The Treasury

Central Agencies Shared Services Information Release

Release Document

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[1] 9(2)(a) - to protect the privacy of natural persons, including deceased people

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In preparing this Information Release, the Treasury has considered the public interest considerations in section 9(1) of the Official Information Act.
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**Appendices**

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1. Executive Summary
This document provides a conceptual design of a corporate shared services arrangement along with next steps to commence the design and implementation stage

Introduction
The three central agencies have a unique role in demonstrating leadership in the public sector. Central Agencies Shared Services (CASS) is a collective response to the Government's challenge to provide high quality public services focused on the things that matter most to New Zealanders. Central agencies will demonstrate leadership through CASS by:

- Minimising risk through building greater resilience and strengthening capability;
- Developing better services, including both improving the capability to innovate, build job satisfaction and career development; and
- Leading by example by building strong corporate services which will deliver services that exceed the sum of their parts.

Purpose of the document
The chief executives of the central agencies have agreed that they will integrate four corporate service functions by March 2012. The purpose of this document is to propose a high-level conceptual design that provides:

- Clarity over the activities that will be shared for each of the four functions;
- A recommended governance structure and operating model for the delivery of these shared functions;
- An initial assessment of the likely financial and non-financial benefits and costs of implementing the proposed model; and
- A set of proposed next steps for the programme (the design stage).

This conceptual design scopes parameters for the policies, processes, service levels, technology requirements and job descriptions required to operate the proposed model. It does not provide detailed recommendations on these elements. This work will need to be completed during the next (design) stage.

History of the project
This has been a long-term project. It has been considered for over five years, with significant research and analysis on the underlying systems completed over the last year. Preliminary business cases have been prepared and there has been consultation at a high-level on some principles and concepts. No work had been completed on organisational design, service levels, benefits or costs, there had been no engagement with service-users and programme leadership and management had been weak.

Work completed in preparing this document
Since 15 August 2011 we have:

- Completed a desk-top review of the previous project work;
- Completed a cost and service baseline review of the four functions;
- Held initial focus groups with service-users and stakeholders;
- Run cross-agency workshops with staff from each of the four functions;
- Begun regular communications with affected managers and staff; and
- Discussed our analysis and findings with the senior leadership teams.

1 The ‘central agencies’ refers to the Department of the Prime Minister and Cabinet (DMPC), the State Services Commission (SSC) and the Treasury.
2 The four functions to be integrated are finance, human resources (HR), information management (IM) and information technology (IT).
The proposed option for the future CASS model is for all activities and processes for the four functions to be fully integrated

Proposed future CASS model

We have completed a baseline review (‘bottom-up’) assessment of which activities and processes within each of the four corporate services functions should be integrated into Central Agency Shared Services (CASS). We have also completed a comparison of this assessment against two alternative options to test and validate our findings (‘top-down’ assessment):

• A model where all processes and activities for the four functions are transferred to CASS (option 1 – full integration); and
• A model where all processes and activities for IM and IT are transferred but only transactional processes are transferred for finance and IT (option 2 – partial integration).

These two options were selected to provide a comparison of full integration with a model where the focus is primarily on the integration of systems.

On the basis of our assessment we have concluded that option 1 – the full integration of activities and processes – provides the optimal future model for CASS. The key factors supporting this option are that it will provide:

• Greater flexibility to meet the future service needs of each agency;
• A deeper pool of specialist/skilled resources that all agencies can draw on to improve their strategic capability across each of the functions;
• CASS staff with improved career development and growth opportunities through the creation of multi-functional roles;
• More potential to drive efficiencies through sharing of resources and economies of scale; and
• A better platform to enable the three agencies to work together at a strategic level in future.

Further findings to support our assessment include:

• Our analysis of the current cost and service baselines for each of the functions indicates strongly that a full transfer of activities and processes is optimal, consistent with option 1;
• Option 2 does not provide a basis for realising all of the potential cost and services benefit opportunities, whereas option 1 does; and
• Option 1 is the option supported by the people working in those functions, and is therefore likely to create fewer people and change management issues.

Under option 1, all activities within each function would transfer to CASS on or before the go-live date.

Agencies would purchase all integrated services (transactional and strategic) from CASS, but would retain ownership of strategies and plans, and the accountability for risk and compliance.

Some CASS-employed staff would be located within each agency – these distributed staff would provide CEs and senior managers with day-to-day support and expertise in areas of decision-support and business insight. They would be expected to have an excellent understanding of the specific requirements of the agency and to develop effective working relationships with agency managers.
The proposed future operating model is for the Treasury to host the integrated services in a ‘CASS’ branded business unit

Proposed future CASS structure
We also assessed four options for the future legal and governance structure for delivering the integrated support services.

We were not required to consider the status quo as an option, as the central agencies’ chief executives had already committed to integrating the functions. Instead, we assessed the four most common models for delivering shared corporate services across government agencies. These options are summarised in the diagram opposite.

Our recommended option is option 3; the transfer of in-scope functions to a branded business unit. We propose that the Treasury hosts CASS, as this is the agency best able to manage the impact of the new business unit.

This recommendation is based on an assessment of each of the four options against the set of nine agreed design principles. Each option was also assessed against five dimensions (strategy, structure, process, people and technology) to assess the impact of each option and to provide further validation of the preferred option.

The option analysis consisted of a qualitative assessment based on our practical experience of what works well in similar shared service arrangements. Additional analysis of both quantitative and qualitative data, including our review of previous CASS-related research/preliminary business cases and our initial engagement with internal customers and other stakeholders, was used to validate our conclusions.

Summary of the four options assessed

- **OPTION 1**
  A simple staff co-location

- **OPTION 2**
  Transfer of functions to a new Crown entity

- **OPTION 3**
  Transfer of functions to a branded business unit within an agency

- **OPTION 4**
  In-sourcing of functions to one of the agencies

‘In-scope’ staff from each of the agencies’ functions would co-locate to a single site whilst remaining employees of their respective agencies. Some activities would be shared between the co-located staff to increase access to skills, resources and technologies.

A new Crown entity would be created, with joint ownership by the three agencies, and would provide independent services to each agency. The new entity would provide a service catalogue from which each agency could purchase services to the levels necessary and price desired.

A ‘CASS’ branded business unit would be set up within one of the three central agencies. Staff would be employees of the hosting agency, with staff transferring from the other two agencies. Services would be provided to three agencies by the new business unit.

All of the in-scope activities would be ‘in-sourced’ into one of the agency’s existing corporate services departments. Staff from the other agencies might be transferred to the in-sourcing agency as required to ensure the appropriate level of capability and capacity is retained.
It will take at nearly four years to payback operating establishment costs, with some financial savings being reinvested into CASS service improvements

Benefits of the proposed CASS model
The key benefits of the proposed CASS model include the following:

- Greater resilience and more effective use of highly-skilled resources can be achieved by consolidating them and making them accessible to all agencies – this is a particular advantage for DPMC and SSC, who can access services currently enjoyed by Treasury. In our proposed management model, much of the savings achieved from more efficient transactional processing would be reinvested into greater strategic capability;
- Despite this substantial re-investment of cost savings, the proposed model should still provide financial benefits over the first five years with a net present value of $1.2 million. This will be sufficient to pay back establishment operating costs within four years. The figure opposite provides an initial indicative high-level assessment of the cost saving benefits of option 1;
- A number of strategic activities require an excellent understanding of the agency’s business and trusted relationships with decision-makers. By locating people with these skills alongside senior management in the agencies (distributed activities) this level of service can be maintained;
- The model enables the delivery of consistent, standardised services across the three central agencies;
- People will have better career opportunities and the chance to work in new and challenging areas of work; and
- The model provides a platform for providing corporate services centres of excellence which could be accessed by other Government departments.

Summary of indicative assessments of cost savings

<table>
<thead>
<tr>
<th>Agency</th>
<th>Current ($m)</th>
<th>Future ($m)</th>
<th>Saving ($m)</th>
<th>Saving (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DPMC</td>
<td>1.45</td>
<td>1.33</td>
<td>0.12</td>
<td>9</td>
</tr>
<tr>
<td>SSC</td>
<td>3.52</td>
<td>2.86</td>
<td>0.66</td>
<td>19</td>
</tr>
<tr>
<td>Treasury</td>
<td>6.52</td>
<td>5.68</td>
<td>0.84</td>
<td>13</td>
</tr>
<tr>
<td>TOTAL</td>
<td>11.49</td>
<td>9.87</td>
<td>1.62</td>
<td>14</td>
</tr>
</tbody>
</table>

Calculated using assumed charging model based on estimated time allocated to each agency.

Provides a five year net present value financial benefit of $1.2 million

$1.2 million

Net present value of financial benefits over the first five years

Made up of

- Personnel costs: $0.8 million
- Systems costs: $0.2 million
- Other costs: $0.2 million

Calculated using annual discount rate of 8%

Resulting in payback of establishment operating costs within four years

Four year payback of $3.6 million

Calculated based on initial estimate of $3.6 million establishment operating costs.
The implementation of the proposed model, and the realisation of the potential benefits, will have major implications for each agency.

**Critical success factors**

We have identified factors critical to the success of CASS, which we have built into the proposed model. In particular we have avoided:

- Setting unachievable expectations with regards to the available benefits, particularly the financial benefits – these will not be significant and will require further validation during the design stage before being finalised; and
- Extrapolating benchmark data and/or using fractional FTEs to generate savings targets – we have based our analysis on changes to actual positions in the management models of each organisation, and used benchmarking purely for sense-checking of results.

These success factors are based on our experience of similar shared services arrangements here and overseas. In developing the design of the future model, we emphasise strongly the need to also:

- Set baseline service metrics that are robust to ensure success can be measured and demonstrated to stakeholders;
- Get the future incentive model right – based on our experience we recommend that the majority of savings are re-invested into service improvement to provide the appropriate incentives to drive efficiency, with the remaining element used to reduce agencies’ baseline costs;
- The service delivery model must be based on CASS providing standardised service levels – if CASS attempts to provide tailored transactional services, CASS will fail; and
- Keep service agreements simple – we recommend the use of service and operating level agreements with no more than 3-5 performance metrics for each process.

**Implications of the proposed model**

The proposed model will have major implications for the three agencies, which will require a lot of effort to work through during the design stage. These implications include the following:

- Service users within each agency will receive a **different style of service** than at present – services will be more standardised, more automated;
- Service users will also need to get used to **different ways of working** with corporate services – day-to-day contact is likely to be more formalised and through a single point of contact, rather than through walking down the corridor to ask a question, particularly for transactional queries;
- Many second and third-tier management roles, such as the CFO role, will no longer exist within some agencies – chief executives and senior leadership teams will need to form **different types of relationships** with people they rely on for strategic advice, including support and input into annual planning, the agency budget-setting process and strategic HR support;
- There will be **disruption to service levels** during the first 6-12 months of operation – agencies will need to support CASS through this transition period and resist the temptation of ‘growing-back’ roles within agencies during this time; and
- Individual **agencies will get smaller**, in some cases this decrease will be dramatic – for example, SSC total FTE numbers could reduce by over 15%.

It is important that the potential impacts of the proposed structure are understood before proceeding to the design stage. In the next section of this document, we have provided a summary of these potential impacts on each of the key stakeholder groups.
Suggested next steps for the CASS programme

A significant amount of work will be required to design and construct the high level CASS model described in this business case by March 2012.

Our suggested next steps for the CASS programme, along with dates, are as follows:

1. Chief executives, in consultation with their respective senior leadership teams, approve and sign-off this final business case (October);

2. The key recommendations included in this document are communicated to staff and other stakeholders, and a staff consultation processes is commenced (October);

3. At the same time, a high-level implementation plan and timetable is prepared for the next (design) stage of the programme (October) – indicative elements of such a plan are included in section 7;

4. The conceptual design, governance structure and management structures proposed in this document are revised to reflect feedback from the consultation process (October);

5. A detailed resource plan is prepared for the design stage, taking into account the concerns we have raised in Section 2 of this document over the current level of maturity of the CASS programme (October); and

6. Project work streams are established and appropriately resourced to commence the design activities set out in the high-level implementation plan (November).

7. Opex and capex cost-profiles for the next 2-3 years are agreed for the programme (November).

We suggest separate project work streams are set up the design stage. We also suggest that a work stream is set up for each of the four functions, with additional work streams covering:

- Change and people management;
- Communications and stakeholder engagement; and
- Technology and facilities infrastructure.
2. Strategic intent of the CASS programme
This business case is based on developing a conceptual model that delivers the CASS vision and which builds on lessons learned from similar arrangements

Introduction
In this section we confirm the strategic intent of the CASS programme:

- What is the chief executives’ vision for CASS?
- What is the rationale for CASS?
- How will CASS build on the lessons learned from similar shared services arrangements?
- What are the critical success factors for the successful implementation of the CASS programme?
- What is the objective of this business case?

The vision for CASS
The chief executives of the three central agencies have developed a clear vision for how CASS will deliver corporate services in the future. They have articulated this vision in the form of three overarching objectives for CASS:

- To minimise risk through building greater resilience and strengthening capability.
- To develop better services, including both improving the capability to innovate, build job satisfaction.
- To lead by example by building strong corporate services which will deliver services that exceed the sum of their parts.

Supporting the three overarching objectives of minimising risk, developing better services and leading by example, the chief executives have specified exactly what their vision for CASS should achieve:

- The three central agencies working together better for the New Zealand public sector and ultimately New Zealanders;
- Providing smarter and better services to internal and external stakeholders through working in closer harmony;
- Over time, delivering streamlined, high quality service to all three agencies with simpler processes for all; and
- Creating resilience within functions by ensuring that corporate services are cross-skilled and have the depth to cope with future challenges.

They have also made it clear that:

- The status quo for corporate services will not enable the central agencies to reach their strategic and operational objectives;
- The CASS model needs to be efficient, while recognising that delivering cost savings is not a primary driver of the programme;
- The CASS programme needs to draw on the lessons learned from other similar shared services arrangements, both here and overseas, to ensure past mistakes are not repeated; and
- The CASS programme should be driven by strong programme and project management disciplines to maximise the chance of success.
There is a clear rationale for CASS

The rationale for CASS

The Government is continuing to demand and drive increased productivity in the public sector through the shifting of resources from the back office to frontline service delivery and its value-for-money initiatives.

The unique influencing role of the three central agencies means it is important that they demonstrate leadership and innovative thinking in responding to the Government’s demand for change. It is also important that any changes that are made are successful, and build on the lessons learned from other similar change programmes in New Zealand and overseas.

The chief executives have agreed that the integration and consolidation of corporate services functions between the three agencies provides an appropriate response. It will provide the agencies with an excellent opportunity to increase the overall efficiency, effectiveness and consistency of corporate services.

Another important opportunity that CASS provides is to act as the basis for closer working between the three agencies. This is an important strategic objective of both the Government and of the three agencies themselves.

Finally, each agency will need different things from corporate services in the future. For DPMC, this means reducing risk by strengthening the resilience of corporate services. For SSC, the need to substantially strengthen its strategic support capability, and for Treasury, continuing to drive service improvement through greater efficiency and effectiveness of processes.

CASS is designed to address these differing challenges for corporate services in each agency. It also recognises that some compromises will need to be made to achieve this.

Lessons learned from similar shared services arrangements

In developing the conceptual design of a shared services arrangement, it is vital to draw on the lessons learned from others’ experiences. This is particularly true for public sector shared service arrangements between multiple agencies, which have a track record of underachievement, both here in New Zealand and overseas.

There is now a significant body of literature on the implementation, successful or otherwise, of shared services approaches to back office functions in many public sector jurisdictions.

Based on this information, and our own practical experience in New Zealand and offshore, we have considered the key pragmatic lessons that need to be applied in designing and operating CASS.

In the table on the following page we detail these key lessons and how they should be applied to CASS.
Lessons learned from similar arrangements have clear implications for CASS which are mitigated in the business case (1 of 3)

Table: Lessons learned, implications for CASS and mitigations included in the business case

<table>
<thead>
<tr>
<th>Key lesson learned</th>
<th>Description</th>
<th>Implication for CASS</th>
<th>Potential impact</th>
<th>Mitigation(s) included in the business case</th>
</tr>
</thead>
</table>
| Realism is necessary with regard to the available benefits | Time and again, shared service arrangements are perceived to fail because unachievable expectations were set at the beginning. This occurred in Ontario, Canada where an Auditor General’s report concluded that poor initial research resulted in business cases based on unreasonable expectations. Similar issues are being faced by Queensland Government shared services. | A shared services arrangement of the scale of CASS (fewer than 100 FTEs) is unlikely to result in significant cost savings. It is important that stakeholders’ expectations are appropriately managed to resist the temptation to see CASS as a short-cut to reducing the agencies’ baseline budgets. | High            | • The options analyses are based on a set of design principles that focus on the wider opportunities offered by CASS, rather than on pure cost-reduction.  
• A cautious and realistic five-year projection of indicative financial costs and benefits is developed to manage stakeholders’ expectations appropriately. |
| Resist extrapolating benchmark data and/or using fractional FTEs to generate savings targets | The use of benchmark targets is often not realistic in the public sector, where agencies are not directly comparable. A key finding from the Ontario experience was that there was inappropriate extrapolation of benchmark data. This included the use of fractional FTEs to generate savings targets. Proportions of people are usually hard to cash out. | The three central agencies are relatively small. Carving-out functions from the existing corporate services teams will inevitably result in people whose current roles will need to be split. Great care will be required to understand the cost implications of this outcome. | Medium          | • Benchmark data (e.g. BASS data) is used to develop baseline costs and to test and validate proposed future-state options – it is not used to develop saving targets.  
• Cost implications of proposed future-state options are based on changes to actual roles and positions, not on a simple FTE-based calculation. Cost implications also consider who is transferred to CASS and who remains in the agencies. |
| Setting baseline metrics is important to demonstrate improvements to stakeholders | Obtaining good data from government agencies is difficult – financial data is often in a form that is not useful and transaction volumes are rarely measured. This is critical as the number one reason for the failure of public sector shared services is a lack of performance metrics – especially an accurate baseline of cost and service levels. Historically, every government has tried to shortcut this, but it is, frankly, the most important task. | The three central agencies are no different from the other government agencies we have worked with, both in New Zealand and overseas. There is some baseline cost data (such as BASS) but little or no service level data. Going live without obtaining this data will undermine the success of the CASS programme. | High            | • The plan for implementing the proposed future-state model for CASS identifies the design activities that will need to be completed before go-live, including the development of performance metrics and baseline data to drive the service delivery model.  
• The five-year projection of indicative financial costs and benefits include a realistic estimate of establishment costs required to complete the design stage. |

Central Agencies

S H A R E D S E R V I C E S
### Lessons learned from similar arrangements have clear implications for CASS which are mitigated in the business case (2 of 3)

<table>
<thead>
<tr>
<th>Key lesson learned</th>
<th>Description</th>
<th>Implication for CASS</th>
<th>Potential impact</th>
<th>Mitigation(s) included in the business case</th>
</tr>
</thead>
<tbody>
<tr>
<td>Establish strong programme and then operational governance</td>
<td>It is critical the two are not confused – each has its own specific purpose. A programme governance structure must be able to work across agencies and bind these agencies to decisions. This can be extremely difficult to achieve. Our recent experience of working with local government shared services in Wellington and elsewhere has demonstrated that without strong governance, shared services arrangements will fail.</td>
<td>Chief executives have set a challenging target go-live date for CASS, which will place even greater reliance on strong and effective programme governance across the three agencies.</td>
<td>High</td>
<td>• One of the first activities we completed in preparing this business case was to provide an independent review of the maturity of the current CASS programme (refer to Appendix A for details if this assessment). This assessment raises some concerns over the readiness to establish the CASS programme, along with our proposed solutions for addressing these concerns.</td>
</tr>
</tbody>
</table>
| Get the future incentive model right | Models where all benefits harvested by public sector shared services are ‘cashed-out’ are common and are usually unsuccessful. Benefits and cost-sharing models are much more successful (for example Gauteng shared services in South Africa). We advise that at least 75% of realised savings are retained for a significant period of time. | The primary drivers for CASS are service improvement and service resilience. To achieve this, there will need to be an investment made in current services and underlying systems and technology. This cannot be achieved without re-investing cost savings back into CASS. | High | • The indicative commercial model described in the business case is based on re-investing savings within CASS rather than using them to reduce baseline costs.  
• The five-year indicative financial forecast has also been developed under the assumption that cost savings will be reinvested. |
| Simplified, standardised and automated processes will drive efficiency gains | Attempting to deliver different service levels to different agencies will not deliver efficiency gains. This is another common failing of public sector shared services. Efficiency gains are driven by standardising service levels, and delivering them through simplified and highly-automated processes. | Service improvement has been identified as a primary driver for CASS. In this context, this means that agencies have access to better services. It does not mean that services (particularly transactional services) are tailored to meet every individuals’ needs. | High | • The indicative service delivery model described in the business case is based on delivering standardised services through simple service level and operating level agreements.  
• The plan for implementing the proposed future-state model for CASS identifies design activities required to agree service menus and service levels prior to go-live. Ensuring service specification does not emphasise yesterday’s services will be key. |
## Lessons learned from similar arrangements have clear implications for CASS which are mitigated in the business case (3 of 3)

<table>
<thead>
<tr>
<th>Key lesson learned</th>
<th>Description</th>
<th>Implication for CASS</th>
<th>Potential impact</th>
<th>Mitigation(s) included in the business case</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Keep service agreement mechanisms simple</strong></td>
<td>Complex and overly prescriptive service agreement mechanisms are a distraction and do not drive efficiency. Instead they tend to lead to an ‘us and them’ culture and the production of meaningless volumes of performance metrics. We have found that simple service level agreements (SLAs) and operating level agreements (OLAs) coupled with strong customer relationship management disciplines are the most effective way to make shared services work.</td>
<td>Current service levels, and future service expectations of customers, are not clearly defined at this stage. The short time frame before the proposed go-live date will make any sophisticated measurement of service levels difficult. Keeping service agreement mechanisms simple and practical will be essential.</td>
<td><strong>Medium</strong></td>
<td>• The indicative service-delivery model described in the business case proposes the use of simple SLAs and OLAs to manage service levels in the short to medium term. We suggest no more that 3-5 performance metrics are measured for each key process/activity.</td>
</tr>
<tr>
<td><strong>Success requires strong leadership on the basis of a clear and compelling case for change</strong></td>
<td>A recent PwC study of 40 top Australia-based CEOs who have led major transformation projects identified a lack of strong leadership as a major contributor to failure. In a cross-agency shared services context, leadership is particularly challenging where there is no single leader of the change programme.</td>
<td>Each agency has its own reasons for joining the CASS programme, whether it is service improvement or building resilience. It is important that the three chief executives and their senior leadership team articulate and continuously reinforce a clear, consistent and compelling case for change.</td>
<td><strong>High</strong></td>
<td>• This section provides the vision for CASS as agreed by the chief executives. These are developed into a set of design principles against which options are assessed. This will ensure the business case provides the basis for future decision-making and consultation which transparently supports the CASS vision.</td>
</tr>
<tr>
<td><strong>Provide visible support to the new shared services entity during the first year and resist the temptation to ‘grow-back’ roles</strong></td>
<td>Effective shared services arrangements are achievable in the public sector. To make them work, participating agencies need to be patient and to visibly support the new shared services agencies, particularly in their first 6-12 months of operating. This means being realistic about what can be achieved during the first year (very little in terms of service improvement) and resisting the temptation to ‘grow-back’ roles within their own agencies.</td>
<td>Chief executives need actively to be seen to support CASS during its first year of operation, to expect some level of service disruption during the transition period and to be patient in terms of seeing service level improvements. A key element of this will be to ensure there is no ‘grow-back’ of positions within agencies during this first year.</td>
<td><strong>Medium</strong></td>
<td>• A cautious and realistic five-year projection of indicative financial costs and benefits is developed to manage stakeholders’ expectations appropriately. • A set of critical success factors has been developed to ensure there is not short-cutting of required steps during the design and implementation stages.</td>
</tr>
</tbody>
</table>
Section 2 – Strategic intent of the CASS programme

The changing demands of internal customers means that corporate services need to adapt and develop – the CASS programme can help achieve this

Responding to the changing demands of internal customers

The four functions in each of the three agencies need to change to continue to meet the new demands of their internal customers. This message came through clearly from both customers and the staff working in the functions. It is also clear that it will be a major challenge for functions to achieve the desired changes individually where there is currently limited access to:

- The people and skills needed to provide strategic support to management;
- The depth of teams needed to respond to one-off events and projects; and
- The investment needed to develop better systems and efficiency gains.

Internal customers and staff recognise that the CASS programme provides an opportunity to meet this challenge. The table below summarises how CASS can address some of the key needs identified by both function and agency.

<table>
<thead>
<tr>
<th>Function</th>
<th>What staff told us they need</th>
<th>What the internal customers told us they need</th>
<th>How CASS can help to respond to these needs</th>
</tr>
</thead>
</table>
| Finance  | • To work more closely with customers and continue to develop forward-looking management information to provide better decision support (SSC, Treasury)  
• To strengthen the depth of the team to reduce reliance on key individuals (DPMC) | • Understanding of each agency’s business and requirements  
• Further commentary and trend analysis on budget and forecasting  
• Reliability of data, accessible service and ability to handle complicated queries | • Enable the transfer of people and resources to a business insight role by driving greater transactional processing efficiency  
• Develop a team with critical-mass in areas of higher competency through the sharing of key people over the three agencies |
| HR       | • To develop strength in strategic HR capability and capacity as a means of providing better decision-support to management (all)  
• A fast, responsive service, with more self-service and automation in accessing employee information and improved quality control and standardised processes  
• Training to be short and relevant | | • Develop a stronger team with strategic HR competency shared across the three agencies  
• Invest in greater automation of transactional processes to increase efficiency |
| IM       | • To access the investment required to develop better systems and platforms (all)  
• To access talent and skills required to meet changing demands of IM (all)  
• To share information more efficiently and be able to access remotely  
• Access to new media (e-books & social media)  
• Smarter ways to search and understand information | | • Channel combined agency investment into single IM solutions that meet everyone’s needs  
• Develop critical-mass in areas of higher competency through sharing of key people |
| IT       | • To strengthen existing IT governance arrangements (all)  
• To access the capital investment required to better deliver the required technology solutions of the agency (all)  
• Support staff who know our business and can act promptly  
• IT compatibility across the three agencies (lotus notes versus Microsoft outlook)  
• Onsite availability and a consistently high standard of customer service | | • Shared services will force a robust IT governance model to service effectively three agencies from one IT team  
• Channel combined agency investment into single IT solutions which meet everyone’s needs |

Refer to Appendix G for voice of the customer feedback by agency collected during customer focus groups
An initial set of critical success factors and mitigating actions based on the three overarching objectives of the CASS programme

Critical success factors

We have developed a set of critical success factors for the CASS programme implementation, as shown in the table below. These critical success factors draw on the lessons learned and customer requirements described in the previous pages and consider each of the potential factors that could affect the successful delivery of the three CASS outcomes.

<table>
<thead>
<tr>
<th>CASS outcome &amp; aligned design principles</th>
<th>Difficulty</th>
<th>Critical success factors</th>
<th>Mitigating actions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Minimising risk</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Future-proofing corporate services</td>
<td>H</td>
<td>Understanding future needs of the three agencies</td>
<td>Strategic and user needs captured during design stage</td>
</tr>
<tr>
<td>• Maintaining financially sustainable corporate services</td>
<td>M</td>
<td>Detailed cost and benefit analysis and monitoring</td>
<td>Cost &amp; benefits metrics agreed during design stage</td>
</tr>
<tr>
<td>• Delivering consistent services across the agencies</td>
<td>H</td>
<td>In-principle agreement of standard service levels</td>
<td>Sign-off of conceptual design includes in-principle agreement for standard services levels</td>
</tr>
<tr>
<td><strong>Delivering better services</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Improving level and quality of services</td>
<td>H</td>
<td>Understanding of what quality service looks like</td>
<td>Strategic and user needs captured during design stage</td>
</tr>
<tr>
<td>• Supporting and growing corporate services people</td>
<td>L</td>
<td>Sufficient scale to enable career development</td>
<td>Ensure CASS is of sufficient scale</td>
</tr>
<tr>
<td>• Delivering continuous improvement</td>
<td>M</td>
<td>Operating model enables continuous improvement culture, targets for improvements and demonstration of ‘quick wins’ from the programme</td>
<td>Operating model designed to address this plus SLAs for each combined function, inc. service metrics plus identify and realise quick wins in implementation stage</td>
</tr>
<tr>
<td><strong>Leading by example</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Enabling the three agencies to work together</td>
<td>L</td>
<td>Operating model enables closer working together</td>
<td>Conceptual operating model design to address this</td>
</tr>
<tr>
<td>• Providing customer-focused services</td>
<td>H</td>
<td>Understanding user needs</td>
<td>As above</td>
</tr>
<tr>
<td>• Increasing the effectiveness of processes</td>
<td>M</td>
<td>Simplification and automation of processes</td>
<td>Processes redesigned during design stage</td>
</tr>
</tbody>
</table>

Table: Factors critical to the success of the project’s desired outcomes, with proposed mitigating actions
The changes proposed will have a key impact on each of the three agencies that will need to be carefully managed

Impact assessment

We have developed a summary impact assessment for the CASS programme implementation.

Table: Summary impact assessment with proposed mitigation

<table>
<thead>
<tr>
<th>Key impact of the proposed model</th>
<th>Implications for the project</th>
<th>Proposed mitigation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Structure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Senior management teams of both organisations will be directly affected by any changes</td>
<td>Potential loss of leadership capability during implementation stage</td>
<td>Change management strategy will include plan to manage and minimise impact of implementation stage</td>
</tr>
<tr>
<td><strong>Service provision</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Challenge of maintaining specific service needs of each organisation</td>
<td>Potential loss of required service levels following combination</td>
<td>SLAs to be prepared during detailed design stage with service levels and metrics for each combined function</td>
</tr>
<tr>
<td><strong>Processes</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Aligning existing processes to achieve efficiency</td>
<td>Potential for efficiency benefits not to be realised</td>
<td>Process changes to be agreed during design stage</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Data migration between existing systems</td>
<td>Potential loss of data quality / integrity</td>
<td>Data migration issues to be addressed in design stage</td>
</tr>
<tr>
<td><strong>People</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Existing staff in both organisations impacted</td>
<td>Potential loss in BAU productivity during change</td>
<td>Change management strategy designed to minimise disruption</td>
</tr>
<tr>
<td>• Some functions will be currently operating at different levels of performance</td>
<td>Potential adverse impact on the higher performing functions</td>
<td>Ensure organisation with highest capacity and capability leads the combined function</td>
</tr>
<tr>
<td>• Need to harmonise three different cultures</td>
<td>Potential difficulty in combining teams</td>
<td>Change management strategy with focus on people issues</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Layout of new office location will need to be designed</td>
<td>Design locations of combined teams in new office</td>
<td>Facilities issues to be addressed during the design stage</td>
</tr>
</tbody>
</table>
The implementation and operation of CASS will impact on all staff within the three central agencies

Assessing the stakeholder impacts of CASS

The consolidation of the four functions will impact all staff in the three agencies to various degrees. Staff will be impacted directly as a staff member who works in one of these functions or they will be impacted as a ‘customer’ of these areas. All staff from the front line to senior managers will experience a change to how they do work or receive services from Finance, HR, IT or IM.

The nature of the changes will impact staff, due to:

- New or different processes and work practices in their functions;
- Potential new systems and tools;
- Potential changes to roles and responsibilities;
- Potential changes in the way work is allocated to teams and individuals;
- Potential changes to the physical location;
- Potential changes to the ways of interacting with colleagues; and
- New or different team environment.

There are two important points which our stakeholder impact analysis has identified:

1. All staff in the three central agencies will be impacted by the changes either by changes to their roles or the process; and
2. The Finance, HR, IT and IM groups are directly impacted by the changes and will have role impacts. This group is also critical to enable the successful establishment of central agencies shared services. This group should be specially acknowledged in communications by senior managers.

As the programme progresses and the design is clearer, a detailed analysis on the impacts will need to be done to inform the degree of change individual staff members will experience and how it will need to be managed.

To analyse the stakeholder impacts, all the stakeholders of the central agencies shared services were grouped into the following categories and their impacts assessed for each. The categories are:

- **Influencers** – comprising of Ministers and 1st and 2nd tier management;
- **Internal impacted** – comprising of 2nd tier management, team leaders and staff who deliver HR, IT, IM and Finance services;
- **Internal customers** (staff who interact with those impacted) – comprising of all staff outside those classified as ‘internal impacted’ and includes current vendors / suppliers; and
- **Internal enablers** – comprising of HR, IT, communications, legal and facilities staff to assist in the establishment of CASS.

On the following page we have analysed the degree of impact against the following definitions. Details of stakeholder groups is provided in Appendix F.
Section 2 – Strategic intent of the CASS programme

There will be a medium to high level of impact on all stakeholders within the three agencies

Table: Assessment of the impact and nature of change caused by CASS on each main stakeholder group

<table>
<thead>
<tr>
<th>Stakeholder Group</th>
<th>Value Proposition</th>
<th>Impact of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Influencers – comprising of Ministers and 1st and 2nd tier management</td>
<td>• We are responding to the government’s call for the public sector to develop new ways of doing business in the tight economic environment&lt;br&gt;• We will minimise risk through building greater resilience and strengthening capability&lt;br&gt;• We will develop better services, including both improving the capability to innovate and build job satisfaction&lt;br&gt;• We are leading by example by building strong corporate services which will deliver services that exceed the sum of their parts</td>
<td>Medium - High</td>
</tr>
<tr>
<td></td>
<td>• There is a high degree of reputational risk which impacts this group, both from internal staff and publicly in the media and wider public sector.&lt;br&gt;• 2nd tier Corporate Services managers in the three agencies will be directly impacted by potential role and location changes. They will also have to lead their staff through the changes.</td>
<td></td>
</tr>
<tr>
<td>Internal impacted – comprising of 2nd tier management, team leaders and staff who deliver HR, IT, IM and Finance services</td>
<td>• By working in closer harmony across the three agencies, we will be able to learn off each other and provide smarter and better services to our internal and external stakeholders&lt;br&gt;• Opportunity to bring the knowledge and skills of working in your specific agencies to contribute to the bigger initiative that will help deliver better services and develop your career</td>
<td>High</td>
</tr>
<tr>
<td></td>
<td>• Staff in this group will need to adopt new ways of working, new technologies, and for those who are not based at No. 1 The Terrace, a location change.&lt;br&gt;• There is also potential loss of staff, changes to roles, job descriptions and accountability.</td>
<td></td>
</tr>
<tr>
<td>Internal customers (staff who interact with those impacted) – comprising of all staff outside those classified as ‘internal impacted’ and includes current vendors / suppliers.</td>
<td>• Over time, we are aiming to deliver a streamlined, high quality service to all three agencies with simpler processes for us all&lt;br&gt;• Internal customers of HR, IT, IM and Finance functions will benefit from a shared service function which works collaboratively across the three agencies</td>
<td>Medium</td>
</tr>
<tr>
<td></td>
<td>• Staff who interact with the functional groups in their respective agencies will experience changes to process and methods of interaction to receive these services. There will be a period of ambiguity for this stakeholder group while new processes are standardised and embedded&lt;br&gt;• Any current vendors / suppliers to the three agencies will experience potential changes to process and services provided</td>
<td></td>
</tr>
<tr>
<td>Internal enablers – comprising of HR, IT, communications, legal and facilities staff to assist in the establishment of central agency shared services</td>
<td>• Opportunity to be involved in a programme which portrays central agencies as exemplars of the New Zealand public sector&lt;br&gt;• Opportunity to bring the knowledge and skills of working in your specific agencies to contribute to the bigger initiative that will help deliver better services and develop your career</td>
<td>Medium - High</td>
</tr>
<tr>
<td></td>
<td>• A subgroup of these stakeholders are directly impacted by the potential changes implemented through the Central Agency Shared Services programme. While they are directly impacted by the outcomes, they are also key enablers to the programme’s success in providing HR, IT, Finance and IM advice and resources&lt;br&gt;• The Communications, Legal and Facilities units are also critical to the success of the programme and may be impacted in the next phase of work</td>
<td></td>
</tr>
</tbody>
</table>
Section 2 – Strategic intent of the CASS programme

This business case provides a conceptual design for the future CASS model as the basis of commencing the programme design stage

Objective of the business case

Over the last two years, the three agencies have been working hard to assess the current state of four corporate services functions (finance, HR, IM and IT) in order to assess the strength of the case for developing CASS. Significant levels of analysis has been carried out to identify potential benefits from integrating activities within these functions.

Despite all of this hard work, little clarity has emerged to date about what CASS will look like, what services it will provide, our what benefits and other outcomes it will seek to achieve. As a result, stakeholders have been left uncertain as to what CASS will mean to them, and when change can be expected to happen.

The objective of this final business case is to draw to a close the assessment stage of the CASS programme. The central agencies’ chief executives have already announced that CASS will go ahead, and will include the four identified functions. They have also announced that CASS will be located at 1 The Terrace.

What this document provides is a proposed conceptual design for CASS – what will CASS look like? What services will it provide? How will it be governed? What kind of benefits might we expect it to deliver?
3. Options for the future CASS model
Based on a top-down and bottom-up assessment of the functions, the full integration of all activities into CASS in the proposed option

Introduction
This section summarises our baseline review assessment of which activities and processes within each of the four corporate services functions should be integrated into CASS. It also provides a comparison of this assessment against two alternative options to test and validate our findings. They are:

- A model where all processes and activities for the four functions are transferred to CASS (option 1 – full integration); and
- A model where all processes and activities for IM and IT are transferred but only transactional processes are transferred for finance and IT (option 2 – partial integration).

These two options were selected to provide a comparison of full integration with a model where the focus is primarily on the integration of systems.

Summary conclusion
On the basis of our assessment we have concluded that option 1 – full integration – provides the optimal future model for CASS.

Basis of our conclusion
Our conclusion is based on the following findings:

- Our analysis of the current cost and service baselines for each of the functions indicates strongly that a full transfer of activities and processes is optimal, consistent with option 1;
- Option 2 does not provide a basis for realising all of the potential cost and services benefit opportunities, whereas option 1 does; and
- Option 1 is the option generally supported by the people working in those functions, and therefore would create fewer change management issues.
Section 3 – Options for the future CASS model

Description of option 1 – full integration of services

A description of the two alternative options

Under **option 1**, all activities within each function would transfer to CASS on the go-live date.

Agencies would purchase all services (transactional and strategic) from CASS, but would retain ownership of strategies and accountability for risk and compliance.

Some CASS-employed staff would be located within each agency – these (‘distributed’) staff would provide CEs and senior managers with day-to-day support and expertise in areas of decision-support and business insight. They would be expected to have an excellent understanding of the specific requirements of the agency and to develop effective working relationships with agency managers.

**Important note:** Option 1 is consistent with our assessment of the optimal future model based on the baseline review, and as described in Appendix B.
Under **option 2**, there would be a full transfer of IT and IM activities and processes on go-live date.

For HR and finance only transactional processes would be integrated. All other finance and HR activities would remain within the agencies. There would be an option to transfer these activities into CASS at a later date, once the new business unit is bedded-down and fully operational (say, after 12 months).

Each agency would retain a CFO and an HR manager (or equivalent) and a team of staff to support them and to deliver strategic services.

These teams would interact with CASS on a daily basis to provide instructions on the data and management reporting required to fulfil their roles and the transactions they need to be processed.

**Important note:** We did not pursue an option whereby IM and/or IT functions would be split. From our baseline analysis it became clear that attempting to split these functions would be complex, costly and difficult to achieve. It would also lead to increased duplication.
A set of design principles for assessing each option were developed and agreed by the CASS Governance Group

**Assessment of the options against agreed design principles**

Design principles are a set of clear and specific criteria against which the success of the proposed future options can be assessed. The principles are important because they:

- Define management’s direction and how they want to deploy resources;
- Provide a common framework to ensure consistency and strategic alignment;
- Enable a best-fit choice to made between alternative options; and
- Are the basis for communicating what the future vision is of the two organisations and their people.

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<table>
<thead>
<tr>
<th>Design principles</th>
</tr>
</thead>
<tbody>
<tr>
<td>Principle 1: XXXX</td>
</tr>
<tr>
<td>Principle 2: XXXX</td>
</tr>
<tr>
<td>Principle 3: XXXX</td>
</tr>
<tr>
<td>Principle 4: XXXX</td>
</tr>
<tr>
<td>Principle 5: XXXX</td>
</tr>
</tbody>
</table>

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**Agreed design principles aligned to the CASS vision statement**

**The vision for CASS**

- Minimise risk through building better resilience and strengthening capability
- Develop better services, including both the improving the capability to innovate, build jobs satisfaction and career development
- Lead by example by building strong corporate services which will deliver services that exceed the sum of their parts

**Design principles**

- Future-proof corporate services to stand the test of time
- Improve the level and quality of services provided
- Enable the central agencies to work more closely together
- Provide customer-focused services that deliver benefits
- Increase the effectiveness of processes

---

A set of nine design principle were developed and agreed by the Governance Group, aligned to the three objectives.

The design principles are described in detail in Appendix D.
Option 1 – full integration of services – provides the best fit against the design principles

Our subjective assessment of the two options against the agreed design principles is based on analysis of:

- The baseline assessment outcomes;
- The outcomes of the workshops held with functional staff; and
- The lessons learned from similar projects described in section 2.

Consistent with the baseline review, the assessment indicates that option 1 will deliver more benefits as it provides a stronger framework for delivering the CASS vision as it scores very highly against the design principles.

There are three main issues with option 2. The first is that it would not enable the future-proofing of corporate services. From our interviews with service users and service providers, one of the key issues that needs to be addressed is to strengthen the strength and depth of high-skilled, strategic capability. By focusing on transactional activity only for finance and HR, there is no opportunity to invest in and share this capability across the three agencies. This is a particular weakness in option 2 for DPMC and SSC.

The second issue is that option 2 would only deliver service consistency for some transactional processing activities – this wouldn’t allow the individual agencies to access genuine value-adding financial and HR insight and decision support which is a key outcome of CASS.

The third issue is that option 2 wouldn’t be effective in enabling agencies to work together. There would be little sharing of strategic level knowledge and experience between the agencies as a result of CASS, and a real opportunity for managers from the three agencies to work together to solve common problems would be lost.

Details of the assessment against design principles are included in Appendix D.

The key factors supporting option 1 as the preferred option

- Greater flexibility to meet the future service needs of each agency.
- A deeper pool of specialist/skilled resources that all agencies can draw on to improve their strategic capability across each of the functions.
- CASS staff with improved career development and growth opportunities through the creation of multi-functional roles.
- More potential to drive efficiencies through sharing of resources and economies of scale.
- A better platform to enable the three agencies to work together at a strategic level.
An assessment of the advantages and disadvantages of each option also favours option 1 as providing the best future CASS model

Advantages and disadvantages of each option

We have also considered the broader advantages and disadvantages of each option. As the figure below illustrates, the advantages of option 1 far outweigh the disadvantages, whereas the converse is true for option 2.

This provides further support and validation for selecting option 1 as the future model for CASS. The implications of each option, including cost implications and the impacts on each agency, are explored in more detail in the following sections of the business case.

Summary of advantages and disadvantages of each option

<table>
<thead>
<tr>
<th>Advantages of option 1</th>
<th>Advantages of option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Simpler to understand and implement than option 2</td>
<td>• Less change impact on the three agencies</td>
</tr>
<tr>
<td>• Provides the basis to realise all of the benefit opportunities identified in the business case, including the potential cost savings</td>
<td>• CEs have greater assurance that they will continue to have the strategic finance and HR support they require</td>
</tr>
<tr>
<td>• Provides the best fit with the nine agreed design principles and therefore the CASS vision</td>
<td>• Fewer staff directly impacted by the change (i.e. fewer staff will transfer to the new CASS business unit)</td>
</tr>
<tr>
<td>• Savings from transactional efficiencies can be re-invested in strategic/highly-skilled resources</td>
<td></td>
</tr>
<tr>
<td>• A pragmatic approach to change – the change is over and done with by go-live date with no lingering ‘second stage’ to affect morale</td>
<td></td>
</tr>
<tr>
<td>• All agencies get access to the combined strategic capability of the three agencies from day one</td>
<td></td>
</tr>
<tr>
<td>• CASS would be more attractive to employees under this option – providing the full range of services rather than a ‘back-office transaction centre’</td>
<td></td>
</tr>
<tr>
<td>• This is the option supported by the people currently working in the four functions and would therefore create fewer people &amp; change management issues</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Disadvantages of option 1</th>
<th>Disadvantages of option 2</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Requires CEs and senior managers to embrace a new way of working within the CASS partnership model</td>
<td>• The change impact is much higher if a two-stage implementation is adopted – as well as having to manage two restructures, the existing function staff are less ‘bought-into’ this option meaning they are more likely to resist the change</td>
</tr>
<tr>
<td>• More staff are directly impacted under this option (i.e. more staff will transfer to the new CASS business unit)</td>
<td>• Increased risk of ‘grow-back’ of roles creating duplication and increased cost</td>
</tr>
<tr>
<td>• Impact on retained management structures in each agency will be significant and will require careful thinking</td>
<td>• This option is more complex, managing the split will be difficult, and it will require more sophisticated mechanisms for managing service performance</td>
</tr>
<tr>
<td></td>
<td>• A number of the benefit opportunity areas identified in the business case will not be realised, for example:</td>
</tr>
<tr>
<td></td>
<td>– Smaller agencies will miss the opportunity to access the specialist and higher-skilled resources currently located in the larger agencies</td>
</tr>
<tr>
<td></td>
<td>– There will be a reduced opportunity for driving innovation/synergies as CASS becomes focused on transactional activities</td>
</tr>
<tr>
<td></td>
<td>– There will be less opportunity for meaningful career progression, meaning it will be more difficult to recruit and retain good people</td>
</tr>
<tr>
<td></td>
<td>– Opportunity for strengthening resilience of smaller agencies in more strategic areas is lost</td>
</tr>
</tbody>
</table>
4. Options for the future CASS structure
Of the four options assessed, we recommend option 3 – a “CASS” branded business unit set up with the Treasury

The four options assessed
We assessed four options for the future legal structure and operating model for the future delivery of corporate services across the central agencies.

The central agencies’ chief executives have already announced that the status quo is not an option for the future. We have therefore only used status quo as a benchmark for the other options.

The four options we assessed are summarised opposite.

The recommended option
We recommend the adoption of option 3 as the legal structure and operating model for CASS. It provides the best alignment with design principles and has the lowest strategic, structural and people-related impacts.

We also recommend that the Treasury is the agency that hosts this “CASS” branded business unit.

Approach to the options analysis
This recommendation is based on an assessment of:

- The four options against a set of agreed design principles and other benefit drivers; and
- The impact of each option on people, processes, technology, structure and strategy.

The remainder of this section provides greater detail of the approach taken to the options analysis and the conclusions we have drawn.

Summary of the four options assessed

- **OPTION 1**  
  A simple staff co-location

- **OPTION 2**  
  Transfer of functions to a new Crown entity

- **OPTION 3**  
  Transfer of functions to a branded business unit within an agency

- **OPTION 4**  
  In-sourcing of functions to one of the agencies

- ‘In-scope’ staff from each of the agencies’ functions would co-locate to a single site whilst remaining employees of their respective agencies. Some activities would be shared between the co-located staff to increase access to skills, resources and technologies.

- A new Crown entity would be created, with joint ownership by the three agencies, and would provide independent services to each agency. The new entity would provide a service catalogue from which each agency could purchase services to the levels necessary and price desired.

- A ‘CASS’ branded business unit would be set up within one of the three central agencies. Staff would be employees of the hosting agency, with staff transferring from the other two agencies. Services would be provided to three agencies by the new business unit.

- All of the in-scope activities would be ‘in-sourced’ into one of the agency’s existing corporate services departments. Staff from the other agencies might be transferred to the in-sourcing agency as required to ensure the appropriate level of capability and capacity is retained.
The recommended option provides a very strong fit with the design principles and an excellent basis for delivering the vision for CASS

Assessment against design principles

Our subjective assessment of the recommended future legal structure and operating model (option 3) against the nine agreed design principles is summarised in the table opposite. Our assessment of the current state is included to provide a useful benchmark.

Our subjective assessment is based on our analysis of:

- Our experience of what works well in similar shared services arrangements, both in New Zealand and in other countries;
- The current state baseline data and previous CASS related research and preliminary business cases;
- Our workshops and interviews with staff currently working within the four functions;
- Our understanding of the needs of the customer, based on an initial set of customer focus groups;

We have not attempted to weigh or prioritise the scorings, and we have not attempted to use any quantitative analysis to calculate the scores.

On the basis of our assessment, the recommended future legal structure and operating model scores equal to or higher than the other options assessed. It also scores at least ‘4’ against each principle (“mostly meets”).

In the following page, we provide our scored assessment against each of the four options.
The co-location and in-sourcing options are unlikely to provide real, sustainable benefits to the three agencies

Summary assessment of each option against design principles

On the basis of our assessment of the four options against the agreed design principles, option 3 provides the best fit.

It is difficult to see any real, sustainable benefits from option 1 (co-location). This option fails to provide a platform for delivering the three key objectives articulated in the vision for CASS. It would fail to deliver consistency and would therefore struggle to enable the agencies to work more closely together.

This option scores only slight higher than the current state.

Similarly, option 4 (in-source activities to one of the three agencies) does not score well against the design principles. Option 4 would not enable the three agencies to work more closely together. Indeed, it is likely that the opposite effect could emerge, with a strong (and potentially adversarial) ‘client/contractor’ relationship forming between the in-sourcing agency and the other two agencies. This option is also likely to drive the in-sourcing agency’s service levels and standards across the other two agencies, rather than services that best meet the needs of all agencies.

Options 2 and 3 score highly against the design principles, and provide good options for delivering the CASS vision.

The key factors supporting option 3 as the preferred option

- **Quicker to implement and at a lower cost than other options.**
- **Provides a simpler governance and accountability structure.**
- **Aligns well with agencies’ strategic requirements.**
- **Enables the delivery of consistent services across agencies.**
- **Develops a strong ‘CASS’ branding under which a strong staff culture can be developed.**
- **Protects the financial sustainability of the functions**

The main disadvantage of option 2 (new Crown entity) is that it does not provide a strong basis for the central agencies to work closer together. This is because it is effectively creating a semi-autonomous entity with a contractual relationship with the three agencies.

Analysis of each option against the design principles in included in Appendix D.
The recommended option would also limit the impact of implementation (costs, risks, disruption) on the three central agencies

Assessment of the impact of different options

We have also assessed the impact of implementing the two most viable options (options 2 and 3) against five key dimensions:

- **Strategy** – the extent to which the option aligns with the wider strategic objectives of the central agencies;
- **Structure** – the cost and risk impacts of the legal and operating model required to enable the option, and the level of difficulty to implement;
- **Process** – the impact of the option on the processes required to deliver corporate services;
- **People** – the impact on employees, including whether people will need to be transferred and the cultural impact of working in a “CASS” branded business unit or organisation; and
- **Technology** – the IT implications required to enable the option.

Our overall assessment, as summarised below, is that option 3 would be easier to implement than option 2. Option 3 would:
- Be quicker to implement at a lower cost;
- Provide a simpler governance and accountability structure;
- Align well with agencies strategic requirements, including consistency with previous messages from central agencies’ chief executives.

Table: Summary assessment of the impacts of options 2 and 3

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Option 2 – New Crown entity</th>
<th>Option 3 – Branded business unit</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strategy</td>
<td>High</td>
<td>Medium</td>
<td>Both of these options align well with the CASS objectives but will have a major impact on retained corporate services. Option 3 is more likely to send the right political message than option 2.</td>
</tr>
<tr>
<td>Structure</td>
<td>High</td>
<td>Low</td>
<td>Options 2 would require high establishment and on-going governance cost associated with setting up a new entity. It would also require complex governance and accountability and reporting requirements.</td>
</tr>
<tr>
<td>Process</td>
<td>Medium</td>
<td>Medium</td>
<td>Both options are likely to face similar issues relating to the need to standardise and simplify processes across the three agencies.</td>
</tr>
<tr>
<td>People</td>
<td>High</td>
<td>Medium</td>
<td>Both options will require transfer of staff, but the impact of option 2 will be higher as it requires all staff to transfer to a new Crown entity. Both options will need to address “CASS” culture issues.</td>
</tr>
<tr>
<td>Technology</td>
<td>Medium</td>
<td>Medium</td>
<td>Both options will face similar challenges around the migration of data to standardised IT systems. Option 2 will face increased cost of IT/IM security than option 3.</td>
</tr>
</tbody>
</table>
We propose that the Treasury is the agency that hosts the “CASS” branded business unit

Which agency should host the new business unit?

We have considered which of the three agencies should host the new “CASS” branded business unit. Our proposal is that Treasury is the best option out of the three agencies. We have formed this conclusion on the following basis:

- **Capacity and capability** – It is logical that the host agency be the one with the highest level of capacity and capability across the four functions. Our baseline assessment indicates that this agency is the Treasury;

- **Ability to integrate the new business unit** – The smaller the agency, the more difficult it will be to integrate a new business unit of potentially 70-90 staff. The Treasury is currently much larger than the other two agencies, and has a much larger corporate services team.

- **Minimise disruption to staff** – the baseline review shows us that 60% of in-scope staff are already employed by the Treasury. Hosting by the Treasury means that less than half of affected staff will need to change their current employer.

The main disadvantage of a Treasury hosted business unit is the perception of a “Treasury take-over” by the other agencies. However, the use of “CASS” branding and the location on a separate floor should go some way to mitigating this risk.

Should CASS be used to totally rethink the way services are provided?

A question that emerged during the development of this final business case has been whether CASS should be used as an opportunity to completely rethink the way services are provided.

In other words, rather than transferring existing roles and functions to CASS and working to drive continuous improvement as assumed in this business case, should the functions be re-designed from first principles to establish the ‘ideal’ corporate services for the agencies?

There are clear benefits to all agencies of adopting this second scenario – functions will be designed to meet the future needs of the agencies, rather than building on what is already there. However, this approach also carries a great deal of risk:

- At this stage, we do not have a clear understanding of what services agencies will require – without this information it is not possible to design a whole new organisational structure – the implication is that the design stage of the programme will need to be completed before any decisions are made regarding roles in the new organisation which would put the programme back by at least six month;

- The level and impact of the change will be much greater – all current role descriptions would need to be redesigned and there would be greater risk to business-as-usual during the implementation stage; and

- The future cost of operating CASS would be much higher.

On this basis, we do not recommend adopting this alternative approach at this stage. Rather, should chief executives wish to implement this alternative scenario, a phased approach should be adopted, with the more fundamental redesign of the functions commenced after CASS if bedded-down and fully operational.

We have not, therefore, pursued this alternative scenario in this business case.
5. Proposed governance and management model
The governance model – we are proposing a simple governance model within the existing Treasury structure

Proposed high-level governance model

Our proposed option for the governance structure is to have a highly visible ‘owner board’ consisting of the three chief executives. The board would set the direction and key performance measures of CASS. This would support the autonomy and shared responsibility of CASS. Service performance reporting and accountability would be through this owner board.

Proposed high-level governance model under option 1

The governance model will depend on which option is adopted.

Governance model under option 1 – full integration of services

Under option 1 (the proposed option), the operational management of the “CASS” branded business unit would be delegated to a newly-created Director of Central Agency Shared Services position. This position would have day-to-day management responsibility to all CASS staff, and would report directly to the chief executive of the host agency (the Treasury).

Under option 1, the Director of CASS role would be at an appropriate tier level to provide the required authority, decision-making, control and accountability.

Governance model under option 2 – partial integration of services

Under option 2 (the alternative option), the size of CASS would be significantly reduced, with finance and HR transactional processes being combined into a transaction processing unit (managed by a team leader).

As a result, the Director CASS role would be replaced by a third-tier Manager CASS position, reporting directly to a Treasury Deputy Secretary.

We have provided an example of the high-level governance structure under this alternative option in appendix I.

Next steps

The design stage should explore the decision making performance, risk management, reporting and accountability processes according to standard governance practise. Following the design stage an memorandum of understanding would be put in place between the CA owners detailing how they will act together to collectively ensure the objectives of CASS are met.

The following are our observations on some of the aspects that should be explored during the design stage.
The management model – we have developed proposed organisational structures for each function for both the proposed and alternative options

**Decision making**
- Service users should be provided with some ability to influence decisions (through, for example, a formal service forum) and manage user recommendations through a transparent investment and prioritisation process.

**Performance reporting**
- Transparency and enabling improvement are the primary principles for performance and reporting. A set of simple, customer-focused performance metrics for each function will be required to demonstrate SLA delivery and cost.

**Accountability**
- An accountability matrix will need to be agreed to ensure that users and the owners are separated from operations and so enable them to hold the operator accountable for the quality and cost of services.

**Proposed high-level management model**

We have also prepared conceptual management models for each of the two functions. In preparing these models we have considered four elements:
- Organisational design;
- Account management;
- Performance management; and
- Culture and behaviour principles.

**Organisational design**
The organisational design component of the management model are based on the four functional areas of service delivery and identifying areas where staff can work across functions as well as up through functions, this will provide a means for career and skills development.

Organisational structures for each function are provided in **Appendix H** (option 1 – proposed model) and **Appendix I** (option 2 – alternative option with partial integration of services).

**Account management**
A key component of the organisational design is the inclusion of an agency account manager role within CASS. This role would be responsible for the health of the relationship and understanding the strategic needs of the assigned agency. This is an important mitigation against the perceived risk of reduced service levels and loss of control. For this role to be successful it would need to hold suitable authority to carry recommendations back to the CASS, and could, for example, be held by the CASS Director.

**Performance management**
Establishing a continuous improvement process will be another key component of CASS. We recommend that each function manager is given clear performance targets designed to drive efficiency savings and improve performance against the agreed performance metrics.

**Culture and behaviour principles**
From our experience, it is vital that a service-based, customer-orientated culture be installed in CASS from day one. The CASS Director should have the ultimate responsibility for driving this culture, and should be able to demonstrate the effectiveness of this culture to the owner board.
Section 5 – Proposed governance and management model

There are important implications on the residual governance and management structures of each agency which will require careful consideration

Implications of the proposed governance and management models

One of the key implications of the proposed model is that DPMC and SSC will become much smaller agencies. In the case of SSC, total FTE numbers could reduce by over 15%.

Another key implication is that, at the direction of the chief executives, the IT and IM functions will be combined in CASS, significantly reducing the level of middle management required in these functions.

This will have a major impact on the residual governance and management structures of DMPC and SSC, as current positions will need to be disestablished and some new roles created. This is also true for Treasury, where the current structure will need to be redesigned to accommodate the new third-tier CASS Director role, and changes arising from the transfer of functions to the new business unit.

We have included proposed residual governance and management structures for both the proposed model (Appendix H) and the alternative option (Appendix I).

Next steps

The proposed organisational structures provided in the appendices will require significant refinement during the design stage. At this stage, it is not clear what level or quality of services CASS will be delivering, or the systems and processes that will be enabling the delivery of services. Once these have been designed, the organisational structures, and detailed role descriptions, should be designed to best support the required outcomes.

Formal consultation with staff and their representatives, as required under the relevant employment agreements and policies, will also be required.

Table: impact on FTE numbers of option 1

<table>
<thead>
<tr>
<th>Function</th>
<th>Current FTE levels</th>
<th>BASS benchmark ratios</th>
<th>Proposed FTE level</th>
<th>Decided FTE level</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASS Governance</td>
<td>0</td>
<td>--</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Finance</td>
<td>17.8</td>
<td>14.5 (median ratio 1 : 40)</td>
<td>13.2</td>
<td>17.5 (2 fixed term)</td>
</tr>
<tr>
<td>HR</td>
<td>16.9</td>
<td>9.6 (median ratio 1 : 59)</td>
<td>14.2</td>
<td>15.5 (3 fixed term)</td>
</tr>
<tr>
<td>IM</td>
<td>23.7</td>
<td>No BASS data available</td>
<td>12.2</td>
<td>42.5 (8 fixed term)</td>
</tr>
<tr>
<td>IT</td>
<td>24.1</td>
<td>27 (median ratio 1 : 20)</td>
<td>19.9</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>82.2</td>
<td>--</td>
<td>59.5</td>
<td>78.5 (13 fixed term)</td>
</tr>
</tbody>
</table>

It is important to also understand the impact on the proposed changes on other corporate services managers in the agencies. A number of roles will need to substantially change (for example, from a manager role into more of a ‘purchaser’ of services role). Managers to be affected are identified in the appendices and may include, for example, Corporate Services Manager (DPMC), Deputy Secretary Corporate Services, CFO, Manager Communications and Records Management and Manager People Development (SSC) and CFO, CIO and Deputy Secretary Strategy, Change and Performance (Treasury).
The long-term nature of the CASS programme means that it is important that current staff uncertainty is addressed as a matter of priority

The rationale for developing the proposed governance and management models

Agencies’ staff within the four corporate service functions have been aware for over 12 months that this shared services review is underway, and that it will potentially affect their current position and role. It is important that this atmosphere of uncertainty is brought to a close as soon as possible to ensure that:

• Staff are treated fairly – it is not reasonable to continue to expect potentially affected staff to work in this atmosphere of uncertainty;
• The agencies do not lose their best people, as they will be essential to the success of CASS – providing clarity on the new roles and the opportunities they provide is the best way of keeping the best people;
• Momentum is maintained – over the last six weeks, the renewed focus on the CASS programme and the increased level of engagement with potentially affected staff has helped to drive a great deal of momentum for change and it is important this is not lost; and
• The impact on business-as-usual activity is minimised – the sooner that staff are clear what is expected of them, the sooner the changes can be implemented and the sooner the return to business-as-usual.

To achieve this, the development now of the proposed governance and management models, supported by the proposed organisational structures included in the appendices, is vital. But this approach also carries with it some risk.

It would be usual practice to develop proposed organisational structure charts, job designs and FTE calculations at the end of the design stage. This allows the management structures to be designed to support the service and process requirements identified during the detailed design.

To mitigate this risk, the proposed organisational structures have been developed based on:

• Clear direction from chief executives on their expectations of the future size of each function and where they believe rationalisation is required;
• Our experience of what works well in organisations of similar size and complexity, including other shared services arrangements;
• Recognised good practice models for each of the functional areas that we have helped to implement at other organisations;
• Making allowances for the unique features and requirements of each of the three agencies;
• The workshops and other meetings we have held with staff currently working in the four functional areas;
• Discussions with each agencies’ HR staff; and
• Applying benchmarks and BASS data to test and validate the proposed structures and FTE numbers.

There will opportunities for further refinement of the proposed organisational structures during:

• The staff consultation process; and
• The detailed design of the CASS operating model prior to go-live.
6. Proposed service delivery model
In this section we have developed a framework for the future CASS operating model to provide a basis for the detailed design stage of the programme.

Introduction

In this section, we provide a proposed framework for the other elements of the future CASS operating model and principally the service delivery model.

This operating model framework provides a basis for facilitating the design stage of the programme. We have provided our comments and proposals, where appropriate, on the conceptual design of the future model covering the following elements (described in more detail in Appendix E, including a proposed benefits management approach):

1. The service delivery model – the services to be delivered and the delivery mechanisms and agreements required to deliver them;
2. The model for allocating establishment costs (the funding model) – the mechanism for funding and allocating costs during the establishment of CASS;
3. The asset model – the facilities, IT, staffing arrangements and other assets required;
4. The model for charging services (the commercial model) – the method of allocating costs to CASS users and allocating surpluses back to the three central agencies, once CASS is operating; and
5. The transaction model – how CASS will actually work, including business flows and how different functions interact with each other.

The proposed management and governance models are described in the previous section.

The figure below summarises these key elements of the future CASS operating model, along with our proposed conceptual design for each element where appropriate.
Section 6 – Proposed service delivery model

1. The service delivery model – a service catalogue, service level agreements and operating level agreements should underpin the service delivery model

The service delivery model
The service delivery model defines what operational activities are executed where and by whom within the Operating Model.

The activities, defined within the model, outline the day-to-day interactions a company has with its customers, employees and suppliers.

The procedures and controls linking these activities are formally defined by the Process Architecture and their execution governed by the policies and guidelines set by the leadership of the business to support the management model it defines.

Key elements of the service delivery model we have considered are:

- The CASS service catalogue;
- Service level agreements; and
- Operating level agreements.

The CASS service catalogue
The CASS service catalogue would describe for each of the four functional areas of finance, HR, IM and IT the services that are available for purchase by the central agencies.

The catalogue should describe a list of primary services offered by CASS, consistent with the set of core centralised services (transactional and strategic) available through CASS as well as the distributed services from CASS staff located within each agency described in this business case.

The service catalogue should also provide further information on the level two services that sit within each primary service.

CASS will need to continually refine its level two services based on customer feedback to ensure these services are providing the breadth, quality and efficiency required by the central agencies.

Subsequent information developed during the programme design stage will detail the transaction approach, pricing and service level commitments for each service.

Service level agreements (SLAs)
We propose that CASS will deliver all activities across the four functions to the three agencies. We suggest SLAs be implemented to set the expectations of the three agencies regarding the delivery of services and the measurement of the successful delivery of such services. In doing so, the SLAs would define performance levels, reports related to the services provided and the service provider’s obligations.

The objectives of the SLAs should be to define the:

- Services to be provided to each organisation;
- Cost allocation mechanisms;
- Target levels for those services;
- Reporting arrangements which will exist to assess the actual service levels;
- Responsibilities of ‘customers’ within the agreement;
- Arrangements for liaison between ‘customers’ and ‘suppliers’;
- Pricing for services; and
- Contingency arrangements which will exist in the event of major problems over a prolonged period.
1. The service delivery model – end-to-end SLAs will form a crucial part of the accountability mechanism

The SLAs should include the following four elements:

1. **Preface** – Details of the parties, authorised representatives names, signatures and dates.
2. **Introduction** – Includes roles and responsibilities, and a contract outline that briefly describes the service categories, contract duration and contract review process.
3. **Service delivery** – This vital part of the SLA precisely defines service elements and activity requirements for all parties, volumes of service, process workflows, service governance, work instructions.
4. **Quality of service delivery** – After setting up service levels, the service measures and metrics are the instruments to monitor the quality of the services delivered. The table below provides examples of metrics found in standard shared services SLAs:

<table>
<thead>
<tr>
<th>Example SLA services and metrics: payables and payroll</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Payables</strong></td>
</tr>
<tr>
<td>- Process accounts payable</td>
</tr>
<tr>
<td>- Pay suppliers</td>
</tr>
<tr>
<td><strong>Example Service Metrics</strong></td>
</tr>
<tr>
<td>- Cost per vendor invoice</td>
</tr>
<tr>
<td>- % transaction without error</td>
</tr>
<tr>
<td>- Cycle time to schedule payment</td>
</tr>
<tr>
<td><strong>Payroll</strong></td>
</tr>
<tr>
<td>- Process payroll</td>
</tr>
<tr>
<td>- Administer benefits</td>
</tr>
<tr>
<td>- Manage variable compensation</td>
</tr>
<tr>
<td><strong>Example Service Metrics</strong></td>
</tr>
<tr>
<td>- Annual cost per employee</td>
</tr>
<tr>
<td>- Cost per payroll check</td>
</tr>
<tr>
<td>- # days from hire to “on” payroll</td>
</tr>
<tr>
<td>- % transaction without error</td>
</tr>
</tbody>
</table>

**Operating level agreements (OLAs)**

The OLAs should define the interdependent relationships between CASS and the individual agencies, and are used to the support the effective delivery of the SLAs. The OLAs should describe the responsibilities of one party towards the other – both the responsibility of the CASS to the agency-customer but also the agency-customer to CASS. This should include the process and timeframe for delivery of their required activity.

For example, one of the example service metrics for payables in the table opposite is ‘cycle time to schedule payment’. To achieve this metric will rely on CASS processing the transaction within a set timeframe. It will also require the agency-customer to provide complete and accurate information within an agreed timeframe. It is this joint responsibility that should be described in the OLA for each process.

In other words, the objective of the OLA is to present a clear, concise and measurable description of the CASS support relationships with each agency.

**Next step – detailed design of the service catalogue, SLAs and OLAs**

Detailed design and agreement of the service catalogues, SLAs and OLAs for each of the activities across the four functions will be a key element of the design stage of the programme.

This step will require time spent with service users in each of the agency to understand the (current and future) service levels requirements, and to ensure services are standardised wherever appropriate.
2. The funding model – we recommend a departmental expense basis for allocating establishment costs

Proposed approach to allocating establishment costs

We propose that the establishment costs relating to CASS are allocated to the three central agencies on a basis proportional to each agency’s total departmental expense amount for the current financial year.

We also propose that a mechanism is agreed to share the financial impact of any anticipated one-off transition costs (for example, redundancy costs) incurred by an individual agency with the other agencies on this same proportional basis. Other business-as-usual costs, however, would continue to be incurred in full by the individual agencies.

Basis of our proposed approach

Our proposal is based on our practical experience of working with other shared services and similar programmes both here in New Zealand and also overseas. In our view, this approach provides the most appropriate balance between pragmatism, simplicity and fairness.

We assessed a number of commonly applied cost allocation approaches against five key principles (as shown in the table opposite) in making our recommendation.

Next steps

It will be important for the three central agencies to revisit this proposed cost allocation model on a quarterly basis. If one-off transaction costs are higher than currently anticipated, this could have a significant financial impact on an agency. In such circumstances, we recommend revising the cost allocation model we are proposing.

Table: Principles for effective cost allocation

<table>
<thead>
<tr>
<th>Principle</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fairness</td>
<td>The approach should result in costs to the agencies that are reflective of the underlying costs and risks associated with meeting their individual service requirements and the benefits that each agency expects to receive from the service</td>
</tr>
<tr>
<td>Simplicity</td>
<td>The approach should be simple and inexpensive to implement, using existing data, structures and mechanisms where possible</td>
</tr>
<tr>
<td>Transparency</td>
<td>The system should be transparent such that all users can be assured that their charge is fair, and reflects their share of the costs</td>
</tr>
<tr>
<td>Affordability</td>
<td>The approach should not affect core service delivery or create undue budgetary pressure</td>
</tr>
<tr>
<td>Certainty</td>
<td>The approach should provide an outcome that is not subject to significant variation causing material changes in the allocation over the establishment period</td>
</tr>
</tbody>
</table>
3 – 5. The asset, commercial and transaction models – Detailed elements of the model will need to be developed during the design stage

Introduction

The other elements of the operating model will require addressing during the design stage. We provide below our commentary on the issues that will need to addressed, based on our experience of similar arrangements.

The asset model

The chief executives have already agreed that CASS will be located on level 6, 1 The Terrace.

During the design stage, a number of other asset-related issues will also need to be agreed including:

• Fixed asset transfers to the new Treasury department from other agencies, and the capitalisation and depreciation policies to be applied;
• IT ownership issues, transfers of licenses and implementation of effective security controls;
• Staff employment matters, including legal arrangements arising from the transfers of staff.

The commercial model

The commercial model describes how charges to CASS service users will be calculated and returns distributed to the owners.

There are two common approaches for charging service users under shared services arrangements:

• Chargeback model – charges are based on an hourly rate or per transaction basis;
• Allocation model – charges are fixed annually on an allocation basis, such as FTEs, number of users, etc.

For public services shared services of this size and complexity, our experience is that a hybrid model is most effective. Under this model, a fixed fee is agreed for each function, subject to an agreed transaction level tolerance. If an agency falls outside of this tolerance level (e.g. number of A/P transactions is more than 10% of expected) an additional marginal charge is made per transaction.

This hybrid model is likely to be an effective approach for CASS as it provides a good balance between certainty and simplicity on one hand and fairness and accountability on the other. However, it will require validating and testing once detailed service levels and performance metrics have been agreed. Provided below is an example of how the commercial model might work for CASS:

<table>
<thead>
<tr>
<th>Services</th>
<th>Projects</th>
</tr>
</thead>
<tbody>
<tr>
<td>Advisory</td>
<td>Base</td>
</tr>
</tbody>
</table>

**Charging model**

- Commissioned on demand using hourly rate method
- Fixed fee based on quarterly forecast usage with 10% +/- threshold
- Flat rate annual subscription with 10% +/- threshold

**Detailed service catalogue**
3 – 5. The asset, commercial and transaction models – Detailed elements of the model will need to be developed during the design stage (continued)

Under this example model, CASS services could be segmented into three categories:

• Base services (including all transactional services), which would be charged on the basis of an annual subscription rate (reviewed annually) with a +/- threshold of 10% of actual transaction levels against forecast transaction levels before which a marginal charge is included;

• Advisory services (including a number of the strategic services), which would be charged on an hourly rate basis, with a fixed fee agreed based on a quarterly forecast of usage and a +/- 10% threshold level; and

• Projects-based services, which would be commissioned on demand on an hourly rate basis.

To make this type of model work would require the effective implementation of the other components of the operation model, including:

• Detailed service catalogues with service levels and prices;

• The collection and monitoring of the key data and metrics identified in the SLAs;

• Advance planning by agencies on a quarterly-basis of the strategic projects and advisory services they are going to require; and

• Effective customer feedback mechanisms.

For the distribution of returns to the three agencies, we recommend that an incentive-based approach is adopted whereby the majority of CASS savings are re-invested into service improvement, with the remainder being re-distributed to agencies to reduce their baseline costs.

The transaction model

The transaction model defines an articulation of how CASS will actually work. It should illustrate business flows and how functions interact and hand-off to one another.

During the design stage, these transaction flows will need to be clearly mapped, and the impacts on service users fully understood. Such flows will include:

• Negotiation and execution of contracts;

• Policies and reporting lines;

• Order placement and acceptance; and

• The transfer of information and data.

We have included in Appendix C a number of indicative process maps illustrating how these process flows might work between CASS and the agencies.
7. Financial impact of the proposed CASS model
Based on initial estimates, each agency would save approximately 14% in annual operating costs under the preferred option

What is the financial impact of CASS?
In the table opposite we provide an initial estimate of the financial impact of CASS under the proposed option (option 1 – full integration).
The table provides estimates of:
- The current combined costs of the four functions for each agency;
- Resources released/eliminated through CASS;
- Efficiencies expected within CASS through reductions in FTEs; and
- Additional costs of CASS resulting from the creation of new positions.

This provides a total estimated annual saving from CASS of $1.62 million.

We have allocated these savings across the three agencies on the basis of the proposed commercial model described in section 6 and an initial assessment of CASS staff time that would be dedicated to each agency. This results in estimated annual savings of:
- 9% ($123,000 per annum) for DPMC;
- 19% ($663,000 per annum) for SSC; and
- 13% ($835,000 per annum) for Treasury.

Important limitation on the use of these estimates
These estimates are subject to a high-level of uncertainty until the design stage has been completed. The annual cost estimates for CASS are driven by projected future staff costs based on the management structures proposed in Appendix H. These will need to be amended once management structures have been refined following consultation and the design stage.

Summary of estimated annual savings by type and by agency under the proposed option

<table>
<thead>
<tr>
<th>Current Combined Costs</th>
<th></th>
<th></th>
<th></th>
<th>Combined</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000</td>
<td>1,449</td>
<td>3,518</td>
<td>6,520</td>
<td>11,488</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Resources released/eliminated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
</tr>
<tr>
<td>System costs</td>
</tr>
<tr>
<td>Other costs</td>
</tr>
<tr>
<td>**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Efficiencies within CASS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management FTEs</td>
</tr>
<tr>
<td>Other FTEs</td>
</tr>
<tr>
<td>**</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment in CASS services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management FTEs</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>%</td>
</tr>
<tr>
<td>$000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Savings</th>
</tr>
</thead>
<tbody>
<tr>
<td>$000</td>
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<tr>
<td>%</td>
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</tbody>
</table>
The majority of savings will be achieved through reduced personnel costs – net annual savings are estimated to be in the region of $1.2 million

Savings calculation (for personnel costs)

The table opposite provides a detailed breakdown of the estimated net savings from personnel costs of $1.19 million per annum, made up of:

- Efficiencies within CASS $1,222,000
- New permanent positions created within CASS ($ 36,000)
- Net annual saving $1,186,000

Personnel costs

Future personnel costs were calculated on the basis of the proposed organisational structure and its permanent FTEs and roles allocation by function. Current Treasury salary levels by comparable position were used to calculate future costs. This provides a prudent basis of estimating future savings as Treasury salary rates are generally higher than for the other two agencies. The calculations have not been informed by actual job sizing information; they are assumptions based only.

The table on the next page demonstrates where additional permanent capability is being added (for example, an additional HR team leader and change advisors) and where efficiency savings are being taken out. The largest savings are being driven from the IM function. The scale of these changes has been at the direction of the agencies’ chief executives and the CASS Governance Group. They go much further than the changes proposed during the staff workshops, and include a merger with IT and a corresponding loss of team leader and senior advisor roles.

It should be noted that the calculations reflected here are based on permanent FTE only. The 12 month impact of fixed terms appointments will affect year one savings levels, as shown in the next section.

Systems and other costs

Current systems and other costs are as in BASS 0910. Future savings were calculated on an FTE basis, assuming that the proposed structure will keep the same cost per FTE per function for the three agencies combined. We believe this assumption may be aggressive because many of the systems costs are fixed and may not be reduced with FTEs.

Furthermore, this may also exclude other implementation costs necessary to integrate systems and other. We recommend a discount be applied to systems and other costs savings to reflect this assumption. To illustrate the impact of applying such a discount, a reduction of 50% has been applied to the savings from systems and other costs. We also recommend building a bottom-up analysis of implementation costs to better identify these.
Under the alternative option (partial integration of services), total annual savings would be less with Treasury gaining no financial benefits

What is the financial impact of the alternative option?

We have also calculated an initial estimate of the financial impact of CASS under the alternative option (option 2 – partial integration) using the same approach as described for option 1.

Under this alternative option, total annual savings would reduce to approximately $0.5 million. Importantly, Treasury would not gain any financial benefits from this option under the proposed commercial model.

This provides further evidence to support the assessment that option 1 – full integration – is the optimal option.

| Summary of estimated annual savings by type and by agency under the proposed option |
|---------------------------------|------------|----------|----------|----------|
| Current Combined Costs $000   | DPMC      | SSC      | Treasury | Difference | Combined |
| Resources released/eliminated |            |          |          |           |          |
| System costs                 | $000      |          |          | -108      | -353     | 11,135   |
| Other costs                  | $000      |          |          | -246      |          |          |
| Efficiencies within CASS     |            |          |          |           |          |          |
| Management FTEs              | $000      |          |          | -68       | -463     | 10,672   |
| Other FTEs                   | $000      |          |          | -395      |          |          |
| New positions created in CASS|            |          |          |           |          |          |
| Management FTEs              | $000      |          |          | 21        | 329      | 11,000   |
| Other FTEs                   | $000      |          |          | 308       |          |          |
| Cost Allocation              | %         | 10.5%    | 30.2%    | 59.3%     |
|                             | $000      | 1,153    | 3,326    | 6,522     |
| Savings                     | $000      | 297      | 192      | -2        | 488      |
|                             | %         | 20%      | 5%       | 0%        |
8. Implementation and indicative costs and benefits
There is a lot of work to be done before go-live, including a lot of detailed design work and a staff consultation process

Implementing the proposed model

There is a lot of work to be done to implement the proposed model before the suggested go-live date of March 2012.

Two key stages, as shown in the figure opposite, are required during this period:

• A design stage to develop the detailed design of the future operating model including service levels, processes, SLAs, roles and responsibilities; and

• A construct and implement stage for implementing the detailed operating model.

A staff consultation and appointment process would need to happen simultaneously to this to ensure staff are in place in time for the go-live date. The implications of this for the three agencies are significant.

What is required to design CASS?

This will be a major programme of work covering strategy, structure, people, process, facilities and technology. It will also need multiple work-streams covering each of the four functions as well as effective change, people, programme and project management and significant stakeholder engagement.

There will be high level of cost incurred in implementing CASS, including consultant costs. In addition, each agency needs to consider the impacts on their business-as-usual activities.
Activities should cover strategy, structure, people, processes, facilities and technology and be underpinned by effective change and programme management

The design stage will require a high level of interaction with service users as service catalogues, SLAs, OLAs and processes are designed – this will be a major drain on their time.

Each agency will need to think carefully to ensure it has the capacity and capability to deal with this disruption to their business.

The figure opposite summarises the key activities that will be required to design and construct CASS before go-live.

**What will it cost to establish?**

The costs of establishing CASS will be high.

It is not possible to provide an accurate budget for the full establishment cost until the design stage is completed. Our initial estimate, which we detail on the following page, is that the additional operating establishment costs will be in the range of $3.4 to $4.0 million across the three agencies for option1.

---

### Summary of key activities required to be completed prior to go-live

<table>
<thead>
<tr>
<th>Stage 1: Develop conceptual design</th>
<th>Stage 2: Develop detailed design</th>
<th>Stage 3: Prepare for go live</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategy</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree vision and case for change</td>
<td>Continue leadership engagement</td>
<td></td>
</tr>
<tr>
<td>Develop Business Case</td>
<td>Manage leadership action plans</td>
<td></td>
</tr>
<tr>
<td><strong>Structure &amp; People</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assess current organisation structure and roles</td>
<td>Final decisions on structure</td>
<td>Communicate, align and prepare wider stakeholders</td>
</tr>
<tr>
<td>Identify stakeholders</td>
<td>Develop Workforce Transition Strategy and Plan (e.g. staff redeployment, incentive &amp; retention program)</td>
<td>Develop staff redeployment activities and prepare for transition</td>
</tr>
<tr>
<td>Develop conceptual design of CASS organisational structure</td>
<td>Align supporting HR programs, policies and processes</td>
<td>Develop and communicate aligned HR programs, policies and processes</td>
</tr>
<tr>
<td>Assess stakeholder impacts</td>
<td>Develop job descriptions and advertise roles</td>
<td>Recruit and appoint roles</td>
</tr>
<tr>
<td><strong>Process</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify current and target profiles for Finance, HR, IM and IT</td>
<td>Design and align detailed policies and process</td>
<td>Document detailed policies and processes</td>
</tr>
<tr>
<td>Agree design principles</td>
<td>Develop training / induction needs analysis</td>
<td>Develop induction and training material</td>
</tr>
<tr>
<td>Identify in scope activities; develop conceptual CASS operating model</td>
<td>Develop and agree SLAs</td>
<td>Build SLAs into policies and processes</td>
</tr>
<tr>
<td><strong>Facilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Agree location</td>
<td>Define requirements to set up CASS</td>
<td>Prepare for staff transition</td>
</tr>
<tr>
<td><strong>Technology</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Identify technology requirements</td>
<td>Order furniture, computers and stationary</td>
<td>Refit CASS space at No.1 The Terrace</td>
</tr>
<tr>
<td>Develop high level requirements</td>
<td>Develop Solutions Architectures</td>
<td>Develop Solutions</td>
</tr>
<tr>
<td></td>
<td>Develop Solution Designs</td>
<td>Solutions Integration and Test</td>
</tr>
</tbody>
</table>

Effective change management, people management and stakeholder engagement

Effective programme management and workstream project management
An initial estimation of the costs to establish CASS are in the range of $3.4 to $4.0 million – these cost will become clearer during the design stage.

On the basis of a mid-point in this range of costs ($3.6 million), we have allocated establishment costs to the three agencies on the basis of the funding model described in the previous section (i.e. on a basis proportional to each agency’s departmental expense amount for the current financial year, except for direct agency costs such as redundancies). The allocation of these costs may therefore change if a different model is adopted.

These estimated establishment costs consist of:

- CASS establishment programme team (approximately $0.7 million);
- Redundancies (approximately $0.6 million);
- Moving costs (approximately $0.3 million);
- Legal and other professional services ($0.4 million);
- External consultant costs (approximately $1.3 million); and
- Other costs and contingencies (approximately $0.3 million).

**What will it cost to establish the alternative option (partial integration)**

We have estimated that the establishment costs for option 2 would be slightly lower as this is likely to incur lower redundancy costs, as less staff are directly impacted under this option.

**What will be the capital costs of establishing CASS?**

There will also need to be a substantial investment in technology and other fixed assets to enable CASS to meet its objectives. However, the majority of these costs will be need to be incurred anyway by the three agencies, and should be a lower cost under CASS (on the principle of buying one IT solution once, rather than three IT solutions across three agencies). Our initial estimate of capital investment requirements is in the range of $2 to $3 million.

**Important limitations on the use of these estimates**

These estimates are very uncertain. Details of costs will not be known until the detailed design stage, and redundancy costs will not be certain until after the appointment process is completed.
On the basis of the initial cost and benefit estimates it will take nearly four years to pay back the investment in CASS

How long will it take to pay back the establishment costs?

On the basis of the estimated establishment costs and the estimated annual savings (described in the previous section), we have prepared a five year net present value calculation for each option (see below).

Under option 1, $1.15 million of NPV benefits would be realised. The impact of this is that it would take nearly four years to pay back each agency’s initial investment.

Using the same calculation method, the alternative option would result in a negative NPV over five years of $1.7 million and would therefore fail to pay back the initial investment made.

Notes on the NPV calculations

The NPV calculations are subject to the same limitations as the cost and benefits estimations on which they are based. An 8% public sector default discount rate has been applied in calculating the NPVs, and the Year 0 costs are for establishment operating expenses only.

### Estimated five year NPV under option 1

<table>
<thead>
<tr>
<th></th>
<th>Year 0</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
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### Estimated five year NPV under option 2

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<th>Year 0</th>
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<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
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</table>
Cash flow of proposed option delivers enough savings to cover initial expenditure in implementation and transitional roles

Cash flow composition

The chart on the right shows how the cash flow under the proposed option is impacted by implementation and transitional roles costs.

The 12 month impact of fixed terms appointments will affect year one savings levels, as shown in the chart.

After the initial period of 12 months, savings trend increases as transitional roles are expected to be no longer needed.

Based on non-discounted cash flows, payback period is nearly four years.
To be a success, the design stage of the programme will need to draw on the lessons learned from similar shared service arrangements

Further implications of implement the proposed model on agencies

Further implications for the three agencies of the proposed model, which will require a lot of effort to work through during the design stage, include the following:

• Service users within each agency will receive a different style of service than at present – services will be more standardised, more automated;

• Service users will also need to get used to different ways of working with corporate services – day-to-day contact is likely to be more formalised and through a single point of contact, rather than through walking down the corridor to ask a question, particularly for more straightforward/transactional queries;

• Many second and third-tier management roles, such as the CFO role, will no longer exist within some agencies – chief executives and senior leadership teams will need to form different types of relationships with people they rely on for strategic advice, including support and input into annual planning, the agency budget-setting process and strategic HR support;

• Individual agencies will get smaller, in some cases this decrease in size will be dramatic – for example, SSC total FTE numbers could reduce by over 15%;

It is important that the potential impacts of the proposed structure are understood before proceeding to the design stage.

Appendix K provides further guidance on planning for the implementation stage.

What factors will make the CASS implementation a success?

We have identified factors critical to the success of CASS, which we have built into the proposed model. In particular we have avoided

• Setting unachievable expectations with regards to the available benefits, particularly the financial benefits – these will not be significant and it will take time to realise net benefits; and

• Extrapolating benchmark data and/or using fractional FTEs to generate savings targets – we have based our analysis on changes to actual positions in the management models of each organisation, and used benchmarking purely for sense-checking of results;

These success factors are based on our experience of similar shared services arrangements here and overseas. In developing the design of the future model, we emphasise strongly the need to also:

• Set baseline service metrics that are robust to ensure success can be measured and demonstrated to stakeholders;

• Get the future incentive model right – we recommend that at least 75% of savings achieved are re-invested into service improvement;

• The service delivery model must be based on CASS providing standardised service levels – if CASS attempts to provide tailored transactional services, CASS will fail; and

• Keep service agreements simple – we recommend the use of service and operating level agreements with no more than 3-5 performance metrics for each process.

Key risks for the implementation are provided on the next page.
Managing risks – an initial assessment of the programme risks, with suggested mitigating actions (1 of 2)

<table>
<thead>
<tr>
<th>Risk</th>
<th>Assessment: Likelihood/impact</th>
<th>Management action / proposed mitigation</th>
<th>Ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Delivery Risks</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Agencies cannot agree on a path forward</td>
<td>M / H</td>
<td>Early agreement of way forward to be agreed by chief executives in early October</td>
<td>Chief executives</td>
</tr>
<tr>
<td>• Agencies cannot agree recommended design</td>
<td>M / H</td>
<td>Final business case requires approval by chief executives before design stage commences</td>
<td>Chief executives</td>
</tr>
<tr>
<td>• Perceptions of external stakeholders are not properly managed</td>
<td>M / M</td>
<td>Stakeholder management and mitigation strategy being established and commenced during the assess phase</td>
<td>Establishment Director</td>
</tr>
<tr>
<td>• Technology and systems cannot be aligned</td>
<td>H / H</td>
<td>Specific work stream during the design phase of the project to highlight potential technology issues early</td>
<td>Establishment Director</td>
</tr>
<tr>
<td>• Service levels cannot be aligned</td>
<td>M / M</td>
<td>Service level design criteria, and specific work stream to identify potential issues during design phase</td>
<td>Establishment Director</td>
</tr>
<tr>
<td>• Regulatory/legislative constraints cannot be accommodated under a shared arrangement</td>
<td>M / H</td>
<td>Specific work stream during design stage to identify any fundamental regulatory or legislative constraints</td>
<td>Establishment Director</td>
</tr>
<tr>
<td>• Project outcomes not aligned with interdependent projects currently underway</td>
<td>M / M</td>
<td>Identification of interdependencies with other project undertaken during assess phase and included in programme management planning</td>
<td>Establishment Director &amp; PMO</td>
</tr>
<tr>
<td>• Resources not available to drive the necessary change</td>
<td>M / H</td>
<td>Appropriate resources secured for assess phase. Project plan with resource requirements to be agreed before commencing detailed design and implementation phases</td>
<td>Governance Group &amp; Establishment Director</td>
</tr>
<tr>
<td>• Communication and change management not well planned and managed</td>
<td>M / M</td>
<td>Communication strategy developed and commenced during the assess phase – to be reviewed and stepped up during design stage</td>
<td>Governance Group &amp; Establishment Director</td>
</tr>
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</table>
Managing risks – an initial assessment of the programme risks, with suggested mitigating actions (2 of 2)

<table>
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<th>Risk</th>
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</tr>
</thead>
<tbody>
<tr>
<td>● Business as usual services impacted by the project</td>
<td>M / M</td>
<td>Short project timeframe and quick decision making should reduce impact on BAU services</td>
<td>Governance Group</td>
</tr>
<tr>
<td>● Project overruns</td>
<td>M / H</td>
<td>Detailed programme implementation plan and resource plan for design stage, with clear milestones, to be developed</td>
<td>Establishment Director &amp; PMO</td>
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<tr>
<td>Political Risks</td>
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<td></td>
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<tr>
<td>● Changes in political leadership / policy settings</td>
<td>L / H</td>
<td>Short programme timeframe and quick decision making reduce risk</td>
<td>Governance Group</td>
</tr>
<tr>
<td>● Staff not engaged in the project</td>
<td>H / M</td>
<td>Staff engaged during final assess phase through workshops, morning teas, regular communications</td>
<td>Establishment Director</td>
</tr>
<tr>
<td>● Loss of leadership/support from project sponsors</td>
<td>L / H</td>
<td>Clear governance arrangements in place, with clear milestones and decision points</td>
<td>Governance Group</td>
</tr>
<tr>
<td>Financial Risks</td>
<td></td>
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<tr>
<td>● Financial and non-financial benefits are not significant and/or are outweighed by the costs of implementation</td>
<td>M / H</td>
<td>Benefits realisation framework to be prepared as part of the design stage for each work stream</td>
<td>PMO</td>
</tr>
<tr>
<td>Sustainability Risks</td>
<td></td>
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<tr>
<td>● Project does not deliver cost-savings</td>
<td>M / H</td>
<td>Benefits realisation framework to be prepared as part of the design stage for each work stream</td>
<td>PMO</td>
</tr>
<tr>
<td>● Savings opportunities are difficult to deliver</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>● Project’s planned benefits are not delivered</td>
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CASS will provide greater resilience and more effective use of highly-skilled resources across the three agencies

Benefits of the proposed CASS model

The key benefits of the proposed CASS model include the following:

- Greater resilience and more effective use of highly-skilled resources can be achieved by consolidating them and making them accessible to all agencies – this is a particular advantage for DPMC and SSC, who can access services currently enjoyed by Treasury. In our proposed management model, we are also reinvesting of the majority of savings achieved from more efficient transactional processing into greater strategic capability;

- Despite this substantial re-investment of cost savings, the proposed model should still provide a financial benefits over the first five years. This will be sufficient to payback establishment operating costs within four years. Further financial analysis of both the proposed and alternative options are provided in the next section;

- A number of strategic activities require an excellent understanding of the agency’s business and trusted relationships with decision-makers. By locating people with these skills alongside senior management in the agencies (distributed activities) this level of service can be maintained;

- The model with enable the delivery of consistent, standardised services across the three central agencies;

- People will have better career opportunities and the chance to work in new and challenging areas of work; and

- The financial sustainability of the functions will be protected.

Appendix L provide a summary of the potential benefit areas for each function.