



## Summary:

# The National Government Service Centre

– Has administration become more effective?

### Background and purpose

The National Government Service Centre started its operations on 1 June 2012 to take care of payroll and financial administration for other public agencies under the government. By concentrating transaction-intensive and repetitive tasks, such as salary payments and invoice management, the National Government Service Centre would improve the effectiveness of internal government administration by up to 30 per cent. This saving assumed that government agencies employing 85 per cent of government employees would be handled by the Service Centre.

Initially, subscription to the services was voluntary for the agencies. However, the Government announced that it would take measures to speed up the process if subscription did not pick up speed, and in 2015 it decided to make subscription to the payroll related services compulsory.

The Government's intention was to subsequently evaluate the effects of the Service Centre. As yet no evaluation has been carried out.

The purpose of this audit has been to investigate whether the Service Centre has made administrative operational support functions taken over from client agencies more effective, and to find explanations for the results so far achieved by the Service Centre. The audit has also aspired to illustrate how agencies that do not subscribe to the services regard their potential for doing so. These viewpoints have been analysed with a special focus on the conditions that applied to the Service Centre when it was formed and the measures taken by the Government and the Service Centre in the first years.

There were no easily accessible data on the effectiveness of the administrative services in the various agencies before they became clients of the Service Centre that can be compared with effectiveness within the framework of the Service Centre. The empirical material is mainly based on survey responses from 189 agencies and in-depth interviews with ten selected agencies. This material was supplemented by document studies and interviews with representatives of the Service Centre and the Government Offices.

## The Swedish National Audit Office's findings and conclusions

### *The National Government Service Centre has achieved its subscription target but productivity improvements are unclear*

The Service Centre has achieved the target of a subscription rate of 25 per cent of the total number of state employees. However, subscription to the Service Centre was initially slower than the Government had predicted and meant lower revenues than expected in autumn 2013. The Service Centre then introduced a rigorous review of its expenditure, for example for some planned development initiatives for internal procedures and support systems.

The Swedish NAO notes that the Government's steering of agencies' subscription to the Service Centre's services was limited to start with. For example, the Service Centre's operational targets for subscription did not refer to agency size, which is important in achieving economies of scale. In addition, the Government has instructed agencies to review the question of subscription and report their reasons for delaying subscription.

It is mainly small agencies that are clients. The ability of the Service Centre to improve the effectiveness of its service has therefore been poorer than planned. The Service Centre Inquiry had estimated that gradual subscription of 25 large agencies (corresponding to 25 per cent of the number of state employees) would be sufficient for the Service Centre to achieve financial balance within about five years. The Service Centre has achieved some productivity gains in payroll and financial administration for individual agencies whose staff have transferred to the Service Centre. However, it is not clear whether the Service Centre's overall productivity has increased.

The Service Centre works actively to standardise its services so as to achieve economies of scale and efficiencies. In the payroll related services this means that some component services are no longer included in the basic package but are offered at a separate fee. The accounting-related services are not as transaction-intensive as payroll services, which means that there are limitations on how far they can be standardised. Moreover, agencies' reporting is to a great degree formulated according to their forms of financing as well as their and the Government's information requirements, which implies considerable adaptation of many component services in the financial administration area to the agencies. According to the Service Centre, many agencies have a relatively large amount of work to do before achieving the degree of standardisation that would facilitate their subscription to its services. According to the Swedish NAO this means that the Service Centre must make clear requirements of the agencies before they subscribe in order to improve efficiency and effectiveness. All in all, this means that the potential for the

Service Centre to improve the effectiveness of its service is uneven and can only be influenced in part by the Service Centre itself.

### *Deficiencies in IT systems delay economies of scale*

The audit shows that the Service Centre has had insufficient conditions for starting and operating its services effectively. The Service Centre Inquiry that preceded the formation of the National Government Service Centre noted that there were major risks that the National Financial Management Authority's framework agreement procurements for accounting and personnel administration systems could be protracted. Not until recently did the National Government Service Centre procure its own system for payroll services. The Financial Management Authority's framework agreement procurement for the systems was completed at the end of 2013 and the Service Centre conducted supplementary negotiations with the supplier in autumn 2014 in connection with its call off from the framework agreement. The negotiations meant considerable savings for the State; about SEK 15 million according to the Service Centre, compared with the framework agreement conditions. When that negotiation was completed the supplier of the payroll system that until then was most used by the agencies decided to notify termination of its contract with many agencies, curtailing it by one year. The Service Centre has renewed the contract with the supplier until 2018, but the short remaining contract period has meant that the work of transferring agencies to the new payroll system has become resource-intensive for both the Service Centre and the system supplier. The extension of the contract for the older payroll system has forced the Service Centre to raise its fees, which has created discontent among agencies.

For accounting-related services the current contract situation means that the Service Centre's ability to operate effective services will not be achieved until some time into the 2020s, since agencies can retain their own accounting systems until 2023. Technical problems in integrating the agencies' accounting systems with the Service Centre's own eCommerce system impacts the effectiveness of agencies' electronic orders and payments of goods and services

### *Client agencies do not consider that effectiveness has increased*

The survey conducted as part of the audit shows that many agencies do not consider that subscribing to the services of the Service Centre has increased their effectiveness or reduced their administration costs. However, the Swedish NAO has not been able to verify the expenditure trend through reconciliation with the agencies' cost accounting. Many agencies consider that the transfer to the Service Centre has not meant any

improvement in effectiveness of the administrative function. Many have found it difficult to achieve internal savings, for example by making staff cuts.

The agencies' satisfaction with the quality of the Service Centre's services varies. A majority of the agencies are satisfied with the payroll and accounting related services, while they are less satisfied with the eCommerce service. A small group is dissatisfied with quality and response. Some agencies appreciate that purchase of services has given security, but few agencies agree that other qualitative benefits have been gained. The Swedish NAO notes that some client agencies have low confidence in the quality of the Service Centre's services. This leads to agencies devoting resources to controls, which in turn makes savings more difficult. One explanation for the lack of confidence is the Service Centre's initial problems with delivering a good quality of service and that this picture remains with the agencies.

*Many agencies have improved effectiveness on their own*

Another reason for the reluctance to subscribe to the Service Centre is that several non-client agencies have worked on improving effectiveness internally, and according to a report from the National Financial Management Authority, the administration of some of these agencies is probably more effective than administration by the Service Centre. The Swedish NAO's survey shows that it is mainly agencies with more than 500 employees that have improved their effectiveness. Several of these agencies estimate that it would not be profitable to subscribe to the Service Centre in the present situation.