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FINANCE COMMITTEE

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Proposal for the Creation of a Single Shared Services Centre

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EXECUTIVE SUMMARY

This report presents the findings and recommendations of the second Shared Services Centre (SSC) review, which took place at the SSC hubs in Santiago and Bangkok. The report also presents preliminary recommendations on the other administrative services provided by the Regional Offices. The outcome is summarized as follows:

- For back-office transaction processing, further consolidation of activities from the two hubs to the main centre in Budapest is recommended to achieve economies of scale, standardization, unified procedures and ensure quality;
- An implementation scenario for the consolidation has been developed which is expected to result in biennial savings of USD 1.6 million; and
- Front-office functions in all Regional Offices should be further reviewed, with possible further proposals presented in the Programme of Work and Budget (PWB) 2012-13.

GUIDANCE SOUGHT FROM THE FINANCE COMMITTEE

- The Finance Committee is requested to:
 - take note of FAO's analysis of the current Shared Services Centre hubs;
 - provide guidance on the proposal to consolidate all back-office services in the Budapest centre; and
 - take note that further review of front-office functions in all Regional Offices is recommended.

Draft Advice

- **The Finance Committee commends the careful analysis by FAO of the current Shared Services hubs and supports the consolidation of back-office functions into the Budapest Centre, noting the projected savings of USD 1.6 million per biennium. The Committee welcomes further review by management on front-office functions in the Regional Offices with possible further proposals to be presented in the PWB 2012-13.**

BACKGROUND

1. Following approval by the Conference in 2005 and concurrence of the Council in 2006, FAO established in 2007 a Shared Services Centre hub (SSC) in Budapest, Bangkok and Santiago respectively, with a coordination unit in Rome. The structure became operational in January 2008.
2. The guiding principle of the SSCs was to move a number of administrative transactions to lower cost locations. Transactions which were considered to be high in volume, routine in nature, of low strategic importance and which were location-independent were to be concentrated in a restricted number of specialized hubs.
3. As per the original 2006 plan, and in line with comments made in the Root and Branch Review, FAO performed a first review of the SSC in 2009, highlights of which were considered by the Finance Committee in July 2009. This resulted in the confirmation of the staffing of the SSC Budapest hub, the closure of the SSC coordination unit in Rome, and the transfer of the SSC Chief post to Budapest. As at 1 October 2010, these actions have been completed.
4. The 2009 review of best-practice also implied the need for further research to assess the feasibility of centralizing all SSC operations in the Budapest centre. This was anticipated in the PWB 2010-11, for a variety of qualitative and efficiency reasons, including workload statistics which showed that 60% of SSC staff (those located in Budapest) performed 80% of SSC transactions globally. In line with Council guidance, a paper was therefore presented to the 2010 Regional Conferences on the possibility of consolidating all SSC functions into one global centre.

SCOPE AND APPROACH OF 2010 REVIEW

5. Following initial discussions at the Regional Conferences and in the FAO Council, FAO decided in June 2010 to proceed with an in-depth review of the functions of the Bangkok and Santiago SSC hubs, to include also coverage of quality and effectiveness aspects of administrative service delivery in the regions. In addition, FAO took the opportunity to take a more holistic view of administrative services in general. The expanded review is important also in light of the current or foreseen impact of major Immediate Plan of Action for FAO Renewal (IPA) projects on administration, including the introduction of the International Public Sector Accounting Standards (IPSAS) and the replacement of the Field Accounting System , and the decentralization of authority to the regions including Technical Cooperation Programme (TCP) functions.
6. A team was formed including senior FAO staff with broad knowledge of administration and a senior consultant from a well-known management consulting company. The draft Terms of Reference of the review was shared with all concerned Regional Offices and their input was included in the final version. Special attention was paid to efficiency and effectiveness of services provided and to quality and client satisfaction. Direct feedback was elicited from FAO Representations (FAORs) and Subregional Offices. The activities reviewed covered human resources (HR), travel, finance and budget, procurement, protocol, building maintenance, and the support to the FAOR network.
7. The above functions are distributed among the following units which are shown in the table on the next page along with their current cost:

<i>Baseline 2010 - SSC HUBs</i>		PWB		Cost (USD 000) (Std costs 2010-2011)	
		Professional	General Service		
SSC - HUB Bangkok		1	12	USD	695
	HR	1	8	USD	541
	Travel		4	USD	154
SSC - HUB Santiago		1	10	USD	645
	HR	1	7	USD	509
	Travel		3	USD	137
Total per annum SSC		2	22	USD	1,340

<i>Baseline 2010 - Other Admin ROs' processes</i>		PWB		Cost (USD 000) (Std costs 2010-2011)	
		Professional	General Service		
RAP - Bangkok		3	29	USD	1,737
	Finance & Budget	1	9	USD	603
	FAOR Network	1		USD	193
	Programme Office	1		USD	193
	Procurement & Internal Services		20	USD	749
RLC - Santiago		3	18	USD	1,319
	Finance & Budget	1	5	USD	436
	FAOR Network	1		USD	163
	Programme Office	1	5	USD	457
	Procurement & Internal Services		8	USD	262
Total per annum		6	47	USD	3,056

KEY FINDINGS AND RECOMMENDATIONS

8. The review highlighted the need to consolidate back-office transactional activities into a single global SSC centre. This recommendation is based on a number of issues that were identified in the Bangkok and Santiago hubs which reduced efficiency and effectiveness of these back-office services provided, including:

- **Economies of scale issues:** Having staff in three hubs means that expertise and knowledge is dispersed rather than shared effectively. Opportunities for pooling resources and for more effective use of skills are consequently not realized.
- **Productivity and streamlining issues:** Workflow analyses highlighted a number of operational bottlenecks, including lengthy and cumbersome paper-based processes, that reduced the overall productivity of the human resource and travel functions and offered opportunities for streamlining.
- **Standardization issues:** Processes were not implemented in a standardized fashion: certain travel processes, for example, required multiple, unnecessary paper-based approvals while some procurement actions did not take advantage of existing possibility of establishing framework agreements.

- **Information technology issues:** The Regional Offices were found to be hampered by inadequate access to information technology systems, which exacerbated administrative problems and dramatically increased resource requirements.

9. Consolidation of the back-office services into a single global centre would address the problems identified above and offer simplification and standardization of rules and processes, economies of scale and increased quality control from a central location.

10. Furthermore, the review highlighted that time zone differences are not of major concern for the types of transactions identified for consolidation, as the vast majority of these transactions, apart from helpdesk, have a turnaround time of more than 24 hours. For those with a turnaround of less than 24 hours, "overnight service" which can take advantage of time zone differences between regions, can sometimes be as much an advantage as a disadvantage.

11. Consolidation of back-office functions into a single global centre is also in line with best practice models for UN-type organizations, namely those which typically operate worldwide and are relatively small. Indeed, several UN organizations have recently created global centres which service the respective organizations worldwide, including UNDP in Copenhagen; WHO in Kuala Lumpur; UNHCR in Budapest; and WFP in Dubai.

SSC consolidation

12. Given the findings and recommendations outlined above, it is proposed to consolidate all back-office human resource and travel functions into SSC Budapest, with the closing of the SSC hubs in Santiago and Bangkok (see tables below), in line with the current operating model in the Regional Office for the Near East (RNE) and the Regional Office for Africa (RAF). This will allow for all processes to be standardized and significant economies of scale and skills to be realized. It is important to note that clients from the FAORs in the regions with no SSC hubs have reported an improvement in the services provided after the HR and Travel Units in RAF and RNE were disbanded.

Baseline 2010 - SSC HUBs		PWB		Cost (USD 000) (Std costs 2010-2011)	
		Professional	General Service		
SSC - HUB Bangkok		1	12	USD	695
	HR	1	8	USD	541
	Travel		4	USD	154
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	Travel		3	USD	137
Total per annum SSC		2	22	USD	1,340

Scenario 0		PWB		Cost (USD 000) (Std costs 2010-2011)	
		Professional	General Service		
RO – Bangkok		0	0	USD	-
	HR	0	0	USD	-
	Travel (protocol, visa)		0	USD	-
RO – Santiago		0	0	USD	-
	HR	0	0	USD	-
	Travel (protocol, visa)		0	USD	-
SSC Budapest (resource increase)		1	13	USD	542
	HR	1	9	USD	430
	Travel		4	USD	112
Total		1	13	USD	542

Scenario 0 - Potential cost savings recurring (per annum)	USD	798
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13. The potential cost savings stemming from this proposal are USD 1.6 million per biennium.

14. Furthermore, according to current estimates and figures from the 2009 SSC review, the consolidation of back-office functions to the SSC in Budapest would require one-off transition costs of USD 200, 000. Expenses would include communication to clients, recruitment, information technology (IT) and the training of the new staff hired in Budapest.

15. Potential staff redeployment and separation costs have not been included at this stage. It is considered premature to estimate these potential costs, since recommendations stemming from the broader review of administrative activities as outlined below, and the availability of vacant positions within the concerned offices, may result in further re-alignment of front-office functions and new redeployment opportunities. In addition, experience in RAF and RNE has shown that redeployment solutions have been found at very limited or no cost, and the Organization has actively promoted re-training of affected staff where necessary. For the international staff affected by the proposals, redeployment opportunities are available at other geographic locations and relocation costs would be covered under the mobility programme approved in the IPA.

NEXT STEPS

16. It is proposed to begin immediate implementation of the consolidation of the hubs, with the aim of having the global centre in Budapest servicing FAO worldwide from January 2012.

17. It is also proposed to further develop recommendations for other types of administrative activities that were highlighted in the review. In this regard, the review noted that the Regional Offices that were studied carried out a variety of human resource functions which are not typically performed by the SSC Budapest, including in the areas of recruitment, HR planning, organizational design, staff development, and support to performance evaluation. Responsibilities in these other areas, typically considered “front-office” functions, are expected to be further impacted by the transfer to the Regional Offices of HR services previously provided to the FAOR network by the Office for Coordination and Decentralization (OCD). The introduction of new and/or updated processes related to IPSAS and the new Field Accounting System may also create a need for new back-office functions to be considered for execution from the SSC Budapest centre as well as new front-office type support which instead is not typically performed by the SSC Budapest.

18. After the consolidation of back-office functions in a global centre is endorsed, it is therefore recommended to perform an in-depth review of all administrative processes. This would aim to develop a holistic global administrative operating model that could be applied worldwide, to fully leverage the concept of back-office and front-office functions, and include the establishment of a more effective front-office structure in the Regional Offices. The model would cover areas such as reduction in the multiple points of contact for clients while strengthening front-office functions locally; introduction of HR Business Partner functions as an important component of front office activity; facilitation of the introduction of IPSAS and the new Field Accounting System; identification of additional back-office functions to be offshored to the global SSC centre; establishment of Service Level Agreements; and clarification of roles and responsibilities.

CONCLUSION

19. Based on the in-depth review of the functions of the Bangkok and Santiago SSC hubs it is recommended to consolidate all back-office human resource and travel functions into the SSC Budapest, with the closing of the SSC hubs in Santiago and Bangkok, in line with the current operating model in RNE and RAF, as well as the operating model of several UN organizations.

20. As a subsequent step, it is recommended to perform a further review of all the current front-office functions and the remaining back-office administrative functions in all Regional Offices in order to improve the effectiveness of administrative services, as a global administrative operating model to be applied to all Regional Offices.