The Shared Services Centre

Department of Employment

Department of Education and Training

Australian National Audit Office
Canberra ACT
9 November 2016

Dear Mr President
Dear Mr Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Department of Employment and the Department of Education and Training titled The Shared Services Centre. The audit was conducted in accordance with the authority contained in the Auditor-General Act 1997. I present the report of this audit to the Parliament.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office’s website—http://www.anao.gov.au.

Yours sincerely

Grant Hehir
Auditor-General

The Honourable the President of the Senate
The Honourable the Speaker of the House of Representatives
Parliament House
Canberra ACT
AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the Auditor-General Act 1997 to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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Summary and recommendations

Background

1. A shared services centre is an arrangement for the delivery of back-office support services such as accounting, human resources, payroll, information technology, legal, compliance, purchasing and security. The arrangement can allow a number of organisations to share operational tasks, avoiding duplication and providing economies of scale.

2. The Secretaries of the Department of Employment (Employment) and the Department of Education and Training (Education) established a shared services centre by agreement following the 2013 machinery of government (MoG) changes¹ that abolished the Department of Education, Employment and Workplace Relations (DEEWR). The Secretaries’ agreement was intended to enable the departments to pursue efficiencies in the delivery of the services and to avoid the cost of separating the corporate functions of the former DEEWR. The centre is known as the Shared Services Centre (SSC).

3. The agreement also provided for service continuity to other ‘client’ entities² that DEEWR had supported, and identified the potential for the SSC to provide services to other Commonwealth entities (entities). Expansion of the SSC as a services provider gained momentum during 2015 in the context of the broader whole-of-government shared and common services initiative administered by the Department of Finance (Finance) and overseen by the Australian Public Service (APS) Secretaries Board.³ A revised agreement between the two departmental Secretaries in March 2016 signalled the Secretaries’ aim that the SSC’s services be provided to other APS entities. The departments are referred to as ‘partner’ departments as part of this agreement.

4. As part of further machinery of government changes which occurred in September 2016, core transactional services provided by the SSC will move to Finance. The entities have advised that most of the remaining services provided to current SSC client entities will move to Employment, with a small number to Education. The Departments are working towards a 1 December 2016 date for the transfer of functions.

Audit objective and criteria

5. The objective of the audit was to assess the effectiveness of the Department of Employment’s and the Department of Education and Training’s administration of the Shared

¹ The term ‘machinery of government changes’ (MoG changes) is used to describe a variety of organisational or functional changes affecting the Commonwealth public sector. MoG changes generally occur in the period immediately after a general election but can occur at any time.

² DEEWR had provided corporate and information and communication technology (ICT) services to other ‘client’ entities. A number of these clients had at different times, been part of the DEEWR portfolio.

³ The Secretaries Board is established by Section 64 of the Public Service Act 1999. The Board consists of the Secretary of the Prime Minister’s Department, as Chair; and the Secretary of each other Department; the Public Service Commissioner; and others as are nominated in writing by the Secretary of the Prime Minister’s Department. The function of the Secretaries Board is to: take responsibility for the stewardship of the APS and for developing and implementing strategies to improve the APS; to identify strategic priorities for the APS; and consider issues that affect the APS.
Services Centre (SSC) to achieve efficiencies and deliver value to its customers. To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- governance arrangements incorporate sound oversight and planning;
- mechanisms have been established to ensure the effective delivery of services and the SSC’s ability to meet its commitments to customers to deliver value and ongoing efficiencies; and
- reporting arrangements and review activities provide for ongoing monitoring and continuous improvements to the operation of the SSC.

Conclusion

6. The department’s administration of the Shared Services Centre (SSC) has been effective for sharing resources between the departments and delivering selected back-office services to a small client base. However, the governance arrangements established to oversight the SSC have not positioned it well for the future and the departments have not yet determined if the arrangement is efficient and resulting in savings. In addition, responsible Ministers have not been well informed of the arrangements or their responsibilities in respect of competitive neutrality.

7. An advisory board provides guidance to the SSC on strategic matters and priorities. The ANAO found instances where the board was not consulted or involved in decisions relating to the strategic direction, financial arrangements and expenditure priorities. Information reported to the board did not focus on areas of strategic importance and the quality and completeness of this information could be improved. These issues limit the board’s ability to effectively perform its strategic oversight role.

8. The mechanisms established for setting out responsibilities and obligations and ensuring transparency for services delivered by the SSC are weak. Service standards and levels are not fixed and can change. The delineation of responsibilities between the SSC and its clients is not clear and there was no commitment by the SSC to certify the quality of its control framework. In addition, operating on a cost-recovery basis requires the SSC to attribute all its costs for delivering services to its clients and all risk is transferred to clients in this process.

Supporting findings

Establishing the Shared Services Centre

9. While the governance arrangements were appropriate for the SSC’s establishment, the partner departments, SSC governance board and Finance have recognised that as the SSC expands; alternative governance arrangements will be required to provide additional assurance to clients.

10. In establishing the SSC, the partner departments set out to avoid the cost of separating the corporate and information technology functions. In this process the departments anticipated efficiencies and estimated savings, however at the time of the audit, the departments had not determined if efficiencies or savings had been realised. The departments should have advised Ministers of the arrangement from the outset and of the potential to expand service provision.
Advice since the SSC’s establishment has been limited and could have been more comprehensive and timely.

11. The partner departments have sought central agency advice on the application of the Australian Government’s competitive neutrality policy to the SSC’s operations but have not formally assessed its application and have not briefed Ministers of their responsibilities in this respect.

12. The departments have conducted a number of review activities since the establishment of the SSC. There would be benefit in the departments conducting an evaluation of the SSC against its aims and objectives. This would assist the departments to determine if the arrangement is effective, efficient and delivering value for money.

**Oversight of the Shared Services Centre**

13. The SSC Governance Board (the board) was established to provide guidance to the SSC on strategic matters and priorities. Despite these responsibilities being defined in the board’s terms of reference, there are instances where the board was not consulted or involved in decisions relating to the SSC’s strategic direction and operational priorities. This has limited the board’s ability to oversight the activities and operations of the SSC. The absence of direct and independent lines of reporting between the board and its sub-committees has further diminished the ability of the board to fulfil its governance role.

14. There is limited alignment between the activities set out in the SSC’s strategic plan and the information reported in the SSC’s balanced scorecard reports. Although the board instructed that the SSC regularly report the status of major projects and initiatives, reporting is limited. The SSC measures its performance against its peers using benchmarks and reports this information to the board. Both the coverage and quality of this information is limited. The board received no information in relation to the SSC’s customer’s satisfaction levels, feedback and complaints.

15. Visibility of the SSC’s accounts and transactions has relied upon information provided by the SSC to the partner departments, the board and the sub-committees. The board has: no role in the budget process; limited visibility of expenditure; and limited ability to influence expenditure priorities. The arrangement is not consistent with the role envisaged for the board and limits its ability to make decisions and assess risk. The partner departments have taken steps to improve visibility of SSC transactions for budget purposes.

**Service delivery assurance**

16. The SSC formalises agreements with clients through a memorandum of understanding (MoU). These include limited detail of the obligations of the SSC and the mechanisms in place to support administration of the arrangement. These agreements did not include details of: the controls the partners and SSC have established to ensure; legislative compliance; governance arrangements; and the delineation of responsibilities between the SSC and its clients. In addition, there was no commitment by the SSC to certify the quality of its control framework and no protocol to share the outcome of audits or reviews of the SSC’s activities where findings and recommendations potentially impact clients.

17. The MoU specified that the board is to agree all changes to the services catalogue and service levels. The ANAO found inconsistent treatment of changes to service levels as well as
inconsistent advice regarding authority to change service levels, with not all significant changes
being referred to the board. There were also differences between the performance measures
included in reports to clients and those specified in the services catalogue. The board’s
sub-committees are intended to provide clients with assurance regarding decision-making,
price-setting and performance. However, not all initiatives were referred to the sub-committees
for consideration or decision and this has limited transparency for clients.

18. The transition to a new financial framework and details associated with the cost-allocation
model were not considered by clients prior to agreement by the board. Formal arrangements to
control and oversee the operation of the SSC’s financial framework and provide assurance of the
accuracy of the SSC’s cost model; to monitor cost variations; and to control the SSC’s use of the
risk contingency funds have not been established.

19. A business plan agreed by the departmental Secretaries in April 2016, forecast significant
savings for clients of the SSC based on a four-fold increase in clients and an organisational
transformation program. The SSC’s experience on-boarding new clients was limited at the time of
the audit, with only two entities having joined the SSC. Achievement of these savings is also reliant
upon transition to new governance arrangements.

**Recommendations**

**Recommendation No. 1**

Paragraph 2.15

The Department of Employment and the Department of Education and Training not expand the Shared Services Centre to take on additional clients until its future direction and supporting governance arrangements are settled.

**Department of Employment response: Agreed.**

**Department of Education and Training response: Agreed.**

**Recommendation No. 2**

Paragraph 2.26

The Department of Employment and the Department of Education and Training review the applicability of the Government’s competitive neutrality policy to the operations of the Shared Services Centre and inform the responsible Ministers of the outcome.

**Department of Employment response: Agreed.**

**Department of Education and Training response: Agreed.**

**Recommendation No. 3**

Paragraph 3.37

The Department of Employment and the Department of Education and Training strengthen the role of the board and its sub-committees and improve the quality of information and communication provided to the board.

**Department of Employment response: Agreed.**

**Department of Education and Training response: Agreed.**

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Recommendation No. 4  
Paragraph 4.30  
The Department of Employment, the Department of Education and Training and the Shared Services Centre put in place transparent and sound processes for agreeing performance and cost parameters with clients and for monitoring and reporting the Shared Services Centre’s performance against these.

**Department of Employment response:** Agreed.

**Department of Education and Training response:** Agreed.

Summary of entity responses

20. The department of Employment and Department of Education and Training provided formal comment on the proposed audit report as part of a joint response. The summary response is included below, with the full response provided at Appendix 1.

The original context for the Shared Services Centre (SSC) partnership between the Department of Employment and the Department of Education (the partners) has changed significantly in its three years of operation. What was originally an initiative way to avoid the costs of creating separate corporate support functions has become one of several designated providers in a whole of government Shared and Common Service Program (SCSP). The partner departments have for some time appreciated that such a role transforms the SSC from its original focus and purpose, and that the governance and operating model of the SSC would need to change. The ANAO audit has been undertaken throughout this period of changing context. During this time the partners have continued to pursue the evolution of the SSC to a more commercially oriented model, and to explore appropriate governance arrangements to support this.

The ANAO has observed this work, and acknowledged much of it in the final report. Many of the issues identified by the ANAO are fundamentally altered by the recently announced organisational changes to the SSC.

In relation to some specific issues in the report, the partners contend that they have kept portfolio Ministers appropriately informed of the SSC, noting the clear responsibilities of the departmental Secretaries for the corporate support arrangements of the departments. In relation to the application of competitive neutrality, the Departments note that the SSC has continued the arrangements that were in place for several years under DEEWR, and that they have relied upon advice from the central agency policy owners that competitive neutrality does not apply.

Finally, the advisory board has been effective in supporting the partner Secretaries in implementing the SSC as a partnership. The Secretaries have remained the accountable authorities, and have exercised their responsibilities jointly within the board, and their ordinary roles as Secretaries with the support of their departmental officers, engaging with each other and other stakeholders, outside of the board structure, as is appropriate given the non-executive nature of the advisory board.

21. The ANAO also provided the Department of Finance with the proposed report. Finance advised that they had no formal comment to make on the report and will consider the recommendations made by the ANAO when implementing the recently announced MoG change relating to the SSC.
Audit Findings
1. **Background**

**Introduction**

1.1 A shared services centre is an arrangement for the delivery of back-office support functions such as accounting, human resources, payroll, information technology, legal, compliance, purchasing and security. The arrangement can allow a number of organisations to share operational tasks, avoiding duplication and achieving economies of scale. Business models for shared services vary in respect to services delivered; governance structures; and levels of autonomy between the shared services centre and participating entities.

1.2 The Secretaries of the Department of Employment (Employment) and the Department of Education and Training (Education)\(^4\) established a shared services centre by agreement following changes to the Commonwealth machinery of government announced in 2013.\(^5\) The arrangement provided for the continuation of the information and communication technology (ICT) and corporate arrangements that existed when the two departments were combined.

1.3 The Secretaries sought to pursue efficiencies in the delivery of shared services and to avoid the cost of separating their departments’ corporate functions following the MoG changes. The Secretaries’ agreement also provided for service continuity to other ‘clients’ that the Department of Employment, Education and Workplace Relations (DEEWR) had supported, which in 2013 included a number of portfolio and non-portfolio entities. Box 1 lists the Shared Services Centre’s (SSC’s) existing clients at December 2013:

**Box 1 Existing SSC customers, December 2013**

<table>
<thead>
<tr>
<th>Existing SSC customers, December 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asbestos Safety and Eradication Agency</td>
</tr>
<tr>
<td>Australian Public Service Commission</td>
</tr>
<tr>
<td>Australian Skills Quality Authority</td>
</tr>
<tr>
<td>Comcare</td>
</tr>
<tr>
<td>Department of Industry</td>
</tr>
<tr>
<td>Fair Work Commission</td>
</tr>
</tbody>
</table>

Source: SSC Board paper, *Scope of the Shared services Centre*, Agenda Item 3, 6 February 2014.

1.4 During the first year of the SSC’s operation in 2014–15, the SSC’s gross costs\(^6\) were approximately $108 million and revenue from clients was $14 million (13 per cent of costs). In 2015–16, gross costs were approximately $121 million, with client revenue of $18 million (15 per cent).

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\(^4\) A Secretary is the accountable authority of a Commonwealth department of state with power to enter into arrangements relating to the affairs of the department (section 23, *Public Governance, Performance and Accountability Act 2013*).

\(^5\) Machinery of government changes (MoG changes) typically involve the re-assignment of legislative responsibilities between Ministers and the re-allocation of functions between Commonwealth entities. In 2013 the Department of Education, Employment and Workplace Relations was split into two departments: Employment, and Education and Training.

\(^6\) Gross costs include employee and supplier costs, information technology costs and capital investment.
The agreement between the Secretaries identified the potential for the departments’ shared services centre to provide services ‘more broadly should other agencies be interested in joining’. Expansion of the SSC as a services provider gained momentum during 2015 in the context of a broader whole-of-government initiative to implement shared services across the Australian Public Sector (APS). The Secretaries updated their agreement in March 2016 with the aim of the SSC providing ‘shared corporate services for public sector customers and other customers more broadly’. In early 2016, the SSC had 14 key clients and a number of other entities consuming single and ad-hoc services. In 2015–16, revenue from entities that purchased single and ad-hoc services accounted for approximately 25 per cent of revenue received ($4.4 million).

As part of further MoG changes which occurred in September 2016, core transactional services provided by the SSC will move to the Department of Finance. The entities have advised that most of the remaining services that benefit from being shared, and provided to current client entities, will move to Employment, with a small number to Education. The Departments are working towards a 1 December 2016 date for the transfer of functions, and in the meantime, the SSC will continue to operate as normal. The department has also advised that the partnership agreement and its associated governance arrangements, including the SSC Governance Board, will not continue.

**Shared services centre**

The SSC is administered jointly by the departments of Employment and Education through a non-legally binding heads of agreement entered into by the Secretaries. The SSC is not a separate entity and forms part of the departments’ corporate functions. In 2015–16 the SSC comprised approximately 525 staff employed by one or other of the partner departments.

The SSC Governance Board (the board) oversees the strategic direction and priorities of the SSC. In addition to the Secretaries, the board has eight members. The Secretary of Employment chairs the board and the Secretary of Education is a member. The board is advisory and decisions relating to the SSC are taken jointly by the Secretaries. Under this arrangement
the Secretaries continue to exercise their powers as the accountable authorities of their respective departments on the advice of the board in respect to SSC matters. The SSC’s clients are invited to participate in its governance as members of the board’s sub-committees.  

1.9 To manage governance and strategic matters relating to the agreement and matters of direct interest to the partner departments, the agreement provided for the formation of a Partners Forum. The forum includes representatives from the departments of Employment and Education, and the SSC. The partner departments have also established cooperative arrangements for internal audit of the SSC’s operations and the provision of legal services. An illustration of the governance arrangements as agreed by the board in April 2014 and in place at the time of this audit is included in Figure 1.1.

**Figure 1.1: SSC governance arrangements, August 2016**

Note a: The dotted lines indicate relationships with groups outside the agreed governance arrangements.

Source: Developed by the ANAO from information provided by the SSC, August 2016.

11.10 Management of the SSC’s daily operations is the responsibility of the SSC’s Chief Executive Officer (CEO). The CEO is an employee of Education and the terms of the CEO’s appointment are

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14 There are currently two sub-committees of the board; the Business Performance sub-committee and the Information Technology (IT) sub-committee.

15 An audit protocol agreed by the partner departments sets out joint internal audit arrangements for the SSC and a legal services protocol provides for the SSC to access legal services from either department, if required. Internal audits of the SSC are undertaken jointly by the partner departments. Where audit recommendations apply to the SSC, the SSC is accountable to the audit committee of each partner department to address these.
agreed by the board. Financial, human resource and legal authority may be delegated by the departmental Secretaries to the CEO. The CEO is required to operate under the ‘direction of, and be accountable to, the board in accordance with the agreed strategy and business plans.’ The CEO is also required to report to the board on the SSC’s risks, fraud controls and performance.

Shared services in the public sector

1.11 There are examples of shared service initiatives in other jurisdictions, including almost every Australian state and territory and in the United Kingdom and Canadian governments. Various reviews of these arrangements have indicated that their performance has been mixed and that for the most part, the anticipated benefits and outcomes have not been achieved. There are also examples within the APS, including arrangements administered by the Department of Defence, the Department of Human Services and the Department of Health.

1.12 In late 2013 the Australian Government announced the Smaller Government Reform Agenda aimed at transforming the public sector through reductions in the number of government bodies and staff. Efficiencies were also sought through implementation of a contestability framework to assess whether particular government functions should be open to competition. Allied to this program is the Shared and Common Services Program administered by the Department of Finance (Finance) with oversight by the Secretaries Board. The Shared and Common Services Program was initiated based on recommendations from analysis undertaken by Finance during 2014 aimed at optimising the Government’s investment in enterprise resourcing planning systems (ERP systems) and recommendations made in a report presented to the Secretaries Board in early 2014.

1.13 Tranche one of the Shared and Common Services Program involves the consolidation of core transactional services, including: accounts payable and receivable, credit card management, ledger management, pay and conditions and payroll administration. During 2015, each entity was required to identify whether it would be a consumer or provider of the tranche one services under

16 The CEO has a single performance agreement and appraisal is agreed by the partner department Secretaries.
17 ibid., clause 16(c), p. 12.
19 ERP systems are used to integrate management information for functions such as finance and accounting, and human resource management. Under the 2013–14 Budget measure Finance was tasked with examining optimisation of public sector ERP systems. The Government announced, as part of the 2015–16 Budget that consolidation of ERP systems would deliver $31.4 million in savings over two years from 2017–18. As part of the 2015–16 Mid-year Economic and Fiscal Outlook released in December 2015, the Government forecast savings of $40.9 million to 2018–19, to be delivered through the Shared and Common Services Program from reforms targeting areas of inefficiency within corporate areas of government entities.
20 The Secretaries Board tasked a working group to examine the barriers to making progress towards shared services and to identify examples of effective practice in respect of the uptake of shared services. In addition to recommending development of a ‘comprehensive, whole-of-government, strategic implementation plan for shared service’, this report also recommended that the ‘development of shared services options draw upon the complementary ERP strategy and implementation work currently underway’.


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the whole-of-government shared services initiative. Entities identified as providers were required to provide a business plan by April 2016, to be used by Finance to assess their viability and by other entities to select a preferred services provider.\textsuperscript{21} Employment and Education lodged the \textit{SSC 2016 Business Plan}\textsuperscript{22} with Finance in April 2016.

1.14 The SSC’s business plan set out a proposal to expand service delivery to 10 more Commonwealth entities over the next two to three years, and to potentially further expand to cover 45 per cent of the Commonwealth public sector (excluding Defence).

**Audit methodology**

1.15 The audit objective was to assess the effectiveness of the Department of Employment’s and the Department of Education and Training’s administration of the SSC to achieve efficiencies and deliver value to its customers.

1.16 To form a conclusion against the audit objective, the ANAO adopted the following high level audit criteria:

- governance arrangements incorporate sound oversight and planning;
- mechanisms have been established to ensure the effective delivery of services and the SSC’s ability to meet its commitments to customers to deliver value and ongoing efficiencies; and
- reporting arrangements and review activities provide for ongoing monitoring and continuous improvements to the operation of the SSC.

1.17 Arrangements were in place prior to establishment of the SSC in December 2013 involving service delivery to a number of DEEWR portfolio and non-portfolio agencies. The ANAO did not look at the origins of this arrangement and only examined the SSC from the period since December 2013, at the point of the machinery of government change. The ANAO did not review implementation of the wider Shared and Common Services Program. The program is referred to where it has influenced the SCC’s direction.

1.18 The ANAO reviewed departmental records and interviewed representatives of the SSC, Education and Employment. The ANAO also interviewed representatives of entities that purchase services from the SSC and other shared services providers in the Commonwealth public sector and in the States and Territories.

1.19 The audit was conducted in accordance with the ANAO Auditing Standards at a cost to the ANAO of approximately $736 000.

\textsuperscript{21} The \textit{Shared and Common Services Program} released a paper in December 2015 stating that a detailed implementation plan would be provided to the Secretaries Committee on Transformation (SCoT) in June 2016 outlining the consolidation strategy including, identifying providers; a transition schedule for entities; and setting out the role of the private sector.

\textsuperscript{22} Department of Finance, \textit{Shared and Common Services: Tranche One Services – Next Steps}, December 2015, p. 10. The plan had not been finalised as at June 2016.

2. Establishing the Shared Services Centre

Areas examined
This chapter examines the establishment of the Shared Services Centre (SSC) by the Department of Employment and the Department of Education and Training, including whether the governance arrangements were fit-for-purpose; and anticipated savings have been realised. It also examines advice to Ministers, including with respect to the application of the Commonwealth’s competitive neutrality policy.

Conclusion
The department’s administration of the SSC has been effective for sharing resources between the departments and delivering selected back-office services to a small client base. However, the governance arrangements established to oversight the SSC have not positioned it well for the future and the departments have not yet determined if the arrangement is efficient and resulting in savings. In addition, responsible Ministers have not been well informed of the arrangements or their responsibilities in respect of competitive neutrality.

Areas for improvement
The ANAO has made two recommendations aimed at mitigating the risk associated with the current governance arrangements and ensuring compliance with competitive neutrality policy.

2.1 The Shared Services Centre (SSC) was established following the announcement of machinery of government changes (MoG changes) in 2013 which transferred the functions of the Department of Education, Employment and Workplace Relations (DEEWR) to new departments, including the Department of Employment (Employment) and the Department of Education and Training (Education). Employment and Education (the partner departments) sought to maintain continuity through the SCC:

- in the delivery of their key internal business functions; and
- services provided by DEEWR to a number of external entities.

2.2 The partner departments also sought to position the SSC to be at the forefront of the whole-of-government shared and common services program led by the Department of Finance (Finance) and overseen by the Secretaries Board. From the signing of the two Secretaries’ agreement in December 2013, the partner departments allowed six months for the SSC to implement the necessary governance and operational arrangements. The SSC formally commenced operation from 1 July 2014. A timeline of events and decisions for the SSC, including some taken as part of the Shared and Common Services Program are shown at Figure 2.1:
Figure 2.1: Summary of key events and decisions in relation to the SSC, December 2013 to April 2016.

1/12/2013
Secretaries sign Heads of Agreement to establish the SSC and potential for new clients to join.

1/12/2013
11/11/2014
Secretaries Board agree to investigate opportunities for adoption of shared and common services.

4/7/2014
SSC formally commences operations. Board agrees Business Development strategy and ‘significant’ expansion of the SSC.

11/11/2014
Shared and Common Services Program established.

11/11/2014
SSC reports to board it is: refining business development processes and engaging with increased number of clients.

1/5/2015
SCoT agree all non-corporate entities to subscribe to Shared and Common Services Program.

20/5/2015
SSC nominated as a ‘provider’ of services as part of Shared and Common Services Program.

2/4/2016
SSC Business Plan submitted to the Shared and Common Services Program.

3/2/2016
SSC informs board of challenging sales environment with clients deferring decisions. SSC reports it continues to be proactive sourcing new clients.

2/2014
SSC board confirms potential to expand beyond existing clients.

15/3/2014
SSC board endorses development of new services and engagement of new clients.

24/9/2014
New SSC CEO announced.

24/10/2014
CEO confirms new business development approach in line with work being undertaken at a whole of government level.

24/11/2014
SSC reports to board it is: refining business development processes and engaging with increased number of clients.

25/6/2015
The board agree the SSC fee-for-service charging model and endorse proactive approach to sales.

26/8/2015
SSC targets agencies that indicated the SSC as a preferred service provider.

26/8/2015
All entities to provide strategy for sourcing corporate services to the Shared and Common Services Program.

1/3/2016
The Secretaries agree Heads of Agreement confirming aim to expand services to other entities.

Source: ANAO analysis of SSC and Finance documentation.
Are the Shared Services Centre’s governance arrangements fit-for-purpose?

While the governance arrangements were appropriate for the SSC’s establishment, the partner departments, SSC governance board and Finance have recognised that as the SSC expands; alternative governance arrangements will be required to provide additional assurance to clients.

2.3 The SSC forms part of the partner departments’ corporate functions. It is not a stand-alone entity. The Secretaries’ agreement (clause 15.2) provided for the establishment of a governance board23 (the board) to be ‘responsible for providing oversight and guidance of the SSC in delivering shared and common services to Australian Public Service (APS) clients’24. At the time these arrangements were established, the primary focus of the partner departments was to ensure that the SSC’s governance would support its establishment and provide transparency of decision-making for clients, particularly where these decisions impacted on the quality and costs of services being delivered.

2.4 The Secretary of Employment chairs the board and the Secretary of Education is a member of the board. The board has an advisory role, with decisions relating to the SSC taken by the Secretaries in recognition of their obligations and responsibilities under the PGPA Act. In effect, this arrangement allowed the Secretaries to continue to exercise their powers as the accountable authorities of their respective departments, on the advice of the board in respect to SSC matters. In April 2015, as a result of a review of the board’s functions and decision-making authority, the Secretaries empowered the board to make decisions, with the Secretaries able to veto these by exception.

2.5 The governance arrangements have been the subject of consideration by the Secretaries Committee on Transformation (SCoT), the governance board and Finance. The reviews have highlighted that the governance arrangements for the SSC will need to be reconsidered as the SSC further expands its activities.

Lessons learned

2.6 In a report to the SCoT, Finance identified lessons learned from shared services, including that:

- actual and perceived arms-length arrangements between the providers and customers is vital to the credibility of service providers;
- in the longer term there would be benefits in providers adopting alternative governance structures that better suit the nature of shared services.25

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23 Section 24(1) of the *Public Governance, Performance and Accountability Act 2013* (PGPA Act) provides that an accountable authority may establish an advisory board to assist in governing the entity.


2.7 Reflecting on the experience of the SSC, Finance reported that the SSC’s operation as a ‘joint operation’ was ideal for its establishment, as it did not require significant investment and was able to leverage existing technology, skills and processes. Finance went on to report that as the ‘needs change and number of customers grows, the SSC requires more autonomy in planning for systems and process investments to achieve standardisation and process rationalisation’. Finance summarised the challenges associated with the SSC’s governance in the following terms:

This governance structure was effective when the SSC only serviced the two parent departments and a small number of additional customers. As the number of consuming agencies increases, the current governance structure of the SSC runs the risk of being insufficiently agile and innovative to service the needs of all customers.

The current governance structure may also limit the SSC’s ability to further mature, for example, issues could arise if the board is perceived to be acting in the interest of its parent Departments, instead of in the interest of all customers. A greater level of independence could be beneficial to all customers.

A known weakness of the current governance structure is the SSC’s lack of control over services revenue. The SSC is not an independent entity and its income and assets are managed jointly by the two partner departments. This creates difficulties with longer term strategic decisions.

Consideration of alternative governance arrangements

2.8 In April 2015, the board gave consideration to the SSC being a separate entity. The board tasked a working group to examine alternative governance arrangements and their suitability under different policy scenarios. The working group compared: the current arrangements; sole ownership; a separate Commonwealth entity; and a Commonwealth company. The working group’s final report (February 2016) identified key issues in determining the governance arrangements as: the future shared and common services environment; and the rate of SSC’s maturity development. Figure 2.2 shows the ‘most-likely’ future environment as depicted by the working group:

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26 ibid.
27 ibid.
28 The working group included representatives from the partner departments, SSC, Finance and the Australian Public Service Commission.
29 Established under the Corporations Act 2001 and controlled by the Commonwealth.
2.9 The working group determined that the SSC’s likely future environment for the next financial year (2016–17) fell somewhere between points three and four, with the potential to move further to the right in the following financial years. The working group concluded that the current partnership arrangement would not suit the environments further to the right hand side of the scale. The report to the board recommended that a Commonwealth company (established under the Corporations Act 2001 and controlled by the Commonwealth) was the ‘most attractive longer term solution’ and would aid in building a commercial culture and facilitate partnering and eventual sale. It was also noted that this arrangement closely aligned with the Government’s shared and common services agenda and offered commercial advantages, including:

- potential reduction in staffing costs through process improvement, automation and flexible non-APS employment arrangements;  
- ability to obtain investment funding;  
- introduction of an equity partner; and  
- engagement with the private sector to leverage expertise and capital to build maturity more quickly than would otherwise be possible.

2.10 The working group cautioned that transition to a Commonwealth company would require significant preparatory work, particularly given the need to transition employment arrangements from the Public Service Act 1999 and to ensure contracts were in place. The report noted that timing should be determined by the maturity of the SSC’s management systems and funding model, with the working group noting that there were risks involved ‘in transitioning to a separate entity while building and servicing a sustainable customer base’.


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31 Employee costs account for 60 to 70 per cent of the SSC’s cost structure.

32 Ibid., p. 10 and 11.
2.11 The board agreed at its meeting in February 2016, that a decision could not be made until the outcome of the Shared and Common Service Program’s consideration of the role of the SSC as part of the whole-of-government shared service initiative was known.

2.12 In 2016, a review report by Finance to the Finance and Employment Ministers, that included examination of the SSC, highlighted three areas of potential concern with the SSC’s governance structure which were noted as cumulatively limiting the SSC’s ability to grow, these being:

- existing reporting requirements which limit accountability—as a jointly controlled operation, the SSC forms part of two departments. Both departments are required to report on the arrangement in terms of cost and income and do this through separating costs between the two of them. Clarity of reporting would enable entities to more readily become informed purchasers of corporate services.
- managing funding across portfolios risks friction between the partner departments particularly with respect to appropriations.
- new enterprise agreements leading to inequities within the SSC—the SSC does not employ staff, they are instead employed by one or other of the partner departments, inequities in pay and conditions could arise when enterprise agreements are negotiated and this could be viewed as unfair.

2.13 The report recommended that the SSC not outpace the whole-of-government shared services initiative and instead, that it should continue to consolidate its position and improve the cost and quality of its service offerings pending outcomes from the Shared and Common Services Program.

2.14 The partner departments advised the ANAO in August 2016 that:

The Secretaries are currently reviewing the SSC’s governance arrangements with the support of the SSC Governance Board. The Secretaries will not support any further expansion of the SSC’s customer base until the review of governance arrangements has been completed and recommendations have been implemented. The Secretaries have agreed that any proposal to expand the customer base needs to be backed by a thorough business case.  

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33 Correspondence from the Secretaries of the Department of Employment and the Department of Education and Training to the ANAO, 12 August 2016, Attachment A.
Recommendation No.1

2.15 That the Department of Employment and the Department of Education and Training not expand the Shared Services Centre to take on additional clients until its future direction and supporting governance arrangements are settled.

Department of Employment and the Department of Education and Training response:

2.16 Agreed. The governance arrangements for services transferring to the Finance portfolio will be a matter for the Finance portfolio. The remainder of the services are to be provided to existing customers under the direct management of the Department of Employment or Department of Education and Training.

Were potential savings estimated and government approvals sought for the Shared Services Centre?

In establishing the SSC, the partner departments set out to avoid the cost of separating the corporate and information technology functions. In this process the departments anticipated efficiencies and estimated savings, however at the time of the audit, the departments had not determined if efficiencies or savings had been realised. The departments should have advised Ministers of the arrangement from the outset and of the potential to expand service provision. Advice since the SSC’s establishment has been limited and could have been more comprehensive and timely.

2.17 When the Secretaries established the SSC in December 2013, they entered into a resource sharing arrangement. The collaboration was expected to reduce costs and increase efficiencies through the consolidation and standardisation of processes. This was against the backdrop of previous work to harness improvements and efficiencies within the department-wide corporate functions of the former DEEWR. The departments considered that a full separation of the corporate functions would have had a significant cost impact, particularly in relation to the partners’ IT infrastructure and shared applications.

2.18 The partner departments estimated savings of around $5 million per annum for each department. The ANAO found that the partner departments had not determined if increased efficiencies had been realised through consolidation of processes or if any savings had been realised since the SSC’s establishment.

2.19 Section 19 of the PGPA Act states that an accountable authority must keep the responsible Minister informed of the activities of the entity and any subsidiaries of the entity. The Secretaries’ agreement reflected a continuation of the arrangements—including the provision of services to third-parties—in place under the former DEEWR. The departments should have advised responsible Ministers of the intention to continue the arrangements from the outset. Advice should have flagged the department’s intention to potentially expand the service provision to other Commonwealth entities.


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The partner department’s records show that while advice has been provided to the responsible Ministers, this advice could have been more comprehensive and timely. Advice has comprised:

- a ministerial prepared by Employment to the Minister and the Assistant Minister for Employment in June 2014, proposing that they ‘note’ the implementation of the SSC;
- an incoming minister briefing for the Minister of Employment (September 2015); and
- a ministerial briefing prepared by Education to the Minister for Education and Training in response to a request from the responsible Minister’s office (February 2016). The brief proposed that the Minister ‘note’ the information.

Separate to these briefings provided by the partner departments, the Minister for Employment and the Minister for Finance were provided with a report on outcomes of the Functional Efficiency Review in March 2016. This report included comprehensive information on the Shared Services Centre.

### Was consideration given to the application of the Australian Government’s competitive neutrality policy?

The partner departments have sought central agency advice on the application of the Australian Government’s competitive neutrality policy to the SSC’s operations but have not formally assessed its application and have not briefed Ministers of their responsibilities in this respect.

The **Commonwealth Competitive Neutrality Policy Statement** requires that a government business activity not enjoy net competitive advantage over their private sector competitors or potential competitors, by virtue of their public ownership. Where competitive neutrality arrangements are assessed as applying to a government business, pricing and accounting adjustments are required. Portfolio Ministers have responsibility for ensuring that competitive neutrality arrangements are implemented for all significant business activities within their portfolio.

The partner departments sought advice on competitive neutrality from Finance within the context of the Shared and Common Services Program in early 2015. At that time, the departments were advised that the competitive neutrality policy would not initially apply. By August 2015, as the Shared and Common Services Program progressed, Finance advised that shared services

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35 With respect to the SSC the briefing informed the minister that: The SSC aims to provide value for money by pursuing economies of scale, and enabling a focus on process efficiencies that will, overtime, deliver better services at reduced cost. The SSC is seeking to grow its business beyond the 15 agencies it currently services to generate greater efficiencies across the APS.


37 In May 2015, the Secretaries Committee on Transformation agreed 12 principles to guide implementation of shared and common services. One of the principles stated: ‘In order to establish a contestable boundary standardised systems and processes will be established through the consolidation of services within the public sector. Competitive Neutrality policy will not apply during the consolidation phase until services are exposed to the private sector’. Agenda paper: Shared and Common Services Working Group meeting, *Implementation Principles*, undated, principle 3, p. 1.
providers would need to ensure that they considered competitive neutrality and, where necessary, factor this into their prices.38

2.24 In July 2016, the partner departments sought formal advice from the Secretary of Finance in relation to assessing the applicability of competitive neutrality. The Secretary advised:

Providers deliver services on a cost-recovery basis, and there is no provision of services by private sector suppliers. In light of this, CN principles do not apply at this stage, though providing entities should undertake their own assessment to satisfy that this is the case in their own specific circumstances. Treasury has indicated that it also shared this position.39

2.25 At the time of finalising this audit report, the partner departments had not assessed the applicability of the Government’s competitive neutrality policy to the SSC and competitive neutrality had not been raised with responsible Ministers.

**Recommendation No.2**

2.26 The Department of Employment and the Department of Education and Training review the applicability of the Government’s competitive neutrality policy to the operations of the Shared Services Centre and inform the responsible Ministers of the outcome.

**Department of Employment and the Department of Education and Training response:**

2.27 Agreed. The application of the competitive neutrality policy to services transferring to the Finance portfolio will be a matter for the Finance portfolio.

**Have mechanisms been established to evaluate the performance of the Shared Services Centre against its aims?**

The departments have conducted a number of review activities since the establishment of the SSC. There would be benefit in the departments conducting an evaluation of the SSC against its aims and objectives. This would assist the departments to determine if the arrangement is effective, efficient and delivering value for money.

2.28 Evaluation activities are a core element of an entities’ performance assessment and are typically planned for at the design phase of activities so that appropriate consideration can be given to data requirements and availability. In many cases the effectiveness of a program may not be able to be assessed immediately from operational data and will require the analysis of results over time.

2.29 The departments have conducted a range of activities since the establishment of the SSC including: benchmarking analysis, customer surveys, process mapping and service level reporting. An evaluation of the SSC to determine the effectiveness and efficiency of the arrangement, and if it is delivering value for money had not been conducted. An internal audit of the SSC’s governance arrangements conducted by the Department of Education and Training during 2015

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38 Department of Finance, *Shared and Common Service: Pricing guidance for service providers*, August 2015, p. 3.
39 Correspondence from the Department of Education and Training and the Department of Employment to the ANAO, July 2016, Attachment A, pp. 2–3.
recommended development of an evaluation strategy. The SSC agreed to this recommendation and originally agreed to an implementation date of 30 June 2015 (this recommendation was reported as ‘problematic’ (Amber) at the June 2016 Audit Committee meeting). The SSC’s response to this recommendation noted:

The SSC has a number of existing mechanisms to evaluate numerous aspects of its performance. The existing benchmarking processes regularly assess the SSC’s organisational performance using industry standard benchmarks and provides these reports to the SSC Governance Board for each meeting. Service Performance reporting is undertaken on a monthly basis to determine the performance of individual services and their conformance with service level targets. Service performance reports are provided to the Business and Performance Sub-Committee.

The SSC conducts annual customer surveys to determine customers satisfaction with the services provided. The SSC undertakes process mapping as part of its continuous improvement activities to evaluate process performance and effectiveness. Reports are provided to the senior leadership and the SSC Governance Board. The SSC has now drafted an Evaluation Strategy that draws together the above performance assessments into a cohesive document which will be reviewed on a six monthly basis to ensure its relevance and effectiveness.  

2.30 The ANAO sought a copy of the evaluation strategy noted in the above response and was informed that it was not available.

3. Oversight of the Shared Services Centre

Areas examined
This chapter examines the effectiveness of the existing oversight arrangements and whether the Shared Services Centre (SSC) Governance Board (the board) is adequately supported in line with the partner’s commitment to clients.

Conclusion
An advisory board provides guidance to the SSC on strategic matters and priorities. The ANAO found instances where the board was not consulted or involved in decisions relating to the strategic direction, financial arrangements and expenditure priorities. Information reported to the board did not focus on areas of strategic importance and the quality and completeness of this information could also be improved. These issues limit the board’s ability to effectively perform its governance role.

Area for improvement
The ANAO made one recommendation aimed at strengthening the role of the board to oversee and guide the SSC on behalf of all the SSC’s clients.

3.1 The Secretaries’ Heads of Agreement (HoA) (clause 15.2) provided for the establishment of the SSC Governance Board (the board). The board met for the first time in 2014. The agreement between the Secretaries confirmed the role of the board as follows:

The SSC Governance Board will be responsible for providing oversight and guidance of the SSC, in delivering shared and common support services to Australian Public Service clients, including:

a) Supporting the long-term viability of the SSC in the context of the whole of government shared services agenda

b) Championing the shared services agenda across Government and supporting the growth of the SSC

c) Providing advice, guidance and monitoring the operations of the SSC.

3.2 The membership of the board is set out in the board’s terms of reference and comprises the Secretaries, four client agency representatives and an independent member. A representative of the Department of Finance (Finance) and the Australian Public Service Commissioner are also

41 The Public Governance, Performance and Accountability Act 2013 (PGPA Act) (section 24 (1)) provides for Secretaries to appoint an advisory committee to help with management. Within the Commonwealth a governing board can be established for a body when collective decision-making and diverse expertise (beyond what can be expected from one individual) are required to govern the body. Boards are usually given autonomy to determine an entity’s corporate strategy and direction (subject to statutory constraints) and therefore can operate with a managerial freedom. http://www.finance.gov.au/resource-management/governance/policy/flowchart2/#commercial> accessed April 2016.

42 Following a review of the board’s decision-making authority in late 2014, it was agreed the board could make decisions in relation to the SSC with the departmental Secretaries able to veto these by exception in recognition of their legislative responsibilities.

43 The roles and responsibilities set out in the agreement are consistent with those in the board’s revised terms of reference, agreed by the board in June 2015.


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30
on the board. The board’s membership was intended to provide: expertise in public sector finance, governance and management; advice on the whole-of-government shared services agenda; client representation; and an independent member who would provide private sector business expertise. A list of the board members as at April 2016 is at Table 3.1.

Table 3.1: Members of the SSC board, April 2016

<table>
<thead>
<tr>
<th>Member</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair</td>
<td>Department of Employment Secretary</td>
</tr>
<tr>
<td>Member</td>
<td>Department of Education and Training Secretary</td>
</tr>
<tr>
<td>Member</td>
<td>Australian Public Service Commissioner</td>
</tr>
<tr>
<td>Member</td>
<td>Deputy Secretary, Department of Finance</td>
</tr>
<tr>
<td>Client representative</td>
<td>Deputy Secretary, Department of the Prime Minister and Cabinet</td>
</tr>
<tr>
<td>Client representative</td>
<td>CEO, Fair Work Ombudsman</td>
</tr>
<tr>
<td>Independent member</td>
<td>External to the Australian Public Service</td>
</tr>
<tr>
<td>Ex-Officio(a)</td>
<td>CEO, SSC</td>
</tr>
</tbody>
</table>

Note a: The SSC CEO is a voting member of the board and a member of the board’s quorum.
Source: Information provided by the SSC, April 2016.

3.3 The board’s terms of reference provide for the establishment of governance arrangements to assist it to perform its role. At its first meeting in February 2014, the board established the following sub-committees to operate under its authority:

- Information Technology (IT) sub-committee to focus on IT related issues; and
- Business Performance sub-committee to focus on the SSC’s performance, business development and service strategy.

3.4 SSC’s clients are invited to participate as members of the board’s sub-committees to provide clients with transparency in decision-making and with a direct line of communication to and from the board.

**Does the governance board have sufficient involvement in decision-making for it to effectively fulfil the role defined for it?**

The board was established to provide guidance to the SSC on strategic matters and priorities. Despite these responsibilities being defined in the board’s terms of reference, there are instances where the board was not consulted or involved in decisions relating to the SSC’s strategic direction and operational priorities. This has limited the board’s ability to oversight the activities and operations of the SSC. The absence of direct and independent lines of reporting between the board and its sub-committees has further diminished the ability of the board to fulfil its governance role.
3.5 In March 2014, the board agreed a vision and mission statement for the SSC. The board also agreed the following objective statement and operating principles:

To be known as the preferred provider of professional, efficient and quality services that enable the customer to focus on their core business.

Operating principles:
- Understand and respond to the needs of our customers.
- Be innovative and continuously improve services.
- Be transparent and accountable for the work we do.
- Foster a professional and capable workforce.
- Respect and value our staff and uphold the values of the APS.

3.6 The Secretaries HoA set out that the Chief Executive Officer (CEO) was to operate and be accountable to the board in accordance with agreed strategic and business plans. During 2014, the SSC focused on setting out the strategic direction of the SSC’s IT capability through development of the following:

- **SSC IT Strategic Direction 2014–15** (August 2014)—sets out how the IT teams would respond to the challenge of the SSC’s vision of delivering a world-class service. A timeline for development of a longer term IT strategy (mid-2015) was to be developed in consultation with clients, staff and vendor seminars.
- **SSC IT Capital Investment Plan 2014–15 to 2017–18**—developed to support the strategic direction of the SSC and to inform investment decisions. This plan was used by the SSC to inform IT investment decisions for 2014–15 and 2015–16.

3.7 In June 2015, the board agreed the first formal strategy documents for the SSC. These included the SSC’s strategic plan; IT strategy; and a marketing and growth strategy. The strategies referred to a new vision for the SSC ‘Leaders in exceptional and innovative shared services solutions’ and are framed against four ‘strategic pillars’. The strategic pillars included:

- a high performing organisation;
- operational excellence and improve productivity;
- continuous improvement; and
- commercialising our partner model.

3.8 The strategies and plans were high-level providing limited detail of proposed activities. Where activities were identified, information including their purpose, benefits and the timeframe

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45 The vision statement was: Delivering a world-class service. The mission statement was: To build professional capability and deliver quality shared services.


47 For 2015–16, IT related expenditure accounted for nearly 73 per cent of the SSC’s total budget (excluding employee and supplier costs).

48 Shared services Centre, SSC IT Strategic Direction 2014–15, August 2014.

49 Shared services Centre, IT Capital Investment Plan 2014–15 to 2017–18, August 2014. This document was developed as part of a consultancy commissioned by the SSC during 2014 and was further revised in October 2015 to incorporate changes arising from the capital investment decisions finalised in June and September 2015.
for completion were not detailed. In addition, the strategy documents did not propose any performance measures for each of the strategic pillars or against any of the proposed activities.\footnote{The IT strategy included a number of key performance measures. The SSC advised the ANAO that these performance measures were aspirational and data was not being collected for their measurement.}

3.9 The process for approval or endorsement of the SSC’s plans and strategies has varied, with not all documents going to the board and/or its sub-committees for review or endorsement. For example:

- the final IT strategic direction and capital investment plan were presented to the IT sub-committee in August 2014 for its members information only. These documents have not been provided to the board; and
- the SSC’s strategic plan; IT strategy; and marketing and growth strategy were provided to the board for agreement in June 2015. There is no record of the sub-committees reviewing these documents prior to their submission to the board and of the board seeking the sub-committees’ input as part of its consideration and endorsement of these documents.

3.10 In April 2016 the partner departments agreed and delivered the SSC business plan to Finance for its consideration. The SSC business plan made reference to the strategic plans agreed by the board in June 2015 and identified activities under each of the strategic pillars. The activities listed in the business plan do not align with those included in the original strategy document. The business plan also provided details of the ‘future SSC’ outlining features that included amongst other activities: consideration of options for full or partial private sector investment; a high volume Standard Processing Centre; and use of a mix of APS and non-APS staff. None of these activities were outlined in the strategy documents agreed by the board in June 2015 or in documents provided to the board or the sub-committees since.

3.11 Also included in the SSC business plan was a statement by the partner departments that the SSC would reduce the cost of corporate services to all its clients by over 30 per cent through expansion of its client base and a program of organisational transformation. Details of the transformation program and proposed cost savings as well as financial forecasts and volumes data, were not considered or agreed by the board or sub-committees prior to the business plan being proposed to Finance.

\footnote{To transition clients into the SSC, the business plan proposed that client’s systems, people and other enabling resources be moved ‘as is’ into the SSC’s Standard Processing Centre (SPC). The SPC forms part of the SSC and is to be the primary service delivery function operating on the basis of high volume standardised processing.}
**Advisory role of the sub-committees**

3.12 When the board established the sub-committees, it confirmed their role as ‘advisory’ and that ‘significant decisions’ would be brought to it for consideration. The board appointed the CEO as Chair of both sub-committees and specified direct reporting lines between the sub-committees and the board. The terms of reference for each sub-committee specify that the sub-committee:  

- is responsible and accountable to the Shared Services Centre Governance Board for the exercise of its responsibilities. The sub-committee will report to the board, and the [sub-committee] Chair will provide a verbal update at the Board as needed.

3.13 In practice, the flow of information between the sub-committees and board is through the CEO. There was no standing agenda item at board meetings for the sub-committees to report to the board, either verbally or through a written report. The SSC’s records show that papers and reports prepared by the SSC on topics relevant to the sub-committees were not as a matter of course, agreed by the sub-committees prior to being provided to the board.

**Does the governance board have access to the right information to effectively fulfil the role defined for it?**

There is limited alignment between the activities set out in the SSC’s strategic plan and the information reported in the SSC’s balanced scorecard reports. Although the board instructed that the SSC regularly report the status of major projects and initiatives, reporting is limited. The SSC measures its performance against its peers using benchmarks and reports this information to the board. Both the coverage and quality of this information is limited. The board received no information in relation to the SSC’s customer’s satisfaction levels, feedback and complaints.

3.14 The board’s terms of reference specify for it a role in advising, guiding and monitoring the operations of the SSC. This included a role in respect of organisational design and capability; the SSC’s performance; areas for improvement; management of strategic risks and issues; and the status of the major program of works. Throughout the course of this audit the board was informed of the SSC’s operational performance and progress through the balanced scorecard report and the program of works report.

**Balanced scorecard**

3.15 The balanced scorecard report provides a basic overview of the SSC’s performance in terms of: service levels achieved; financial performance; staff information; and benchmark measures. The board tasked the Business Performance sub-committee with development of the report on its behalf. The design of the scorecard report was agreed by the board in May 2014 and specified a report framed against the SSC’s objectives and supported by a tiered reporting regime that was to include strategic, tactical and operational measures. The SSC’s records show that the development of the balanced scorecard was constrained due to limited availability of data and as

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52 The board also specified a separate line of reporting between the CEO and the board.


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a consequence, it was agreed with the board that development of the report would be iterative as these challenges were addressed.

3.16 In June 2015 the balanced scorecard was reframed against the strategic pillars outlined in the SSC strategic plan. The board was informed this format was intended to support the board’s discussions as the SSC moved forward with the new strategy of growth, commercialisation and customer service. Table 3.2 compares the activities reported in the SSC’s strategic plan (agreed by the board in June 2015) and data reported as part of the SSC’s balanced scorecard report.

### Table 3.2: Comparison of strategic plan and balanced scorecard by strategic pillar

<table>
<thead>
<tr>
<th>SSC Strategic Plan ‘Our Strategies’</th>
<th>SSC balanced scorecard report, February 2016</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High performing organisation</strong></td>
<td></td>
</tr>
<tr>
<td>• Build a strong leadership to embed a culture of high performance.</td>
<td>• Annual leave balances.</td>
</tr>
<tr>
<td>• Value diversity.</td>
<td>• Annual leave balances &gt; 21 days versus unscheduled absence rate per full time employee.</td>
</tr>
<tr>
<td>• Develop talent and succession management.</td>
<td>• Unscheduled absence by full time employee 2015–16 year to date.</td>
</tr>
<tr>
<td>• Link individual performance to the deliverables of our vision.</td>
<td>• Number of employees, by gender and diversity.</td>
</tr>
<tr>
<td>• Realign the business to meet customer expectations.</td>
<td>• Full-time employees per quarter, by employee type (ongoing, contractor, non-ongoing).</td>
</tr>
<tr>
<td><strong>Operational excellence and improved productivity</strong></td>
<td></td>
</tr>
<tr>
<td>• Reduce complexity and implement best-practice processes.</td>
<td>• No measures reported</td>
</tr>
<tr>
<td>• Deliver comprehensive metrics to monitor and improve services.</td>
<td></td>
</tr>
<tr>
<td>• Drive excellence through feedback from staff, customer and through benchmarking.</td>
<td></td>
</tr>
<tr>
<td>• Develop high-quality management information to underpin and support service delivery.</td>
<td></td>
</tr>
<tr>
<td><strong>Continuous improvement</strong></td>
<td></td>
</tr>
<tr>
<td>• Improve IT service delivery to ensure it is of a world-class standard.</td>
<td>• Percentage of service level agreements achieved.</td>
</tr>
<tr>
<td>• Build feedback mechanisms to test deliverables and adapt to customer needs.</td>
<td></td>
</tr>
<tr>
<td>• Build trust and respect internally and externally through transparency and accountability.</td>
<td></td>
</tr>
</tbody>
</table>
Commercialise our partner model

- Embed customer centric design.
- Differentiate between the needs of our customers allowing us to deliver both commoditised and focused services.
- Service level agreements and governance mechanisms will ensure we are responsive to customer needs.
- Our pricing model will reflect a tiered approach for delivery of services and desire to standardise business processes.

SSC balanced scorecard report, February 2016

- Financial data
- Number of services with service levels.
- Variance against budget
- Severity one incidents
- Benchmark measures for:
  - Full cost per payslip.
  - Level of rework.
  - Days to close the books.
  - Days to report results.
  - Process cost per invoice raised.
  - Process cost per invoice.
  - Backup success rate.
  - Cost per window server image.
  - Internet Gateway service.
  - Storage.

Source: Extract from the balanced scorecard report provided to the board at its meeting in February 2016 and the SSC Strategic Plan 2015–17.

3.17 Commentary accompanying the balanced scorecard focused on describing movements during the period over which the information is presented. There was no analysis of trends or the impact of issues. Box 2 provides an extract of the SSC’s reporting to the board in February 2016, on its achievement against service levels:

**Box 2 Balanced scorecard report service levels achieved, February 2016**

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Percentage of Service Levels Achieved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3 2014/15-Jan-Mar 2015</td>
<td>94.9% (4.6%)</td>
</tr>
<tr>
<td>Q4 2014/15-Apr-Jun 2015</td>
<td>74.7% (6.1% - 19.2%)</td>
</tr>
<tr>
<td>Q1 2015/16-Jul-Sep 2015</td>
<td>87.1% (5.7% - 7.1%)</td>
</tr>
<tr>
<td>Q2 2015/16-Oct-Dec 2015</td>
<td>86.2% (4.6% - 9.2%)</td>
</tr>
</tbody>
</table>

The SSC’s achievement against services levels is aggregated, which does not provide the board with visibility of which, and how many services levels are being reported against. The balanced scorecard reported the SSC had service levels for 65 per cent of its services. Analysis of the SSC’s performance data used to compile this graph showed that only 27 per cent of services levels are reported on each quarter by the SSC.
As noted in paragraph 3.15, the balanced scorecard report included information relating to SSC staff. Unscheduled absence data is shown for 2015–16 and compared with year-to-date APS data for 2013–14, although 2014–15 data is available both at the whole of the APS level and by organisational function. Relatively static measures, such as staff gender and diversity are displayed over a four-month period, with no comparative data or targets against which to measure performance. Baseline data that compares staff metrics and performance year-to-year or to compare the SSC with similar public sector or service delivery organisations or targets against which to measure progress was not included.

The balanced scorecard does not provide details of customer satisfaction levels; the SSC does not have a formal complaints management process; and does not conduct regular customer satisfaction surveys. The board agreed in early 2014 the SSC would initiate work to establish a regular client satisfaction survey that would allow it to report levels of client satisfaction on a regular and ongoing basis to the board. A single survey was conducted in June 2014. It was agreed not to repeat the survey and that the SSC would develop and conduct regular in-house surveys. A series of three satisfaction surveys were planned and agreed by the board in 2015: a survey targeted to senior executive level; front of house staff (targeting non-executive client staff members); and an ongoing point in time survey to survey clients after a service has been consumed. Only the first two surveys were undertaken. Responses to these surveys were not analysed until December 2015 and further surveys have not been undertaken.

Program of works report

The program of works report informed the board of the SSC’s progress on major projects it was undertaking to develop internal capability or as part of delivering services to clients. The ANAO found that although the board had agreed the criteria for determining which projects it would oversight, information contained in the program of works report did not reflect this. The SSC was required to include projects in the program of works report based on whether they were:

- high visibility to partner(s) / customer(s); or
- a major investment (cost > $400,000); or
- cross-SSC impact; or
- leading edge innovation.

The ANAO found that of the 17 IT projects approved for funding in 2014–15, ten had budgets that exceeded $400 000. Only two of these projects were included in the program of works report to the board.

For 2015–16, only three of the 24 IT projects approved for funding during this period were included in the report to the board, although the budget for 16 of these projects exceeded the $400 000 threshold. In addition, three key projects were removed from the program of works report (between the November 2015 and February 2016 board meeting) and no update was provided to the board regarding the status of projects, or whether they were finalised.
Benchmark reporting to the board

3.23 To allow the SSC to demonstrate to potential clients that it can provide value for money, the SSC has developed benchmark measures that focus on specific aspects of the services it delivers. Work to compile benchmarks commenced in early 2014 and the challenge in finding suitable measures and for the SSC to compile data and reports was raised with the SSC’s board in November 2014. It was agreed that benchmark reports should focus on the SSC’s most critical services and that new benchmarks would be incorporated into the reports as they became available.

3.24 While the number of benchmarks reported by the SSC had gradually increased, coverage across the SSC’s services was limited and most benchmarks were operationally focused. In February 2016, the SSC reported benchmark data for the measures shown in Table 3.3. A subset of these measures was also reported to the board as part of the balanced scorecard report.

### Table 3.3: SSC’s available benchmark data for core services, February 2016

<table>
<thead>
<tr>
<th>Service</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payroll</td>
<td>Usage of self service by employees</td>
</tr>
<tr>
<td></td>
<td>Full cost per payslip&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Level of re-work required&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Finance</td>
<td>General ledger – month end close&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Days to close books</td>
</tr>
<tr>
<td></td>
<td>Days to report results</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>Cost per invoice raised&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Invoices processed per accounts processing full-time employee</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>Cost per invoice raised&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>Service desk</td>
<td>Average abandonment call rate</td>
</tr>
<tr>
<td></td>
<td>Average time to queue</td>
</tr>
<tr>
<td></td>
<td>Average talk time</td>
</tr>
<tr>
<td></td>
<td>Average wrap up time</td>
</tr>
<tr>
<td></td>
<td>Average hold time</td>
</tr>
<tr>
<td></td>
<td>Average handling time</td>
</tr>
<tr>
<td>Internet gateway</td>
<td>Unit cost per gigabit of traffic&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td>ICT storage</td>
<td>Utilisation of installed storage capacity&lt;sup&gt;a&lt;/sup&gt;</td>
</tr>
<tr>
<td></td>
<td>Annual cost per allocated backup storage per terabyte</td>
</tr>
<tr>
<td></td>
<td>Annual cost per allocated primary storage</td>
</tr>
</tbody>
</table>

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54 Benchmarking is a systematic comparison of costs, performance and processes that provides a view of how a business compares with its peers.
3.25 During 2015, benchmark information provided to the board compared SSC data compiled on a monthly basis with industry data compiled on an annual basis. While the SSC informed the board in February 2016 that it had moved to ‘six-month rolling’ reporting to better illustrate trends, in some instances, the data reported to the board was unchanged from that previously reported.

3.26 The SSC compared its performance for payroll and financial processing using benchmarks developed as part of the benchmarking exercise with peers within the Australasian region in late 2014. This study used 2013–14 data and the results were made available in December 2014. The benchmark study used a small sample of participants (14 participants) from a mix of private and public-sector organisations servicing varied industry types. The scale of the operations of participants also varied considerably. For example, 50 per cent of participants in this exercise reported they provide support for organisations with employee numbers greater than 20,000 and 70 per cent of participants reported they support organisations with revenue/operating budgets in excess of $5 billion. In its benchmark reporting for payroll and financial services, the SSC compares its performance to the ‘mean’ result calculated as part of this study.

3.27 Two of the IT related benchmarks compare the SSC’s performance against data sourced from Finance’s annual benchmark survey for 2012–13, although 2013–14 data was published in April 2014 and benchmark results for 2014–15 were released in December 2015. The SSC compiles and reports on more than 70 benchmark measures as part of its contribution to the annual benchmark survey conducted by Finance, only nine IT benchmarks are reported to the board. Using benchmarks compiled annually as part of the Finance benchmark survey would potentially allow the SSC to report benchmarks measures for all the SSC IT functions (including management and administration) and further allow the SSC to more extensively benchmark its ICT capability against its peers within the public sector.

Note a: These benchmarks are also reported at each board meeting as part of the balanced scorecard report.
Source: SSC Board paper, February 2016.

<table>
<thead>
<tr>
<th>Service</th>
<th>Benchmark</th>
</tr>
</thead>
<tbody>
<tr>
<td>ICT email</td>
<td>Cost per email box</td>
</tr>
<tr>
<td></td>
<td>Cost per email user</td>
</tr>
<tr>
<td></td>
<td>Messaging service availability</td>
</tr>
<tr>
<td>ICT general</td>
<td>Backup success rate(a)</td>
</tr>
<tr>
<td></td>
<td>Cost per window server image(a)</td>
</tr>
<tr>
<td></td>
<td>Cost per voice/VOIP user</td>
</tr>
</tbody>
</table>

This benchmark study was undertaken by the Australasian Shared Services Association (ASSA). The final report was provided to the SSC in December 2014 covering: payroll, finance, accounts payable and receivable.

While the data had been normalised to account for differences in the level of activity, there was significant variation in the performance reported by participants and also significant variation from the world-class results also referenced as part of the study.

With limited performance information available, it is difficult to verify whether improvements against benchmarks reported by the SSC reflect changes in their calculation, or are the result of improvements in efficiency and service quality. The SSC does not have a complaints management system or regular client surveys to measure and report on client satisfaction levels and at the time of finalising this report most of the SSC’s clients were in the process of transitioning to a more accurate cost-allocation model for calculating the cost of the SSC’s services.

**Examination of Shared Services Centre performance**

3.29 The SSC’s performance was examined as part of a Finance review conducted in late 2015 (see paragraph 2.12). The review examined the SSC’s performance (relating to payroll, finance and IT) using benchmarks provided by the SSC and benchmark data compiled as part of the Shared and Common Services Program using data from other APS service providers to determine whether the SSC’s performance has scope for improvement through contestability.58 The review noted concerns expressed by Employment regarding the quality of the benchmarks due to lack of clarity around the methods of calculation. In the absence of alternative benchmarks, the review deemed these sufficient to assess potential future efficiencies.

3.30 The review’s report noted that the SSC’s primary competitive advantage against private sector corporate services providers was that it was a government provider and that where the SSC drove efficiencies the Commonwealth retained these benefits. The SSC had not achieved a significant market share for the services in which it had performed below industry benchmarks. The review noted that this indicated that the SSC’s status as a trusted provider did not outweigh the concerns of potential customers about service levels and costs.

3.31 The final report stated that increasing contestability for the SSC’s financial services was the most viable way to improve performance outcomes for agencies and recommended four broad approaches that would align the SSC more closely with the Shared and Common Services Program vision for increased shared service use. These were to: improve internal performance; compel government agencies to use shared service providers; attract further engagement emphasising the SSC’s strength as a trusted provider; and engage in market testing and service brokerage to achieve efficiencies through private sector engagement. The review’s benchmark analysis is summarised in Box 3:

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**Box 3 The Shared Services Centre’s performance**

The review compared the SSC’s performance against: other providers59; the best APS agency; and the median APS performance.60 The review examined the SSC’s performance processing payroll, both in terms of costs and re-work; and the costs of processing accounts payable and accounts receivable. This comparison showed that the SSC’s performance in delivering payroll services was below benchmark—with the SSC’s cost per payslip marginally below the APS

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58 The IT and finance functions were considered by the review to be the most amenable groups for comparison against private sector performance.

59 This benchmark data was provided by the SSC and used data from the benchmark study undertaken by the Australasian Shared Services Association (ASSA) that the SSC participated in during 2014 (refer to paragraph 3.26). This data included private, state and territory, and Commonwealth shared services providers.

60 APS data was compiled by the Department of Finance as part of the Shared and Common Services Program.
Oversight of the Shared Services Centre

The Shared Services Centre’s performance

mean and significantly higher than both the best performing APS agency and the provider means. Comparison of the cost per payslip is shown in the following figure(a).

SSC performance Benchmark Median APS performance Best APS agency

19.56 12.22 19.25

The comparison of the percentage of payslips requiring re-work showed the SSC either meets or marginally falls short of benchmarks for the percentage of payslips requiring re-work. The SSC’s results against these benchmarks suggested that it was both more expensive and less consistent than other providers from outside the Commonwealth. The SSC’s processing costs for accounts payable and accounts receivable were also higher than benchmarks, with the results showing significant scope to reduce process costs.

The review concluded that these factors indicate that the SSC provided financial services (including accounts payable, accounts receivable and payroll) less efficiently than the other benchmarked shared services providers and requires a greater level of rework.

The review’s comparison of the SSC’s IT services was more favourable with the SSC meeting or exceeding benchmarks for: storage utilisation; primary storage costs; cost per email box; cost per email user; backup success rate; cost per window server image; emailing service availability; and, VOIP (voice over internet protocol) cost per user. The SSC did not meet benchmarks for: cost of gateway per gigabit used; and, backup storage costs. The review noted that this illustrated that the SSC performed more strongly than benchmarks in relation to providing services at a competitive price. The SSC’s performance against IT benchmarks is shown in the following figure(a):

(a) Compiled by the ANAO using data provided by the SSC.
Have the partner departments put in place oversight mechanisms to ensure visibility over the Shared Services Centre’s budget and expenditure?

Visibility of the SSC’s accounts and transactions has relied upon information provided by the SSC to the partner departments, the board and the sub-committees. The board has: no role in the budget process; limited visibility of expenditure; and limited ability to influence expenditure priorities. The arrangement is not consistent with the role envisaged for the board and limits its ability to make decisions and assess risk. The partner departments have taken steps to improve visibility of SSC transactions for budget purposes.

3.32 The SSC is not a stand-alone entity and its budget is provided by the partner departments who allocate a share of their capital budgets to the SSC and share between them operating costs and revenues. The Secretary of each partner department is the accountable authority under the PGPA Act. The SSC’s financial arrangements are detailed in the SSC Financial Policy (the financial policy). The partner departments agree the SSC’s budget as part of an annual budget cycle. This process commences in February each year when the SSC provides the partner departments with its budget forecasts and the underpinning assumptions supporting these. The partner departments aim to finalise the SSC budget following release of the Federal Budget in May each year.

3.33 Each department’s contribution to the SSC is calculated using the relative share of total staff to the number of users as a proxy for usage. Funds provided by the partner departments are allocated to ‘managed accounts’ or the SSC’s ‘operational budget’, reflecting their different treatment. The financial policy states the managed accounts are the sole responsibility of the partner departments and cannot be used for the SSC’s operational budget. The financial policy states that the ‘SSC will be provided with sufficient operational flexibility to manage its SSC operational budget.’

61 The SSC is classed as a joint operation and is managed in accordance with the accounting standard AASB 11–Joint Arrangements [accessed 14 January 2016].

62 Section 15 of the PGPA Act states that an accountable authority must promote the: (a) proper use and management of public resources for which he/she is responsible; (b) achievement of the entity’s purposes; and (c) financial sustainability of the entity. This includes ensuring appropriate oversight and reporting arrangements for line areas responsible for projects and activities. [accessed 2 March 2016].

63 The financial policy was agreed between the partner departments and SSC in June 2015. Department of Employment, Department of Education and Training and the SSC, Financial Policy, 30 June 2015.

64 Contributions relating to property are calculated using a different methodology and costs associated with special services or projects use project accounting cost methodology to determine the charge to the recipients of these services.

65 The operational budget includes employees’ costs less capitalisation and supplier costs (including contractors and consultants) less capitalisation.

66 Any significant changes in the managed accounts revenues, expenses or capital budget must be discussed with partner departments and underspends are to be returned to the partner departments.
Financial information to the board

3.34 The balanced scorecard report provided the board with high-level financial information and tracked the SSC’s year-to-date expenditure and revenue. A breakdown of cost components or the impact of initiatives on the SSC’s budget was not provided. This limited the board’s ability to assess the SSC’s financial position and in turn, to query expenditure; make decisions; and assess risk. Figure 3.1 shows financial information presented to the board as part of the balanced scorecard report at each meeting:

Figure 3.1: SSC financial data reported to board, February 2016

<table>
<thead>
<tr>
<th></th>
<th>FY 15-16 Budget $m</th>
<th>YTD December 2015 15-16 Budget $m</th>
<th>Actual $m</th>
<th>Variance $m</th>
<th>% Variance</th>
<th>Favourable / Unfavourable</th>
</tr>
</thead>
<tbody>
<tr>
<td>SSC Revenues from services</td>
<td>16.8</td>
<td>8.4</td>
<td>9.3</td>
<td>0.9</td>
<td>11%</td>
<td>Favourable</td>
</tr>
<tr>
<td>Net SSC Operating costs</td>
<td>64.4</td>
<td>30.7</td>
<td>32.1</td>
<td>1.4</td>
<td>5%</td>
<td>Unfavourable</td>
</tr>
<tr>
<td>SSC IT expenditure</td>
<td>32.5</td>
<td>16.8</td>
<td>16.8</td>
<td>0.0</td>
<td>0%</td>
<td>Met</td>
</tr>
<tr>
<td>SSC Capital</td>
<td>13.3</td>
<td>6.7</td>
<td>1.1</td>
<td>-5.6</td>
<td>-84%</td>
<td>Unfavourable</td>
</tr>
</tbody>
</table>

Source: Extract from the balanced scorecard report provided to the board at its meeting on February 2016.

3.35 The financial policy provides for the SSC to determine its forecast IT investment relating to application development, infrastructure enhancement and capital investment in collaboration with the board’s IT sub-committee. The SSC’s records show that for the processes undertaken to determine IT investment for 2014–15 and 2015–16, the board was not briefed on the outcome or provided with details of the final suite of IT projects prior to these being proposed to the partner departments for their consideration. In addition, for 2015–16, details of these projects were not included in the SSC’s IT strategy agreed by the board in June 2015. The SSC informed the board at the time, that the strategy reflected the SSC’s ‘vision’ for the 2015 to 2017 period and that detailed business plans would be developed later, once the leadership team was established.

3.36 The SSC has been able to fund some initiatives using funds from a ‘managed’ account referred to as the Corporate IT Account (CITA).\(^{67}\) This expenditure was not visible to the partner departments as the partner departments did not have access to the SSC’s financial systems. The partner departments and members of the IT sub-committee requested details of the CITA account expenditure and transactions in late 2014 and during 2015. The partner departments delayed finalisation of the SSC’s 2015–16 budget until November 2015 pending this information being provided by the SSC. A minute from Education outlining the SSC’s 2015–16 budget described this delay in the following terms:

... initial high level allocations were provided to the SSC in December 2014 and again in July 2015. The SSC sought additional funding and the partner departments requested detailed information to support the increasing [sic] funding, in particular in relation to the Managed IT account and IT capital. A detailed breakdown of forecast expenditure for the Managed IT account was not provided to the partner departments until November 2015.\(^{68}\)

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\(^{67}\) In 2015–16 the partner departments allocated approximately $32 million to this account.

\(^{68}\) Minute: Department of Education and Training, SSC Budget 2015–16, 16 December 2015.
Recommendation No.3

3.37 The Department of Employment and the Department of Education and Training strengthen the role of the board and its sub-committees and improve the quality of information and communication provided to the board.

Department of Employment and the Department of Education and Training response:

3.38 Agree that improvements be made to the quality of information used in the future governance arrangements. The governance arrangements for services transferring to the Finance portfolio will be a matter for the Finance portfolio. The remainder of the services are to be provided to existing customers under the direct management of the Department of Employment or Department of Education and Training.
4. Service delivery assurance

Areas examined
This chapter reviews the mechanisms that have been established to ensure the effective delivery of services and the Shared Services Centre’s (SSC’s) ability to meet its commitments to customers to deliver value and ongoing efficiencies.

Conclusion
The mechanisms established for setting out responsibilities and obligations and ensuring transparency for services delivered by the SSC are weak. Service standards and levels are not fixed and can change. The delineation of responsibilities between the SSC and its clients is not clear and there was no commitment by the SSC to certify the quality of its control framework. In addition, operating on a cost-recovery basis requires the SSC to attribute all its costs for delivering services to its clients and all risk is transferred to clients in this process.

Areas for improvement
The ANAO has made one recommendation aimed at mitigating risks and cost for clients by ensuring the partner departments put in place transparent processes for agreeing performance and cost parameters with clients and for monitoring and reporting the SSC’s performance against these.

4.1 The establishment of the Shared Services Centre (SSC) allowed the Department of Education and Training (Education) and the Department of Employment (Employment) to continue to deliver services to the same customer base as the former Department of Education, Employment and Workplace Relations (DEEWR). In addition to the partner departments this included portfolio and non-portfolio entities. When the SSC was established in late 2014, it had 13 existing clients, including the partner departments. As at February 2016 the SSC delivered a range of services to 16 core customer agencies, including the partner departments. Appendix 3 shows the SSC’s core customers and services procured as at February 2016.

Are agreements in place that clearly set out the responsibilities and obligations of the Shared Services Centre and its clients?

The SSC formalises agreements with clients through a memorandum of understanding. These include limited detail of the obligations of the SSC and the mechanisms in place to support administration of the arrangement. These agreements did not include details of: the controls the partners and SSC have established to ensure; legislative compliance; governance arrangements; and there was no delineation of responsibilities between the SSC and its clients. In addition, there was no commitment by the SSC to certify the quality of its control framework and no protocol to share the outcome of audits or reviews of the SSC’s activities where findings and recommendations potentially impact clients.

69 Entities also purchase services on an ad-hoc/once-off, rather than on-going basis. In 2015 these purchases accounted for 25 per cent of total revenue received by the SSC, or $4.4 million.
4.2 The partner departments have relied upon terms set out in the Heads of Agreement (HoA) and SSC Financial Policy (financial policy) to manage their relationship with the SSC. In early 2016, the partner departments commenced the process of drafting separate Master Services Agreements to formalise their service agreement with the SSC. In addition, as noted in paragraph 1.9, a Partners Forum provides a mechanism for the partners to address issues specific to them.

4.3 The partner departments maintain their own internal audit functions and have established cooperative arrangements to provide internal audit oversight of the SSC. The focus of the annual audit work plan is determined through an assessment of the SSC’s risk profile, with the audit committee of each partner department guiding the plan’s development. The audit activities are specific to the partner departments and the results of this activity are not shared with the board or the SSC’s clients.

Agreements with clients

4.4 The SSC formalises agreements with its client entities through a memorandum of understanding (MoU). A standard MoU is used for all clients with an attached schedule providing details of the services procured. While the MoU is not legally binding, there is an expectation by the parties that these arrangements are based on sound administrative practices and ethical conduct and that they comply with the Commonwealth’s governance frameworks.

4.5 The standard MoU sets out the obligations of clients and possible actions should clients fail to meet these, including in relation to termination, access to premises and liability for machinery of government costs. Details of the SSC’s obligations are limited and there are no ‘penalties’ if the SSC does not meet the service requirements. The MoU directs clients to the most recent version of the service catalogue for details of the services and relevant service levels and notes that the board is responsible for agreeing changes to these. There is no other reference to the board or the board’s sub-committees. Governance arrangements are included in the MoU, but these relate specifically to the governance of the MoU.

4.6 The MoU sets out elements of the SSC’s service delivery framework, including customer support, issues management, performance reporting and complaint management. These are described in broad terms and are not always underpinned by formal and documented procedures. For example, the MoU describes a complaints management process, however, in practice the SSC does not have a formal complaints handling process. The MoU also emphasises that while the service levels are performance targets, ‘service credits will not be applied where these targets are not achieved’.

4.7 Schedules to the MoU include only limited detail of the services being acquired and the responsibilities and liabilities associated with these. Where services involve a third-party, the MoU does not include details of the SSC’s contractual arrangements with other parties, including details of compliance with Commonwealth requirements; service levels; or responsibilities and penalties.

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70 The joint internal audit of the SSC’s governance arrangements by the partner departments identified the absence of a complaint management policy and recommended that the SSC implement a formal complaints handling policy—the SSC committed to finalise this by September 2015. As at June 2016, a policy had not been agreed or implemented.

71 SSC, MoU – regarding the provision of services for the period 1 July 2014 to 30 June 2017, p. 5, clause 4.4.
Service delivery assurance should the SSC, client or third-party withdraw or fail to deliver satisfactorily. MoUs state the SSC will comply with all relevant Commonwealth Government laws, policies and guidelines in the provision of shared services including the Privacy Act 1988, the Performance and Accountability Act 2013 (PGPA Act). The MoU does not include details of the specific measures or controls in place to ensure compliance and there is no commitment by the SSC to certify the quality of its control framework to provide assurance to clients. There is also no delineation of responsibilities between the SSC and its clients and commitment or protocol in place for the SSC to share the outcome of audits or reviews of the SSC’s activities where findings and recommendations impact or potentially impact clients. These issues are beginning to be identified, as Case study 3 demonstrates:

Case study 3  Transition of new clients

During 2015, the Department of the Prime Minister and Cabinet (PMC) transitioned its payroll function to the SSC. In March 2016, PMC experienced delays in the migration of the payroll system from PMC’s to the SSC’s system, including difficulties in attaining assurance from the SSC for the provisions of services, and for this assurance to be built into SSC’s cost model and reflected in the MoU.

In June 2016, PMC was advised of SSC’s agreement to provide a formal ‘certificate’/assurance each year confirming the effectiveness of key controls in relation to services provided. At the time of this audit, the assurance had not been provided. The SSC also agreed to provide an overview of the planned internal audit activity which relates to services received by PMC; and an annual summary of results of the internal audit activity and planned actions to resolve.

Are controls in place to ensure transparency of decision-making in relation to service quality and cost parameters?

The MoU specified that the board is to agree all changes to services catalogue and service levels. The ANAO found inconsistent treatment of changes to services levels as well as inconsistent advice regarding authority to change services levels, with not all significant changes being referred to the board. There were also differences between the performance measures included in reports to clients and those specified in the services catalogue. The board’s sub-committees are intended to provide clients with assurance regarding decision-making, price-setting and performance. However, not all initiatives were referred to the sub-committees for consideration or decision and this has limited transparency for clients.

The transition to a new financial framework and details associated with the cost-allocation model were not considered by clients prior to agreement by the board. Formal arrangements to control and oversee the operation of the SSC’s financial framework and provide assurance of the accuracy of the SSC’s cost model; to monitor cost variations; and to control the SSC’s use of the risk contingency funds have not been established.

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72 SSC, MoU – regarding the provision of services for the period 1 July 2014 to 30 June 2017, p. 5.
Authorising changes to service levels

4.8 Service levels establish the performance goals, quality requirements and expectations against which service providers’ performance is measured. Clients are informed through MoUs that all changes to the service catalogue and service levels require the governance board’s agreement. The ANAO found inconsistent treatment of changes to service levels as well as inconsistent advice regarding authority to change service levels.

4.9 In October 2014, the SSC sought agreement from the board to governance arrangements to manage changes to service levels. The board agreed to the CEO approving changes to the catalogue affecting the nature of a service following consultation with the Partners Forum and the Business Performance sub-committee, with the caveat that significant changes would be advised to the board. This agreement was not reflected in the MoU with clients. It was not until December 2015 that the SSC informed the Business Performance sub-committee of the change agreed by the board. This is despite the terms of reference for the sub-committee stating that it is to provide advice to the board on the development of the SSC service catalogue (including advice on service levels); and monitor and approve changes to the service catalogue and service levels.

4.10 The agreement with the board sets out that authority to change the service catalogue and service levels is determined based on whether the change is considered ‘significant’. As at April 2016, a definition setting out the characteristics of a ‘significant’ change had not been agreed by the board, the Partners Forum or the Business Performance sub-committee. Procedures had also not been developed and agreed describing: how consultation would be undertaken to ensure all stakeholders are informed of proposed changes; and resolution or escalation procedures where consensus for a change is not possible.

Review of Shared Services Centre’s services and service levels

4.11 During the second-half of 2015, the SSC commenced a review of its services and service levels contained in the services catalogue. In December 2015, the Business Performance sub-committee was asked to ‘note’ changes to the service levels. Key differences in service levels included: modifications—making the service level more customer oriented; changes to ‘more suitable’ service levels; refinement—where unachievable targets had been promised (for example, a change from 100 per cent to 99 per cent); and rationalisation—where the service level did not relate to ‘material or important’ services.

4.12 On advice that the catalogue had been reviewed in consultation with clients through the Business Performance sub-committee and the Partners Forum, the board was asked to ‘note’ revisions to the service catalogue as a result of the review. The board was advised that the new version of the SSC services catalogue:

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73 Five partner department representatives attended a meeting of the Business Performance sub-committee that was asked to ‘note’ changes to the services catalogue (including services levels). Representatives from only three of the SSC’s other clients were present. The sub-committee was provided with three working days to provide feedback. The sub-committee was provided with an early draft of changes to the service catalogue dated 9 October 2016 (the sub-committee was not provided with a final version of the proposed changes prior to it being agreed by the CEO in January 2016).
Service delivery assurance

... is to be approved by the SSC Chief Executive Officer (CEO) following consultation with our customers. As the changes have not been significant, it has not been required to advise the SSC Governance Board (the Board) ...

... There have been no additions or removal of services in the revised catalogue and no reduction in reportable service levels apart from the international travel metric due to an external dependency on Department of Foreign Affairs and Trade.74

4.13 The new version of the SSC’s service catalogue (January 2016) listed 168 services.75 Of the 168 services, 68 (40 per cent) had defined service levels (seven of which were not specified and would be negotiated for each engagement). In comparing the versions of the service catalogue, the ANAO found that the SSC had removed 68 service levels. There were also instances where service levels had decreased and these were either not identified in the report to the board, or were classified as a redefinition to a more reliable indicator.76 These changes represent a significant decrease in service level standards for clients that should have been clearly set out for the benefit of clients and agreed by the board.

Service level reporting

4.14 During 2015, the SSC reported its performance against service levels in a single report available to clients via the SSC’s customer portal.77 The report was compiled by the SSC manually using spreadsheets. The performance report was made available to clients each quarter. It was provided in a non-interactive format that did not allow clients to view the underlying data or examine performance at specific points or periods during the quarter. Reports could not be manipulated to create time-series, or to compare performance from one year to the next. Despite the MoU stating that additional reports could be provided, reports cannot be tailored to each client or to reflect specific information requirements.

4.15 The ANAO found differences between the performance measures included in reports to clients to those specified in the services catalogue. The SSC reported to clients against 27 per cent of the services listed in the services catalogue, yet reported to the board that it had defined services levels against 65 per cent of its services. The service catalogue included 69 service levels for IT related services. Sixteen of these services were included in the SSC’s performance report. Ten of these service levels measured the SSC’s responsiveness to the initial service request, rather than the SSC’s performance in delivering the specified service.78

4.16 The ANAO also identified inaccuracies in reporting, with 25 per cent of the service levels included in the performance report incorrectly reported. The target for these service levels was

74 Agenda paper: SSC Governance Board meeting, Agenda item 5, SSC Services Catalogue, 25 February 2016, paragraph 7, p. 1.
75 The SSC reported to the board in November 2015 that it had 278 services and 180 of these had services levels.
76 An independent review of the SSC’s treasury function (currently only delivered to the partner departments) in 2016 also identified the removal of service levels associated with the treasury function as a result of the SSC’s revision of its services catalogue. The review described lack of services levels associated with the treasury function as a ‘high’ priority issue.
77 At the time of the audit, the SSC had not started reporting performance using the new services catalogue. The ANAO’s analysis refers to reporting against the previous services catalogue (version 1.0), which was in use until January 2016.
78 These services levels specified that the SSC would respond to the initial request for a service within a specified number of days to work with the client to define the service/s required.
100 per cent achievement. In its reporting, the SSC used a traffic light system that only recognised failure when achievement of the service level fell below 80 per cent.

**Clients and sub-committees**

4.17 The SSC’s clients are invited to participate as members of the board’s sub-committees. This arrangement aims to provide clients with assurance of the SSC’s transparency regarding decision-making, price-setting and performance. The ANAO found that not all initiatives were referred to the board or its sub-committees for consideration or decision and this limited transparency to clients. Case study 4 sets out the IT sub-committee’s involvement in the implementation of an IT service—AWS Cloud computing.

### Case study 4  Pilot implementation of cloud computing

The SSC commenced a pilot implementation of the AWS Cloud offering in March 2013. SSC advised the IT sub-committee in April 2014 that it had ‘completed the necessary configuration and management processes to support the consumption of AWS compute services within the Virtual Private Cloud\(^{(a)}\) as part of our overall data centre architecture’.\(^{(b)}\)

In November 2014, the IT sub-committee was informed that additional funding had been obtained and the AWS pilot was extended into a ‘permanent deployment’. The deployment had also progressed from use of AWS Cloud for the development and test environments to include expansion into higher environments, including production and pre-production. The request for additional funding; and the decisions to permanently deploy and use AWS in production were not referred to the IT sub-committee or the board for consideration.

The sub-committee was informed that the AWS security documentation (the Security Risk Management Plan (SRMP) and System Security Plan (SSP)) had been updated to reflect the proposal to expand to the higher environment and that the document was undergoing review prior to being submitted for approval. The SSC was unable to provide the ANAO with an updated or approved version of the SRMP and SSP documentation showing the security risk assessment for use of AWS Cloud in the higher environments.

Note a: Virtual Private Cloud—where access is restricted to a single private entity—for example, a single agency.

Note b: Agenda paper: Develop/Test Infrastructure and Public Cloud, from IT sub-committee meeting, April 2014.

4.18 The role of the Business Performance sub-committee was to provide advice to the board on performance, business development and service strategy. In early 2016, the SSC established a program titled the ‘Transition to Fee for Service Program’ consolidating projects aimed at improving the SSC’s internal capability. Projects included within this program underpin the SSC’s ability to accurately charge clients and be accountable for the efficiency and quality of the services delivered, including: service based costing (pricing) model; volumetrics system capture and reporting for key elements (for example, for costing, benchmarking, dashboard and quarterly invoice consumption reporting); service level reporting such as client dashboard reporting; and change and communications, including external and internal staff awareness. There were no records that the details of this program, including: governance arrangements; scope; cost; and schedule had been presented to the board for agreement or to establish a baseline against which the board can track progress. The program was reported to the board as a single item in the program of works for the board to ‘note’.
4.19 The program was overseen by the newly established SSC Transformation Board, which comprised the SSC executive. The SSC informed the ANAO that the Transformation Board does not report to the SSC’s governance board or the Business Performance sub-committee and that updates relating to the program would be provided to the board through the CEO, as required and depending on the board’s agenda.

**Charging and price-setting**

4.20 The partner departments fund the SSC and the revenue they receive from SSC clients offsets their costs. The SSC operates on a cost-recovery basis whereby clients are charged for the cost of delivering the services they procure; the SSC cannot make a profit or loss on the services it delivers to clients and can only enter into ‘variable’ pricing agreements with clients, allowing the SSC to pass on its costs, as well as all the risk of delivery to its clients. Table 4.1 shows details of the SSC’s costs and contribution by partners and clients for 2015–16:

**Table 4.1: SSC’s costs and contribution by partners and clients, 2015–16.**

<table>
<thead>
<tr>
<th>Entity</th>
<th>Cost - $</th>
</tr>
</thead>
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<tr>
<td><strong>Partner department contribution</strong></td>
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<td>Department of Employment</td>
<td>$50 887 928</td>
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<td><strong>Total:</strong></td>
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</tr>
<tr>
<td><strong>Client contributions</strong></td>
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</tr>
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<td>Australian Skills Quality Authority</td>
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<td>Fair Work Building and Construction</td>
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<tr>
<td>Safe Work Australia</td>
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<tr>
<td>Workplace Gender Equality Agency</td>
<td>$239 706</td>
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<tr>
<td>Asbestos Safety and Eradication Agency</td>
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<tr>
<td>Australian Electoral Commission</td>
<td>$158 493</td>
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<td>Australian Taxation Office</td>
<td>$172 737</td>
</tr>
<tr>
<td>Digital Transformation Office</td>
<td>$43 812</td>
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<tr>
<td>Australian Communications and Media Authority</td>
<td>$4 640</td>
</tr>
<tr>
<td>Other sundry customers</td>
<td>$4 403 796</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$17 592 886</strong></td>
</tr>
</tbody>
</table>

SSC total costs: $120 744 092

Source: Data provided by the SSC.
4.21 Until June 2015, SSC clients were charged using a proportional cost-allocation model, which used different variables to proportion costs to clients (for example, number of employees), rather than the actual cost to deliver the services and client’s actual usage of the services. In June 2015, the board agreed to a new financial framework, including introduction of a more accurate cost-recovery model. According to the SSC, the new framework provides:

- full transparency to both owners and customers;
- certainty in charges to customers;
- pricing signals to influence both customer and provider behaviour;
- flexibility to account for variations in services provided, number of customers supported and volume of services delivered; and
- a mechanism to assess the ongoing efficiency of the SSC.

4.22 The cost-recovery model apportions all the SSC’s costs to determine a unit price for each service. The amount each client is charged is calculated based on their usage of a particular service multiplied by the unit price.

4.23 The SSC adopted a staged approach to transitioning clients to the new model, with the model to apply to all new clients from June 2015 and existing clients from 1 July 2016. The partner departments continue to fund all the SSC’s costs and will not transition to the cost-allocation model at this stage. To assist existing clients with this transition, the SSC agreed to provide parallel invoices during the second-half of 2015 showing charges using the new and old cost models. This would allow clients to adjust their demand, or seek additional funding for 2016–17. Due to delays, invoices could not be produced using the new model until April 2016.

**Risk contingency**

4.24 When the SSC sought agreement from the board for the new cost-allocation model, it also sought agreement for a risk contingency on the unit price of all services to cover ‘funding price variations’. Advice on the cost impacts of these proposals on clients, or examination of alternative approaches was not provided to the board and the sub-committee was not consulted.

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79 The terms of reference for the Business Performance sub-committee include consideration of the SSC’s cost model. The sub-committee was not asked to review and comment on the financial framework and cost model before it was agreed by the board. The board did not seek input from the sub-committee or directly from the SSC’s clients.

80 This model is referred to by the SSC as a ‘fee-for-service’ model. It is, in practice, a cost-allocation model and this title is used throughout this report.

81 As with the previous arrangement, the partner departments continue to fully fund the SSC and recover funds from clients in the form of revenue to offset the cost of delivering of these services.

82 The SSC informed the board this was due to delays in: agreeing the principles to be applied across all services providers with Finance; the complexity of identifying source data; checking accuracy of data; and building the time recording system.

83 The SSC described that these risks arose from: customers leaving; machinery of government changes; productivity improvements; or regulatory changes. The board was informed that the 20 per cent risk contingency was determined based upon discussion with consultants and their estimate of the cost of machinery of government changes. There is no available record of this analysis and modelling.
on the proposal. The board agreed the 20 per cent risk contingency in June 2015, but asked that it be re-examined in six months (December 2015). In February 2016 the SSC proposed to the board that the risk contingency be reduced to five per cent on the basis that:

The Commonwealth Shared and Common Services program now clearly recognises the issues which can cause major variations in shared service costs, giving management confidence that these will be addressed by policy rather than require the imposition of a high risk margin. These issues include Machinery of Government changes, unfunded transition costs and lack of directive clustering of customers to providers.

4.25 The SSC charges clients quarterly in arrears based on the ‘forecast’ unit prices and the client’s actual consumption during the quarter. At various points throughout the year, the SSC will calculate its ‘actual’ unit prices and will reconcile this against the amount recovered from each client. Where there is a ‘material’ over-recovery of revenue, clients may receive a rebate (the level at which the recovery is considered material has not been defined by the SSC). Where the reconciliation shows an insufficient amount has been recovered from clients, it is anticipated the risk contingency amount will bridge the gap. Despite the SSC seeking the risk contingency to address specific ‘funding variations’, it is to be used to cover all ‘shortfalls’ in funds collected from clients, even those arising from inefficiency and error by the SSC.

4.26 At the time of the audit there were no formal processes or controls in place to manage use of the risk contingency amount and to ensure that it was only used where specific risks or events occur. In addition, there was no available documentation setting out: when the risk contingency is set; who has authority to agree or change the contingency amount; and the trigger for a change. The unit prices quoted by the SSC to customers and used by the SSC for benchmarking do not include the risk contingency amount.

Capital expenditure margin

4.27 In 2015–16, the partner departments provided approximately $14 million in capital funding to the SSC. Modelling included in the SSC’s business plan showed that capital expenditure requirements are estimated to be approximately $13 million per annum, or approximately 10 per cent of the SSC’s cost base. Under the new financial framework the partner departments will no longer be solely responsible for the provision of capital funding for the SSC, making it necessary for the SSC to identify alternatives avenues to fund future capital investment.

4.28 This amount is to be collected from clients as an additional margin on all SSC costs and applied quarterly at the point clients are charged and the SSC’s costs are calculated. The partner departments have worked with the Shared and Common Services Program to develop an approach that allows the funds to be collected from clients in accordance with s.74 of the PGPA Act and to convert these to capital funding. Capital funding requirements greater than $10 million are expected to be considered on a case-by-case basis, with specific proposals to be

84 The Business Performance sub-committee was not informed of the risk contingency until its meeting in May 2016. The SSC informed the sub-committee the contingency was ‘required’ under the Department of Finance pricing guidance. This was not consistent with Finance’s guidance released by the Shared and Common Service Program in August 2015.

85 A paper released by the Shared and Common Service Program in August 2015 stated that transition costs are to be borne by the individual entity being transitioned to the service provider.
developed between the partner departments and clients seeking government funding to cover this investment.

4.29 At the time of the audit, there was no available documentation setting out when the capital margin is set; who has authority to agree or change the margin; and the trigger for it to be changed. The unit prices quoted by the SSC to customers and used by the SSC for benchmarking do not include this margin.

**Recommendation No.4**

4.30 The Department of Employment, the Department of Education and Training and the Shared Services Centre put in place transparent and sound processes for agreeing performance and cost parameters with clients and for monitoring and reporting the Shared Services Centre’s performance against these.

**Department of Employment and the Department of Education and Training response:**

4.31 *Agreed. Performance, cost parameters, monitoring and reporting for the services to be provided to existing customers under the direct management of the Department of Employment or Department of Education and Training will be developed. Reporting and monitoring of performance and cost parameters for services transferring to the Finance portfolio will be a matter for the Finance portfolio.*

**Are the plans to expand the Shared Services Centre based on a sound business plan?**

A business plan agreed by the departmental Secretaries in April 2016, forecast significant savings for clients of the SSC based on a four-fold increase in clients and an organisational transformation program. The SSC’s experience on-boarding new clients was limited at the time of the audit, with only two entities having joined the SSC. Achievement of these savings is also reliant upon transition to new governance arrangements.

4.32 The SSC’s business plan estimates combined savings to the SSC’s clients of between $49 and $137 million over the next three to four years. It is proposed these savings will be achieved through a combination of: economies of scale from expansion; and efficiency and productivity improvements as a result of an organisational transformation program—with these activities to take place in parallel over the next two to three years.

*Economies of scale*

4.33 The SSC business plan notes that economies of scale could be derived through take up of ten Commonwealth entities (primary entities)\(^{86}\) as clients to the SSC—expanding the current

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86 Primary clients include: Attorney-General’s Department; Australian Crime Commission; Australian Federal Police; Department of Communications; Department of Finance; Department of Infrastructure and Regional Development; Department of Parliamentary Services; Department of the Environment; Department of the Prime Minister and Cabinet; and IP Australia.
customer base to over 23,000 Average Staffing Level (ASL)\textsuperscript{87} from the current level of 5,700 ASL. The business plan stated that, ‘This will provide the SSC with the scale necessary to be highly competitive with the private sector and deliver significant savings to customer entities’ and that the number of ASL supported could expand to 45 per cent of Commonwealth entities (excluding Defence) through the introduction of a further seven large clients (secondary entities).

4.34 The SSC’s experience on-boarding new clients was limited at the time of the audit, with only two entities having joined the SSC. PMC agreed to the SSC providing payroll services to its 2,400 employees in April 2015, with this arrangement in place on 1 July 2015. In addition, transition from the PMC system to the SSC system was originally scheduled for December 2015. During this transition, it was necessary for the SSC to contract external consultants to project manage the transition process. PMC advised that in working towards the transition the scale of technical and business complexities\textsuperscript{88} became clear. Due to the high level of complexity across multiple elements, the transition date continues to be delayed.

*Efficiency and productivity gains*

4.35 The partner departments’ forecast savings also rely on efficiency and productivity gains from transformation of the SSC’s operations. The business plan described an organisational transformation program covering workforce development; business process re-design; automation; and new technologies. The program was estimated to cost of between $12 million to $17 million dollars.\textsuperscript{89} The transformation program will involve two ‘streams’ of activity to be undertaken over the next two to three years. During year one and two, work is to focus on communication and change management within the SSC as well as improvements to the SSC’s frameworks for: customer care; performance reporting; volumetrics; and the cost-allocation model. Achievement of these savings is also reliant upon transition to new governance arrangements, which will allow the SSC to transition to more flexible employment arrangements.

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Grant Hehir  
Auditor-General  
Canberra ACT  
9 November 2016

\textsuperscript{87} Average Staffing Level (ASL) reflects the average number of employees receiving salary or wages over the financial year, with adjustments for casual and part-time staff, to show the full-time equivalent.

\textsuperscript{88} PMC advised that elements of complexity included: moving from one enterprise resource planning software solution to another; configuring and testing in the new system; designing and transitioning business processes and system interfaces; and implementing a complex project within a resource restrained environment. PMC also advised that it is undertaking a lessons learned exercise in collaboration with the SSC to capture key learnings from both a ‘consumer’ and ‘provider’ perspective. The report will be used to guide the future.

\textsuperscript{89} These costs were not included in the partner departments’ forecast cost savings. The SSC business plan includes funding options for the organisational transformation program, noting these would need to be evaluated in conjunction with Finance. These funding options included: contribution by existing and potential future clients; central funding from Finance; equity investment for a new commercial company; and increasing annual Fee for Service prices in the first few years. *SSC business plan*, volume 3, p. 64.
Appendices
Appendix 1  Entity responses

Mr Grant Hehir
Auditor-General
Australian National Audit Office
GPO Box 707, Canberra ACT 2601

Dear Mr Hehir,

We are writing to you to provide the formal response from the Departments of Employment and Education and Training to the ANAO report on the Shared Services Centre (SSC).

As noted in the report, the SSC was set up by the departments at the time of the separation of the former Department of Education, Employment and Workplace Relations (DEEWR) into the Department of Employment and the Department of Education (the partners) to avoid the costs of creating separate corporate support functions. The creation of the SSC also allowed for continuation of arrangements for many other agencies that had taken the opportunity to use the former DEEWR’s capacity in a broad range of corporate support services rather than create and resource their own, most dating back several years. It was, and remains, commonplace for APS departments to allow portfolio agencies to access various elements of their corporate support capability.

To support its new position as the corporate support of more than one department, the SSC embarked on a program of establishing increased transparency of operations and performance, including a full list of services and creating performance benchmarks.

Since then the context in which the SSC operates has evolved rapidly and has now fundamentally changed. The whole of government Shared and Common Service Program (SCSP) has created a broad based framework in which most material government departments and agencies will participate in shared services for designated transactional services as either a provider or a consumer. The SSC has participated in the preliminary stages of the program as a potential provider. The partner departments have appreciated that such a role could transform the SSC from its original focus and purpose, and that the governance and operating model of the SSC would also need to change.

The ANAO audit has been undertaken throughout this period of change. During this time the partners have continued to explore and take forward a broad set of issues that arise from a partnership-based model for shared corporate support. Central to these issues has been the rate and nature of evolution to a more commercially oriented model, and the appropriate governance arrangements that balance the responsibilities of the accountable authorities with transparency and performance for customers. The ANAO has observed this work, and acknowledged much of it in the final report.
The Department of Employment and the Department of Education and Training notes that many of the contemporary issues identified by the ANAO are fundamentally altered by the recently announced organisational changes to the SSC, where some services will be moving to the Finance portfolio, some to the Department of Employment and the remainder will return to the respective departments.

In relation to some specific issues in the report, the Departments contend that they have kept successive portfolio Ministers appropriately informed of the SSC, noting the clear responsibility of the Secretaries for the corporate support arrangements of the departments and the much less direct relationship to the portfolio Ministers' responsibilities.

In relation to the application of competitive neutrality, the Departments note that the SSC has continued the arrangements that were in place for several years under DEEWR. The partners have relied on advice from the central agency policy owners that competitive neutrality does not apply.

Finally, the advisory board has been effective in supporting the Secretaries in implementing the SSC as a partnership. Given the nature of the PGPA financial management arrangements, it is not possible, nor intended, for the advisory board to engage in the detailed management of the SSC. The Secretaries have remained the accountable authorities, and have exercised their responsibilities through a combination of discussions within the board, and in their ordinary roles as Secretaries with the support of their departmental officers, engaging with each other and other stakeholders, outside of the board structure, as is appropriate given the non-executive nature of the advisory board.

The Department’s joint responses to each recommendation are attached.

Yours sincerely,

Michele Bruniges
Dr Michele Bruniges AM
Secretary
Department of Education and Training
21 October 2016

Ms Renée Leon PSM
Secretary
Department of Employment
20 October 2016
Our Ref: SEC0013834

Mr Grant Hehir
Auditor-General
Australian National Audit Office
19 National Circuit
Barton ACT 2600

Dear Mr Hehir

I am writing to you in relation to the Australian National Audit Office’s (ANAO) performance audit of the administration of the Shared Services Centre. I would like to thank you for providing the Department of Finance the opportunity to comment on the draft report.

At this stage, the Department of Finance does not have any comments and will consider the recommendations from the ANAO when implementing the recently announced machinery of government change relating to the Shared Services Centre.

Yours sincerely

Jane Halton
Secretary

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## Appendix 2  Summary of the SSC’s services, February 2016

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<td>Fraud prevention services</td>
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<td>Indigenous Australian Government Development Program</td>
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<td>Relocations and fit-outs</td>
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<td>Testing as a service</td>
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Source: Department of Education and Training, briefing to Minister, 16 February 2016.
Appendix 3  SSC’s core customers and services procured as at February 2016

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Note a: This service is technically being provided by the Department of Education and Training, however it is included within the SSC MoU. This has alleviated the need for multiple MoU documents and has been agreed by both the Department of Education and Training and the Department of the Prime Minister and Cabinet.

Note b: At the time of finalising this report, the Department of the Prime Minister and Cabinet and the Australian Institute of Aboriginal and Torres Strait Islander Studies were being on-boarded for SAP services for HR/Payroll.


Source: Department of Education and Training, briefing to Minister, 16 February 2016 and data compiled by the ANAO.