

Private Sector Discussion Paper Findings

Executive Summary

The private sector discussion paper issued in December 2015 was intended to elicit the combined experience of various industries to assist with the development of the strategic direction for the Shared and Common Services Program (the Program).

This document sets out the key themes from the private sector responses in terms of the need for investment, leadership and time to make shared services work.

Overall, respondents commented that they were very pleased to have the opportunity to engage with the Australian Public Service (APS) at an early stage. Additionally, the responses highlighted that this is a significant change exercise, with the cultural aspects being the most significant.

The volume and quality of responses received demonstrates that the private sector has taken the challenge and seriously engaged with what it can add value to the Program. Many respondents commented on the importance of considering the interaction between the Program and other initiatives.

There was a general consensus that there were significant benefits available from the engagement of the private sector in support of this Program, through access to capabilities and resources not currently available within the APS.

Background

The Discussion Paper for the Program was published on AusTender on 1 December 2015 and invited interested parties to provide their views on the most effective and efficient way to consolidate corporate service delivery in a manner that represents value for money.

An Industry Information Session was held on 17 December 2015 to outline the objective of the engagement exercise and provide additional information to support organisations in developing their responses. Submissions were due on 10 February 2016 with 45 responses received. A breakdown of responses by industry type is shown in *Figure 1*.

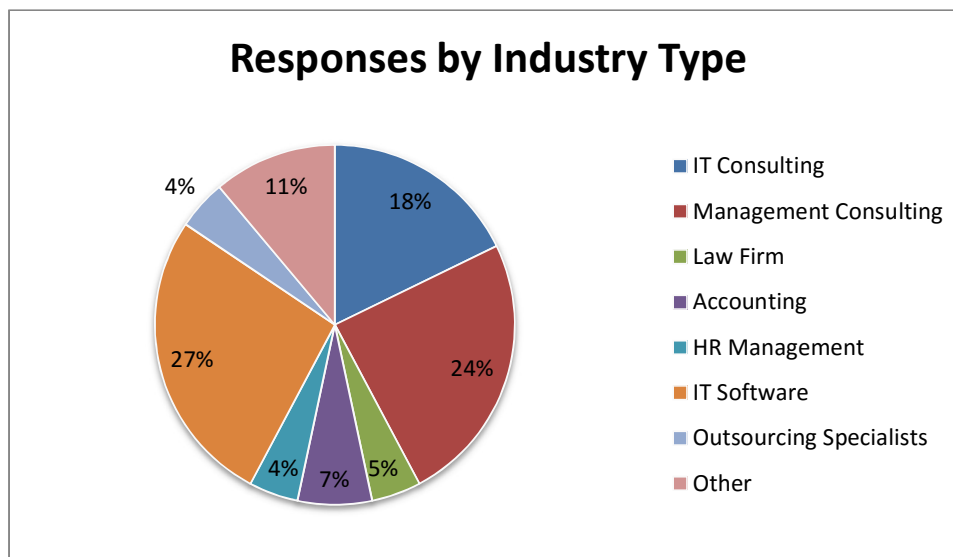
Objectives of this document

The responses to the Discussion Paper will help the APS gain an understanding of what services are available within the private sector as they relate to shared and common services. This document summarises the Discussion Paper findings provided by the 45 respondents.

The information included in this paper is based on responses received from parties interested in the Program. It is intended as a synopsis and does not reflect the views of the Government or the Department of Finance, nor is it intended to be a comprehensive summary of responses.

This paper presents broad findings against a number of key themes in the original discussion paper.

Figure 1: Responses by Industry Type



Number and roles of shared service providers

There is strong support from the market for the consolidation of providers to an optimal number, to create scale. The resulting number of core transaction processing providers was an area of great interest for respondents. Most support the concept of building these around lead provider agencies, either as providers or commissioners of services.

Some respondents, predominantly those with a focus on employee related processing, suggested that a single payroll solution should be considered across the Whole-of-Government landscape. The consensus from the review of all submissions indicates that four to six providers of core transactional services are required to support the volume of services within the APS.

Furthermore, there was an argument, that if cloud-based or process automation is implemented, then the number of providers was likely irrelevant. Therefore, the focus should be on how the process is managed, to ensure the consuming agency's requirement for autonomy is met.

Optimal user bases or transaction volumes

- The majority of services in the first tranche, such as payroll and accounts payable are scalable.
- Some respondents indicated that volumes of at least 5,000 were optimal from a cost perspective whilst others noted that they already have scale so the benefits of this can be passed on immediately through lower per transaction costs.
- There is a direct relationship between costs and volumes, in that the larger the volume, the lower the transaction cost.

Should customers be required to bundle services?

- Respondents noted that consideration of each service in the catalogue and its interaction and dependency with other services should be carefully considered when making decisions on bundling.
- Sourcing services from multiple providers is possible but may lead to increased costs and complexities around integration and single sources of truth.
- Other respondents noted that a centre of excellence type model could be beneficial, whereby the relevant parties play to their strengths and work together to integrate where required.

Role of providers and alignment of customers

- The majority of respondents supported a 'hub' model where transactional services are aggregated and a multi-function capability is created.
- There was significant support for the creation of centres of excellence for value-add services, with suggestions that these could be co-located with the transaction processing hubs, while others provided advice that they should be located in areas of natural expertise.
- The role of the provider should be to innovate, integrate and determine where there are natural affinities with future tranches of work. An example of this would be bundling training, learning and development with core HR services, which should reduce future transition costs if an agency is already receiving services on a specific Enterprise Resource Planning (ERP) system.
- Respondents proposed guidelines on the scale of providers, with suggestions that customers with their own critical mass should have dedicated provisions with smaller

agencies grouped. Some respondents commented that there are limits on scalability, suggesting that infinite scalability is not practical.

There was a common theme on the benefits of standardisation and automation of service delivery to provide economies of scale and efficiencies for government. A number of respondents supported a hybrid model approach, that consolidates services into a provider hub and then outsources them to an external provider, reducing the associated risks of a 'lift and shift' approach.

While the recommendations on how consuming agencies should be grouped, there were common themes:

- Group those with common operating platforms.
- Group 'like-minded agencies'.

How should services be sourced?

Respondents, in general, indicated moving from the current transaction based process to an outcomes based delivery through the use of 'as-a-service' models. This approach would allow providers to innovate and utilise current and future technologies, without the upfront investment that traditional on premise models require. The arrangement would then be driven by outcomes and service levels.

To ensure interoperability is not compromised (through the effective use of standards) consideration would need to be given to interfaces with common systems, such as banking platforms.

There were some suggestions from respondents that an underlying technology platform should be sourced separately and made available to all providers.

The adoption of Software-as-a-Service (SaaS) was seldom mentioned and where it was, it was seen as focussing purely on cost reduction. Furthermore, respondents generally indicated that SaaS should be seen as an interim step on the journey to a full Business-Process-as-a-Service (BPaaS) model.

Role of the Centre (Department of Finance)

The 'role of the Centre' was identified across submissions as an important central oversight function. This would involve acting as a market regulator or identifying and addressing potential market failures. In addition, it would be expected that after establishing the new arrangements, the centre would need to undertake regular and constant market testing, regardless of whether the provider is internal or external to the APS.

- There was a suggestion that regardless of where services are sourced, there is a need for a strong mandate and oversight, suggesting that strong internal leadership is a preferred option.

A common theme across respondents was that the governance arrangements should extend to the wider cultural change agenda that would be needed alongside any technology and process changes. Without exception, respondents felt that the success of the Program would depend upon strong governance and top down senior sponsorship. Many cited examples, in the public and private sectors, where the lack of effective leadership and governance had led to failure.

Options for the configuration of private sector support for providers

The market indicated a preference, that there are advantages in retaining the expertise and insight of APS staff currently providing services, but that also there is an opportunity to introduce and exploit private sector capabilities within the overall approach to shared services delivery.

There was encouragement to seek to innovate how this is structured and consider a wide range of operating and structural models, while seeking to retain the flexibility to exploit future innovation. The ways that private sector capabilities could be assessed include:

- Outsourcing;
- Joint ventures – focused on ‘multi-function’ offers:
 - ‘public to private’ where APS skills are blended with commercial sector experience;
 - ‘private to private’ where external providers need to combine skills and capabilities to deliver a solution; and
- Transformation partnering which was suggested to use processes already standardised.

There were also reviews expressed that greater efficiency could be gained if the APS is prepared to share solutions with other customers, of private sector providers.

Some respondents recommended a framework/panel type arrangement with each provider having foundation customers and the opportunity to incorporate additional volume through a competitive market.

Where to start? Early Priorities

Respondents offered a number of suggestions as to where early priorities should be placed, including:

- Prioritising ‘change ready’ agencies;
- Finding pilot agencies where benefits can be accelerated;
- Focusing on lowest complexity services to deliver early value; and
- Prioritising agencies with unsupported ERP systems.

A key message was that early work must show short term benefits and address immediate risks.

Overall, the feedback provided, found the creation of hubs for initial customers who are either eager to transition, or have reached trigger points. These hubs would then develop to provide other services and to serve other agencies.

In parallel, and where this does not put the transactional services transition at risk, there was advice to accelerate the creation of priority knowledge intensive services.

Lift and shift or transformation first?

This question generated a large range of views. Some respondents believe that it is best to transition internal capability to providing agencies, and then to transform (i.e. through standardisation) over time. Other respondents believe that consuming agencies should move only once services have been transformed.

There is clearly more work needed on the future service requirements, to inform the market as to both what is needed today, and what will be required in the future.

There were suggestions that a central initiative, with extensive involvement from consuming agencies, should establish a future service blueprint for core and value added services.

Implementation Principles

There was significant support from the private sector for beginning the shared services strategy by discussing on lower risk, high volume processes. This will ensure that benefits are maximised, risks minimised and agency and industry confidence is established prior to undertaking more complex functions.

Such a staged approach will provide the opportunity for agencies and the centre to identify any lessons learned to improve the likely success of future tranches.

Principles identified by respondents to support a successful implementation include:

- Mandating rigorous standardisation and challenging any special requests;
- Creating a clear benefit and incentive structure for customer agencies;
- Clarifying that there are no opt-outs for transactional services;
- Holding consuming agencies to account for the change work they need to undertake prior to transition, while providing training and support to consuming agencies as required; and
- Transforming the 'retained functions' within consuming agencies and challenging these to ensure that they are not duplicating provider or central functions.

In addition to the implementation principles identified, there was a consistent theme around the problem need to be a 'smart buyer' or 'intelligent customer'. Respondents noted the importance of on-boarding key staff from the consuming agency to facilitate corporate and system knowledge retention.

Scale of effort required

The market recognises that this will be a significant change program for the APS. While estimates of the effort vary, some respondents have commented that the Program may need to anticipate that it will likely extend beyond a two-year period.

Most respondents were of the opinion that transactional services could be transitioned to new operating models within a two-year timeframe, by leveraging private sector engagement. The market has strong views that new skills will be required, not just to effect change but to deliver the deferred outcomes.

Service delivery models and alternatives

A number of alternative models were ratified, including the use of emerging technologies, e.g. Robotics Process Automation (RPA).

Innovation

Respondents discussed innovation across the industry, including potential delivery models. Some responses identified the range of new technologies becoming affordable for finance, HR and supply chain management¹.

Governance

A key theme across many respondents was the need for appropriate governance and control frameworks. Risk management and Assurance frameworks are also needed. Governance structures should reflect the grouping of agencies including ensuring small agencies receive a similar level of service.

Communications and Change Management

All respondents pointed to the need for an extensive communication and change management plan that addresses key issues. A well-developed change management program (with ongoing senior sponsorship) will be required to ensure the services of the Program.

Disclaimer

The content of this Paper does not reflect the Government's or the Department of Finance's views in relation to the Program, or matters affecting the Program. The information included in this Paper is based on responses received from parties interested in the Program.

¹ <http://www.afr.com/technology/rise-of-the-machines-as-anz-brings-in-robot-workers-to-do-the-boring-jobs-20150820-gj3fp6>