



Extract from the report to the  
Public Accounts Committee on  
the merger of the government's  
payroll administration in the  
Ministry of Finance

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## I. Introduction and conclusion

1. This report concerns the centralisation of the government's payroll administration in the Danish Ministry of Finance. Rigsrevisionen took initiative to launch this study in the autumn 2012.

2. It appears from the government's platform from November 2007 that the government, in the course of 2008, intended to take steps to increase the efficiency of government administration through increased cross-departmental administrative collaboration. According to the government's platform, the efficiency gains could be achieved through standardisation, digitalisation and centralising specific tasks in shared service centres.

With the adoption of the Danish Finance Act for 2008, it was decided to establish two administrative service centres; the Governmental Centre for Financial Shared Services (the ØSC) and the Agency for Governmental IT Services. Establishing the two centres was expected to take up to three years and involve non-recurring and investment costs of well over DKK 660 million.

All tasks within finance and accounting, payroll and travel expense administration were to be managed by the administrative service centre ØSC.

3. The objective of merging the government's payroll administration services into one unit was to ensure efficient payroll administration through digitalisation, standardisation and economies of scale. Bringing together all payroll administrative competencies in one service centre, reducing the number of full-time pay-roll administrators in the government, simplifying and standardising work processes and enhancing the quality of payroll administration were the means by which the pre-defined efficiency gains should be achieved. At the same time, efforts should be made to future-proof the government's payroll administration through the fostering of strong professional and interesting environments that would make it more attractive to work with payroll administration in the government.

4. The decision to launch the study was made when Rigsrevisionen – in connection with the performance of payroll audits – detected variations in the quality of the work performed by the ØSC, and inappropriate divisions of work and work flow between the ØSC and the government agencies and bodies.

5. The overall objective of the study is to assess whether payroll administration in the government has in general become more efficient since it was merged into the Ministry of Finance. The report answers the following questions:

- Has centralising government payroll administration in the Ministry of Finance overall led to the estimated cost savings?
- Has the digitalisation and standardisation of the government's payroll administration contributed to more efficient work flows?
- Has centralising the government's payroll administration in the Ministry of Finance contributed to enhancing the quality of payroll administration?

## MAIN CONCLUSION

Overall, the merger of payroll administration into ØSC has not led to the intended efficiency gains. The estimated savings in the administration of payroll have not been fully realised, and the merger has not yet improved the quality of payroll administration.

The Ministry of Finance has in general implemented the merger of the government's payroll administration services into the ØSC as planned and has achieved the expected payroll administration savings in the ØSC. However, the government agencies and bodies use more resources for payroll administration than anticipated when the final division of tasks between the ØSC and the government agencies and bodies was determined. The target set for the overall reduction of the number of full-time payroll administrators in the government has thus not been met.

The Ministry of Finance has provided Rigsrevisionen with an internal statement of estimated costs involved in establishing the ØSC; according to this statement, costs were estimated at around DKK 300 million by the Ministry. The statement does not, however, specify the costs of the activities relating to the merger of the government's payroll administration services. Rigsrevisionen is of the opinion that a specification of the cost items relating to this activity would have facilitated regular and more reliable monitoring of whether the targets set for the costs and savings of the project had been achieved for the ØSC and the government as such.

Following the establishment of the ØSC, tasks have been standardised and digitally based solutions have been implemented to support efficient work flows and enhance the quality of the payroll administration. The solutions are, however, not being used to their full potential at this point and duplication of administrative tasks occurs. Rigsrevisionen estimates that *HR-Løn* (IT based salary system) contributes to more efficient work flows in the government's payroll administration.

The payroll audits performed by Rigsrevisionen before and after the establishment of the ØSC seem to indicate that the quality of the government's payroll administration has dropped since the merger (measured by number of errors). The increased number of administrative errors has led to more errors in salary transfers.

The Ministry of Finance did not – when payroll administration was merged in the government - to the extent required take into consideration that the government agencies and bodies have the responsibility for ensuring that salary payments are correct, and therefore had incentive to maintain some of the original work processes and competencies within payroll administration. The government agencies and bodies may have chosen this approach because the amount of errors increased after the establishment of the ØSC, which again may have affected achievement of the overall efficiency gains.

On the basis of Rigsrevisionen's study, the Ministry of Finance has commissioned an independent enquiry into the quality of the ØSC payroll administration in order to identify weaknesses and risk areas relating to the current organisation of the area. The Ministry has also launched a study of the quality of the overall payroll administration in the government and has taken steps to various internal initiatives aiming to reduce the risk of errors.

Rigsrevisionen recommends that

- the Ministry of Finance should re-assess the division of work within payroll administration in government and consider also how HR-Løn can support the efficiency of the government's payroll administration in the best possible manner.
- the Ministry of Finance should focus more on enhancing the quality of payroll administration.