporate services, and customers' confidence in the benefits it can deliver, have started to fade. Because of this, customers are making decisions in silos which will limit the benefits that can be achieved at a whole-of-government level.

It is time to reset the strategy for corporate services delivery in Queensland and confirm a commitment to driving savings across the whole sector. Technology is already delivering real savings through automation and self-service, and the pace of change is expected to increase, along with efficiencies.

A stronger focus at the whole-of-government level is required to ensure:

- there is clear justification for the existence of multiple providers of similar services—so that customers with similar needs are receiving services from the most appropriate and efficient provider available
- customers are committed to the shared services model and its most efficient service delivery options—so that providers can invest in service delivery and improvement knowing that they have adequate future demand to support return on that investment
- investment in technology delivers continuous improvement of services while managing risk—responsibly updating technology as necessary and not continuing to use outdated or risky systems
- agencies (providers and customers) have a pathway for managing what happens to employees whose roles are affected by automation—with technology automating services quicker than ever before, resources across government need to be ready to support the people who are impacted
- priority is given to measuring and monitoring the impacts of efficiency improvements—this will help providers and customers learn from each other's successes and will encourage future collaboration.

This has to be supported by a better understanding by shared service providers of their costs so that they can be transparent with their customers about value for money and justify their pricing approaches. With that in place, they can challenge each other to collectively generate real efficiency savings for the sector.



Recommendations

Department of Housing and Public Works

We recommend that the Department of Housing and Public Works:

1. leads an initiative to prepare a proposal for government on a cross-government governance arrangement for the direction and performance of the Queensland Government's shared corporate services.

The role of this arrangement should include monitoring performance, promoting collaboration and best use of resources, and developing the cultural change agenda required to complement technological advances.

Interactions with existing governance arrangements, like the Chief Executive Leadership Board, the Government Shared Services Customer Board, and the responsibilities delegated to Chief Executives through the *Financial Accountability Act 2009*, should be considered as part of this process.

We acknowledge that this is a whole-of-government initiative and therefore input from central agencies and all directors-general will be required (Chapter 2)

2. leads an initiative to prepare a proposal to government to reset the vision, strategy, and principles guiding shared corporate services delivery in Queensland.

This should include all Queensland Government shared corporate services operations, not just the shared corporate service providers included within the scope of this audit (Chapter 2)

3. works with Queensland Treasury to propose options for a revenue and investment model for shared corporate service providers and customers (Chapter 3)
4. coordinates the alignment of the government's technology (digitisation) strategy with shared corporate service providers plans for improvements and people strategies. (Chapters 2 and 3)

Public Service Commission

5. We recommend that the Public Service Commission works with all government agencies to ensure they effectively collaborate to plan, support, and manage those corporate services employees affected by automation. (Chapter 2)

All shared corporate service providers

We recommend that each Queensland Government shared corporate service provider:

6. for each service it provides:
 - defines a clear strategy, acknowledging external factors (such as innovation in service delivery models and technology), user demand, and future funding challenges
 - establishes an understanding of the full cost per service
 - establishes and monitors standards for volume, quality, and time (Chapter 3)

7. maintains a well-defined catalogue of its services aligned to the Queensland Government's *Business Service Classification Framework* so that demand, efficiency savings, and performance standards can be compared across providers (Chapter 3)
8. establishes a transparent pricing strategy, if funded through fee for service, that includes efficiency, behavioural and sustainability objectives (Chapter 3)
9. formalises agreements with customers to clarify the type and range of services, performance standards, and exit criteria (Chapter 2)
10. works with the cross-government governance arrangement for the Queensland Government's shared corporate services to establish and maintain business, technology, and people strategies that are aligned to the ongoing success of shared corporate services at the whole-of-government level. (Chapters 2 and 3)

All customers of shared corporate service providers

11. We recommend that each customer of a Queensland Government shared corporate service provider contribute to driving the effectiveness and efficiency of shared corporate services within Queensland Government by:
 - providing shared service providers with quality inputs to their processes to aid efficient processing
 - considering the effect on efficiencies and economies of scale of shared services at a whole-of-government level in any analysis rather than only at the individual customer level
 - continuing to communicate any proposed changes to demand for services in a timely manner to allow the provider to make appropriate arrangements
 - effectively monitoring performance of shared service providers in accordance with shared service level agreements
 - continuing to collaborate on improvement initiatives. (Chapters 2 and 3)



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