4. Expanding Shared Services to Increase Quality and Savings
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CAP Goal Statement: *Strategically expand high-quality, high-value shared services to improve performance and efficiency throughout government.*

The federal government pioneered a shared payroll services operation in 1973—the National Finance Center—in the Department of Agriculture. Initially, it served only Agriculture agencies. Today, it provides payroll services and more for more than 650,000 federal employees in 170 agencies. The use of the shared services approach has since expanded to other common administrative support services.

Background. Shared services—where agencies move their common administrative or operating functions to a provider that already performs those functions for other agencies—started several decades ago in the federal government. Typically, they focus on administrative services that are common across agencies—financial management, human resources, payroll, travel, etc.

According a 2015 study by the Partnership for Public Service, Congress authorized pilot projects in the 1990s, and in 2002 it authorized sharing technology to improve support functions. In 2004, the Office of Management and Budget created task forces to identify opportunities to reduce costs and improve services across common functions. These task forces were called "lines of business"—which later evolved into "shared services." In 2014, Shared Services was designated as a top management objective for the Obama Administration, as one of its Cross-Agency Priority (CAP) Goals.

There are currently six "lines of business" that are at different stages of implementation, each with its own managing partner:

- Financial and grants management

- Human resources services

- Information systems security

- Budget formulation and execution

- Geospatial information

- Federal health architecture

Financial management and human resources services are the two that are farthest along. In addition, there are other areas where shared service arrangements are used as well, such as travel, payroll (part of federal HR framework), procurement, grants management, real estate, assisted acquisition and components of IT, such as the newly launched Data Centers Consolidation Initiative.

Historically, agencies have been reluctant to give up the operation of their own mission support functions. But recent trends have changed the environment. According to a 2015 report by the Shared Services Roundtable, the level of OMB and agency leadership interest, the budget constraints facing agencies, the availability of technology that makes shared services easier such as cloud services, the loss of agency-level administrative talent as a result of retirements and the successful track record of existing shared services providers have collectively created momentum to undertake the transition.

Interestingly, there is also a private-sector advocacy group, the Shared Services Leadership Coalition, that is promoting legislation to accelerate the transition by removing administrative and financial barriers that currently slow or discourage a transition. For example, it took 26 years to move from 50 payroll systems to 4. Legislation could speed these kinds of transition. The incentive may be that savings of up to $47 billion may be possible over the coming decade, according to the 2015 Roundtable report.

Governance Framework. Shared services and lines of business had started as a series of independent initiatives over the years. David Mader, the controller at the Office of Management and Budget (OMB), has been a key champion for expanding the use of shared services and is the co-lead for the CAP Goal, along with Denise Turner Roth, head of the General Services Administration (GSA). He recently remarked: "This is no longer a pet project. It is going to scale. This is how government is going to do its business from now on."

In furtherance of this, he created an overarching governance framework that would serve as both the executive champion of the initiative as well as the convener of stakeholders to create standardized approaches. He announced the creation of a 17-member Shared Services Governance Board in October 2015, that would provide a unified cross-agency approach to implementing and managing shared services. He also created a "project management office" to support it—the Unified Shared Services Management Office at the General Services Administration. This office, led by Beth Angerman, convenes both providers and customers across the shared services ecosystem to resolve specific issues. For example, the office encourages more consistent definitions of services and levels of services for different functions, so agencies can better compare and so they are more interoperable across agency boundaries.

Strategies. In addition to institutionalizing a governance framework, the CAP Goal leads developed policy guidance that institutionalizes migration strategies for agencies and ensures there are metrics to assess progress, manage performance and give a voice to customers. They've also created a framework that outlines best practices for successful migrations to shared services and includes a tollgate review process with both the management and budget sides of OMB. Currently more than 30 agencies are going through a system and/or service migration.

In addition, they've created a performance management framework for service providers, known as ProviderStat, which oversees the progress and performance of service providers of shared services. It also assesses the maturity of the capabilities of the various providers as well transparency in their operations. And finally, the Unified Shared Services Management Office has recently completed a customer survey that gauges the quality of services being provided by the various shared services.

Taken together, these efforts provide a foundation to scale shared services initiatives in coming years.

Case Examples. There are a number of different models of how shared services are organized and delivered. Some provide multiple mission-support services but only within their own agency. Some provide multiple mission-support services, but allow other agencies to purchase from them as well. And some focus on a single line of business, such as payroll, finance or human resources, and offer those services to a wide range of government customers. There are instances of shared services focused on the delivery of mission performance, but that tends to be less common.

- *Multiple mission support services for NASA Centers.* According to a report by the Partnership for Public Service, "The NASA Shared Services Center is a fee-for-service unit that performance many administrative support functions for NASA's 10 research space and

flight centers across the country. It provides 55 support services in human resources, finance, IT and procurement." This includes services such as payroll processing, bill payments and grants management. This center was the result of a 2002 study that concluded that, by moving to a shared service environment, NASA could reduce its administrative support costs by 25 percent, moving those funds to support space missions.

- *HHS Program Support Center (PSC): Multiple mission support services for multiple agencies.* The PSC provides a portfolio of services around five lines of business: financial management and grant payments, procurement, real estate operations, federal occupational health and admin operations (travel, mail, etc.). It has a staff of around 3,000 (about 20 percent are federal employees and the remainder are contractors). For about 25 percent of its business, it is the mandatory provider; for the remaining 75 percent, it is competitive with other providers—or in some cases competing directly with the private sector. It is a non-appropriated fund and can retain four percent of its earnings for capital replacement. Its executives have revenue growth targets (e.g., they have an overall 10 percent growth target).

- *Human Resources Line of Business: Focuses on a single set of services for use by many agencies.* The HR LoB oversees the development of a dedicated set of human resource-related services provided by certified providers. For example, it oversaw the consolidation of 26 agency payroll systems into four and the migration of agency HR systems to one of the six federal and four private sector HR shared services centers. Between 2004 and 2015, these consolidations led to the reduction of HR and payroll costs by $1.6 billion. Its customers are the 24 CFO Act agencies, which comprise the LoB's steering committee. It works with the Chief Human Capital Officers' Council to create a 10-year vision for what kinds of functionality it should be providing in the long term. Its goals include: offering a common user experience; creating standardized, accessible data and ensuring common security standards.

- *Environmental Management Consolidated Business Center.* In 2004, the Department of Energy created the Environmental Management Consolidated Business Center (EMCBC) to centralize the process for the cleanup and closures of sites contaminated with radioactive nuclear waste from the WWII Manhattan Project. Rather than develop duplicative staffs of specialists at each site, the EMCBC was created to provide expertise and standardized business processes for carrying out such activities—and this staff was available to other agencies, as well. The business center gained valuable expertise in contract management that was shared with multiple sites, and it resulted in earlier completions of projects, saving money.

Lessons Learned About Implementing Shared Services. In support of the CAP Goal, OMB sponsored a study in late 2015 to develop an "as-is" baseline description of shared services initiatives in five areas (information technology, human resources, acquisition, financial management and grants management). The objective was to paint a "to-be" picture of what the shared services ecosystem could look like in the future, as well as the migration strategy for getting there, in order to tee up such initiatives for the next Administration.

The study engaged over 160 individuals from 26 different agencies to glean their insights on what elements need to be in place and what it would take to go to scale. The key priorities expressed were the importance of ensuring consistency, quality and levels of service. Participants also expressed the importance of developing cross-cutting, integrated solutions. Some highlights of the interviews include:

- The value of standardizing administrative processes within and across agencies before going to commercial service providers (although standardizing while undergoing a migration is an option used successfully by several shared services).

- The need to decide up front what services should/should not be part of a shared services environment—e.g., it may be more appropriate to outsource repetitive, standardized processes (e.g., payroll, fleet management), but keep in-house "qualitative" services (e.g., recruiting, clearances).

- Use outcome-based requirements, not technical requirements, when describing services to be provided.

- Start with the results of the cross-agency benchmarking survey of administrative services and consider using the results of those surveys as the baseline for evaluation and starting a governmentwide business case.

- 70 percent of what needs done can be done administratively, without legislation.

- The interagency resource-sharing process needs to be fixed—"There's no government version of PayPal" to manage funding transfers. Every agency's general counsel interprets the Economy Act differently, so there is a lot of friction in doing interagency business (e.g., GSA building lease payments from agencies varies agency-by-agency and this is true for all sorts of other services).

Next Steps. While there has been significant progress in recent years expanding the use of shared services, some key challenges remain in order to take shared services initiatives to scale. For example, there are legislative constraints on "retained earnings" by shared service functions, which are needed to support infrastructure investments and the capabilities needed to go to scale. However, there are opportunities to expand the shared services approach from mission support to mission delivery functions, for example joint call centers, joint benefit determination processes or joint healthcare insurance fraud detection initiatives.

The White House Office of American Innovation has identified this initiative as one that it would like to continue and expand. Legislation has also been proposed that would address the legislative constraints.