Operational Efficiency Programme:

back office operations and IT

May 2009

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Executive summary

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Introduction

The back office operations and IT strand of the Operational Efficiency Programme (OEP) identifies the potential for significant savings from public sector expenditure on back office operations and IT. It sets out how these savings can be delivered whilst maintaining or improving service quality.

The scope of the programme includes all organisations within the public sector, including central government and its agencies, non-departmental public bodies (NDPBs), local government, the NHS, police and education sector. The term "back office" comprises the full range of operations that provide support to the frontline delivery of services, including finance, HR, estates management, procurement, legal services, travel services and marketing and communications. The term "IT" comprises the full range of IT spend, including hardware, software, IT support and major IT-enabled change projects. For consistency, the term "IT" is used throughout this report, but this refers to the full range of Information and Communication Technologies (ICT).

Progress has been made in improving the efficiency of public sector back office operations and IT over recent years as a result of the Gershon programme and related initiatives. Some encouraging steps have been taken, but there is also a widespread understanding of the need to accelerate the pace of change.

The programme has analysed the UK public sector spend on back office operations and IT using wide-ranging internal and external consultation and extensive data collection and analysis in order to form a firm basis for the conclusions and recommendations.

Key challenges exist in respect of both back office operations and IT across the public sector, particularly when compared to private sector experience:

- the UK public sector is highly fragmented, with a very large number of individual organisations usually having their own back office operations and IT systems and processes;
- there is a lack of robust and consistent management information on public sector spending on back office operations and IT, making it hard to identify what the accurate costs of back office operations and IT actually are. This makes it difficult to establish trends, make comparisons and manage down costs. What is not measured well, will not be managed well;

- limited mechanisms exist today for reviewing an organisation's operational effectiveness in respect of back office and IT. This means that operational costs and processes get limited independent scrutiny and cross-questioning; and
- there is a cost penalty from the lack of standardisation, simplification and sharing of back office operations and IT across the public sector. Devolution of delivery can provide greater responsiveness in the provision of services, but unchecked proliferation of separate back office operations and IT systems and processes can and does lead to significantly increased costs.

If some of these challenges could be successfully addressed, the resultant savings would be substantial.

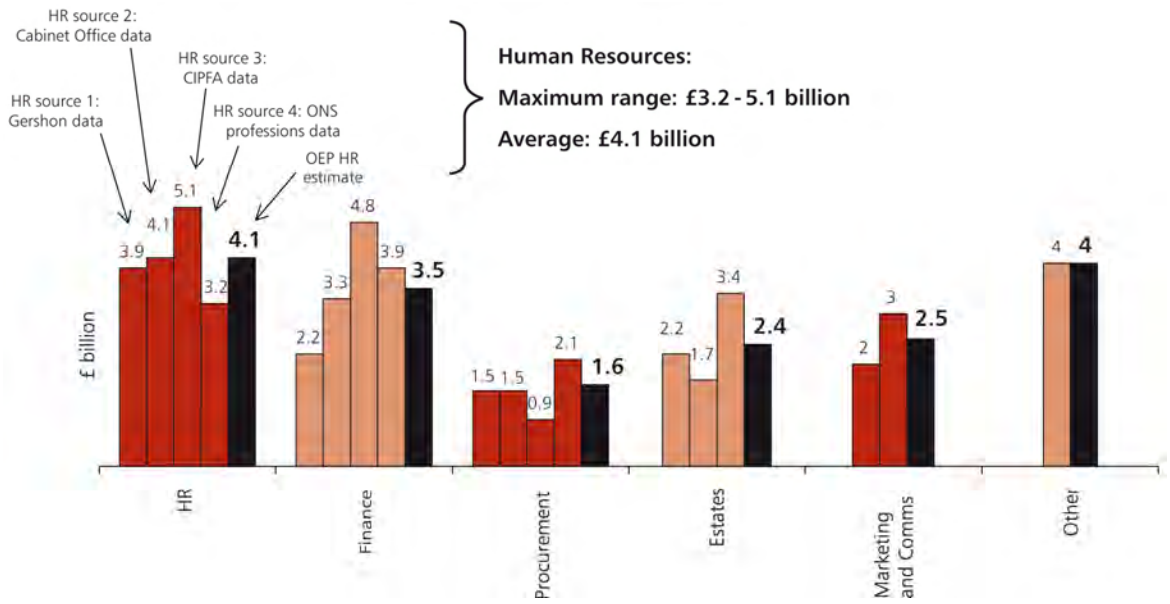
Despite the restricted management information available on back office operations and IT, the programme has estimated the total spend in each area and identified a significant level of savings. A set of recommendations has been developed in order to achieve these savings, including producing regular and reliable management information on back office operations and IT, the increased use of benchmarking and the introduction of performance reviews. The savings identified should be taken into account in determining departmental settlements. It is the task of management to decide how these savings are delivered, but a suite of recommendations and best practice case studies have been offered to demonstrate how to achieve this.

Back office operations

The OEP has estimated approximate expenditure on back office operations of £18 billion per year across the public sector (excluding IT). This figure has been put together using a range of proxies, assumptions and estimates[1]. It is the best estimate from the available data, but the actual figure could be as low as £16 billion or as high as £20 billion a year. Chart 1.A summarises the analysis used to reach the estimate of £18 billion.

[1] This includes Gershon data, CIPFA data, Cabinet Office data, ONS professions data, departmental returns to the Operational Efficiency Programme and data from a procurement survey. Baseline is 2007-08. Precise details can be found in Chapter 2.

Chart 1.A: Summary of estimates for the cost of back office operations across the public sector



Source: HM Treasury analysis based on a variety of sources. Full details of the sources used are given in Chapter 2

The workstrand has found wide variations in the efficiency of different public sector organisations. The data that is currently available shows that some organisations in the public sector are already operating at a level equivalent to best practice in the private sector, whereas others achieve far inferior performance. Given the wide spread in the levels of efficiency in back office operations, there is considerable scope for cost savings.

Three different methodologies have been used to estimate the level of savings achievable:

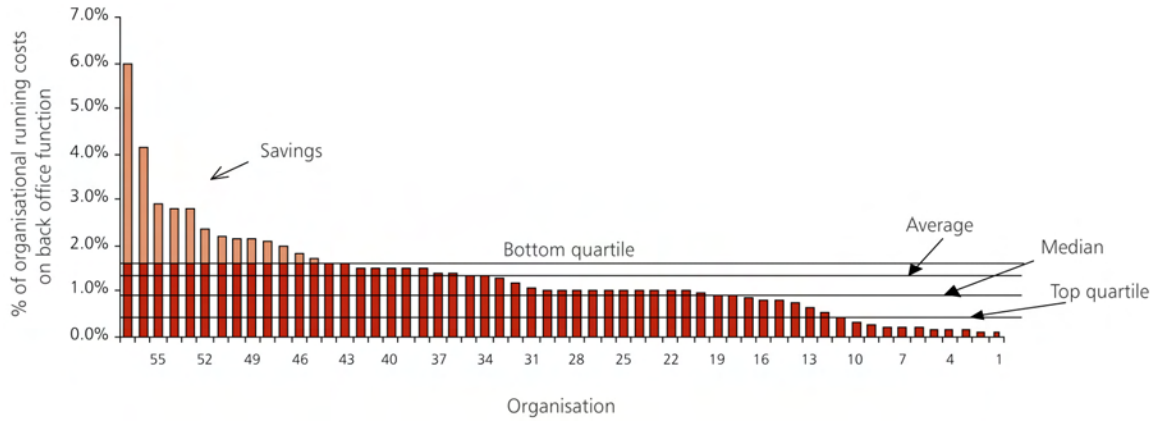
- benchmarking: This method uses spending distributions on back office operations as a percentage of running costs for a sample of public sector organisations. It identifies the potential savings deliverable from reducing the spend of the poor performers down to various public sector and private sector benchmarks;
- applying private sector cost efficiency experience to the public sector: Uses experience from across the private sector of how costs have been saved from re-engineering and sharing back office operations; and
- public sector best practice: Uses public sector best practice case studies to estimate potential savings.

Chart 1.B illustrates the benchmarking methodology, using a sample of CIPFA data for around 50-60[2] public sector organisations. Some organisations will, of course, have particular requirements of their back office functions but the scale of the differences underlines the potential for cost savings. The public sector would only have to move the weakest performing

[2] The number of organisations submitting their costs varies between function – for example, more organisations submitted finance data than estates management data.

organisations up to the top end of the lowest performance quartile to generate savings of around £4 billion per year.

Chart 1.B: Potential savings using public sector benchmarking methodology and illustrative data



Source: HM Treasury, illustrative data using CIPFA benchmarking data 2006-07

The potential savings from re-engineering back office operations have also been estimated using extensive research on private sector cost efficiency experience, advisor experience and input from private sector companies with experience in improving back office efficiency. This has shown that 20 to 30 per cent savings can be made from business process re-engineering (BPR) and shared services. BPR has been a common feature of private sector companies for many years, ensuring continuous improvement in the efficiency and effectiveness of an organisation's processes. Some case studies of private sector best practice in making significant savings are summarised in Box 1.A, with more detail in Box D.T, Annex D.

Box 1.A: Private sector case studies:

A luxury goods manufacturer had unacceptably high operating costs and the survival of the business was consequently under threat. To reduce operating costs, eight European Head offices were consolidated into a single location. Finance and HR headcount were both reduced by 70 per cent and complex finance processes were standardised and simplified (from 6400 line items in the chart of accounts to 640 line items) by implementing a common IT system;

A telecommunications firm moved its finance support functions to a central shared service centre located in the UK. The overall goal was to achieve sustainable cost savings across its European business. The result was a reduction in operational costs of between 50 and 66 per cent; and

A global distributor developed a shared services model which resulted in cost reductions of between 35 and 40 per cent, greater visibility of its finance and accounting functions across Europe, timely provision of management information and the foundation for further consolidation of its accounting and finance functions.

Source: *A response to HM Treasury Operational Efficiency Programme: Prospectus*, PriceWaterhouseCoopers, October 2008.

It is both notable and encouraging that there are a number of best practice examples across the public sector where significant savings have already been made. These public sector case studies demonstrate that savings in the region of 25 to 30 per cent can be made in the cost of back office operations. Some examples are summarised in Box 1.B.

Box 1.B: Public sector case studies:

HM Prison Service: HMPS have implemented a shared services centre that delivers finance, procurement and HR functions for all 128 Prison Service establishments. It is expected to deliver a 32 per cent saving in staff costs and just over 30 per cent savings against the gross costs of corporate services;

National Health Service (NHS): A joint venture, shared business service between the Department of Health and Steria now serves over 100 health trusts. This shared service delivers 20 to 30 per cent savings on like for like services; and

Department for Work and Pensions: DWP have set up a shared services organisation providing some HR and finance functions to the department, its executive agencies and to other parts of government. Savings from shared services of 15 per cent have been achieved already, with further savings of 13 per cent expected for 2008-09.

These three different methodologies each indicate that the public sector should be able to achieve a reduction in annual back office costs of around 20 to 25 per cent by the end of the next three years. This is equivalent to a reduction of around £4 billion from the estimated £18 billion annual UK spend on back office operations. The three-year timescale for achieving this reduction is at the upper end of private sector experience for the delivery of cost saving programmes of this kind. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further.

The programme's recommendations for securing the estimated savings focus on the production and review of top-level performance indicators and the adoption of best practice. The approach centres on transparency rather than micro-management. In summary, government should:

1 improve the collection and reporting of data across the public sector. Management information on back office operations should be fully integrated into departmental processes and should be collected and reported on a regular, consistent, auditable and transparent basis to allow for robust comparisons;

2 introduce benchmarking and operational performance reviews across the public sector; and

3 take the estimated savings into account in determining departmental settlements (taking note of savings already made where appropriate).

This workstrand sets out a range of case studies and recommendations to public sector organisations highlighting how these estimated savings can be achieved. The full set of recommendations is summarised below.

Collection and reporting of back office data

The lack of management information on public sector expenditure on back office operations makes it hard to identify what the costs of these operations actually are. What is not measured well will not be managed well. In the private sector, improved management information drives improved cost control. Therefore, the collection and reporting of data on back office operations in the public sector should be improved, with information available on a regular, consistent, auditable and transparent basis.

The five audit agencies' value for money indicators in HR, finance, procurement and estates management should be used by **all** public sector organisations[3]. This management information should be fully integrated into organisational systems, with the cost of back office operations included in regular board and public reporting. This is not an onerous task. Many public sector organisations are already using these indicators. Those which have recently started using them confirm that it is quick and easy to do.

For central government, agencies and NDPBs, the Corporate Functions Board (CFB) will drive this process. Discussions should be taken forward between HM Treasury and the National Audit Office (NAO) on how the NAO could provide assurance on central government reporting against the indicators. For the wider public sector, the Audit Commission should encourage use of the indicators for all local public bodies within its scope.

Recommendation 1a: All public sector organisations employing more than 250 people must collect and publish data using the five audit agencies' approved value for money indicators for back office operations with effect from June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector.

This information should form part of a department's regular management information and be included in its regular board and public reporting. It should be subject to external audit.

[3] The full list of indicators and definitions can be found on the Public Audit Forum website: http://www.public-audit-forum.gov.uk/publicat.htm. They are summarised in Annex E of this report.

Benchmarking and assessment of back office data

To ensure that these value for money indicators are used in a way that drives improved performance, data from across the public sector should be collected, checked and published in a form in which comparisons between similar organisations can readily be made. Improved collection and benchmarking of data should help to identify disparities, raise questions about why differences exist and pinpoint how poorer performing organisations could improve.

For central government, this process should be owned by the CFB, with each Head of Profession responsible for benchmarking in their function. This same benchmarking data should feed into the departmental balanced scorecard that the centre of government (Cabinet Office and HM Treasury) will use to hold departments to account.

Central departments should ensure that organisations in their delivery chain are collecting and benchmarking this data. Different mechanisms for achieving this objective will be appropriate for different sectors, for example:

- in local government, Regional Improvement and Efficiency Partnerships (RIEPs) should use peer review of back office data in their areas, and their outputs should be available for review by the Audit Commission in its "use of resources" assessment;
- for schools, benchmarking data should be collected at an aggregate level through local authorities, which should work with the Department for Children, Schools and Families (DCSF) and RIEPs to benchmark and reduce back office costs across schools in their area;
- all NHS organisations should sign up to the audit agencies' value for money indicators in order to benchmark themselves and identify scope for improvement, including through use of the NHS shared business service. Delivery of savings in back office operations should be incentivised through the tariff;
- in the police service, the indicators should be included in the value for money profiles that are produced by Her Majesty's Inspectorate of Constabulary (HMIC). The Home Office should create expectations and incentives for forces and the police service to place a premium on having cost-effective back office functions, ensuring that the availability of resources for operational policing is maximised; and
- in the Further Education sector, the Learning and Skills Council should drive better value for money in back office operations. The Higher Education Funding Council for England should do the same in the Higher Education sector.

Recommendation 1b: Benchmarking information from across the public sector should be collected, checked and published in order to drive improved performance. In central government, this will be the responsibility of the Corporate Functions Board. For the wider public sector, each sector should ensure that its organisations are collecting this benchmarking information on a regular, consistent, auditable and transparent basis, and that the data is compared and scrutinised.

Operational Reviews

The much improved collection, comparison and reporting of data will facilitate greater external review of back office performance and costs and make it possible to hold permanent secretaries and ministers to account for the efficiency of back office operations.

Operational Reviews of organisational performance should be introduced to examine the effectiveness of back office spend and identify how organisations can improve their operational effectiveness. These reviews should make use of private sector experience and focus on organisations that are performing poorly. The first reviews should take place no later than April 2010 and the secretariat for this function should be based at HM Treasury, with support from the Cabinet Office. As well as back office operations, these reviews should include analysis and assessment of progress on the other OEP workstrands including, for example, the effectiveness of IT spend.

For central government, the Operational Reviews should focus on departmental performance but should also examine benchmarking data for departmental delivery chains at an aggregate level to drive improvements throughout the public sector. This analysis should feed directly into PSX[4] value for money discussions to hold ministers to account and be an input to the six-monthly performance reviews between the Centre and departmental permanent secretaries. For local government and other local public bodies within its remit, the Audit Commission should examine back office costs as part of its "use of resources" assessment, paying due regard to the peer review of costs carried out by RIEPs. It should encourage organisations with poorly performing back office operations to improve.

Recommendation 2: A system of Operational Reviews that examine performance on back office operations should be introduced for public sector organisations. The initial focus should be on those organisations currently performing in the bottom quartile. The first reviews should take place no later than April 2010.

For central government and agencies, and at an aggregate level, departmental delivery chains, this should be carried out by a small review team incorporating private and public sector experience. The review team should report to PSX and feed into six-monthly performance reviews between the Centre and departmental permanent secretaries. The Audit Commission should carry out this function for local public bodies in its scope as part of its 'use of resources' assessment.

Building savings into settlements

The estimated £4 billion annual savings in the cost of back office operations, achievable after three years, should be taken into account when departmental spending settlements are made. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. Exceptions should be made for those departments which can demonstrate, using the audit agencies' value for money indicators, that they and the organisations within their delivery chains are already operating above public sector median performance across the range of back office operations.

[4] Ministerial Committee on Public Services and Public Expenditure.

Recommendation 3: The Government should take into account the estimated £4 billion annual savings in the cost of back office operations when determining departmental settlements, taking note of savings already made where appropriate.

Systematic organisational reviews of functions, systems and processes

A key driver in generating savings in public and private sector best practice examples is conducting a fundamental review of an organisation's activities and processes. Devolution and fragmentation across the public sector mean that there is a wide variation and substantial complexity in back office operations. This lack of simplification and standardisation comes at a significant cost. Therefore, it is recommended that all public sector organisations with more than 1000 employees conduct a systematic review of their functions, systems and processes to reduce complexity and cost through simplification and standardisation by the end of 2010-11. This process should not only reduce costs but also improve the effectiveness of service provision.

Recommendation 4: Public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes to drive simplification and standardisation. Reviews should be carried out by the end of 2010-11, and thereafter at least every five years. They should lead to significantly greater sharing of services and potentially increased outsourcing.

Increased momentum for shared services and outsourcing

It is recommended that there is increased consolidation of existing shared service centres for central government. Central government should be leading the way in shared services with a robust shared services offer for central departments, their agencies and NDPBs that can be moved onto with minimal transaction costs.

Other parts of the public sector, including local government, the health sector and the police, should accelerate the use of shared services both between similar bodies and across services in a geographical area. Greater use should be made of the NHS shared business service, using financial incentives as necessary.

Recommendation 5: Progress in central government shared services should be accelerated by consolidating existing shared back office centres to provide a robust shared services offer to central government (including agencies and NDPBs). This should be overseen by the Corporate Functions Board. The shared service centres should be managed on an arms-length basis via clear Service Level Agreements. The target is to deliver upper quartile performance for all those using the shared service and drive out cost savings of at least 25 per cent within three years. A similar drive towards greater use of shared services should be encouraged across the wider public sector.

Improved management information in the longer term

In the longer term, systems should be put in place to enable management information on the costs of back office operations to be easily collected and reported as an integral part of the public sector management reporting system. Over time, the HM Treasury system used to collect public sector financial information centrally ('COINS' – the Combined Online Information System) should be enhanced where possible to collect this back office data categorised by

function. Initially, this should include management information for central government departments, executive agencies and NDPBs. In the longer term, the aim should be to expand this to back office operations outside central government. The system will be replaced over the next few years and a common chart of accounts for back office operations should be considered as part of the replacement. The new system should also have the functionality to better integrate performance and financial information.

Recommendation 6:

HM Treasury should enhance COINS[5] functionality where possible to collect data on the cost of back office operations for all central government departments, executive agencies and NDPBs, centrally and seamlessly on a monthly basis as part of forecast outturn, using consistent definitions.

As part of the COINS replacement, a common chart of accounts should be considered for back office operations and the integration between performance and financial data should be increased.

IT

The IT workstrand of the OEP builds on the IT efficiencies achieved as part of the Gershon programme. It is focused on delivering greater value for money from the Government's spend on IT and improving the delivery performance of IT-enabled change programmes.

As is the case for back office operations, there is a lack of reliable, consistent management information on public sector IT expenditure. Many public sector organisations do not hold detailed or accurate management information on how money is spent on IT within their organisations. Five different sources are available which measure UK public sector IT spend. These have been collected on different bases and produce a wide range of results for how much the UK spends on public sector IT. Taking account of the respective strengths and weaknesses of this data, the OEP has estimated that around £16 billion per year is spent on IT across the wider public sector, although this figure could vary from as low as £12.5 billion up to around £18.5 billion. The largest area of IT spend is in local government, but it is hard to conduct a detailed analysis of this expenditure as it lies in a very devolved landscape.

The OEP has used six different methodologies to estimate the potential savings that can be made from IT expenditure across the public sector:

- benchmarking analysis: approximately 50 public sector organisations from local government, central government, the health service and the police take part in an anonymous CIPFA benchmarking process.[6] Whilst public sector organisations will not have the same IT requirements and may be at different stages of their IT investment cycles, the size of the variations should not be disproportionate. As for back office spend, savings have been estimated based on the assumption that the very worst performers can improve their performance to the top end of the lowest performance quartile;
- best practice case studies: encouragingly, there are several examples of best practice achievement in the public sector where significant savings in IT expenditure have

[5] The HM Treasury system used to collect financial information relating to Government Accounts and Resource Budgets

[6] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

been achieved and the quality of service improved. The programme has reviewed these case studies and used them as a basis for estimating the wider savings possible across the public sector;

- **private sector comparisons:** comparisons have been made of the IT costs of government departments with the most similar private sector organisations to evaluate the potential for savings. For example, the OEP has compared the IT costs of transaction-intensive public sector organisations with banks and insurance companies and assessed the potential level of savings available;
- **analysis of existing IT contracts across government:** this method uses research carried out by management consulting firms into the costs of UK Government's outsourcing contracts and their assessment of the level of savings available;
- **IT consulting organisations' view of the potential savings available:** this method is based on input from private sector IT consulting organisations with significant experience of undertaking IT-focused cost reduction programmes across the public and private sectors in the UK and abroad; and
- **international comparisons of IT spend:** international comparisons of IT spend are difficult, however, Gartner[7] and Kable[8] have produced data on IT spend across major economies which has allowed IT spend of similar government departments around the world to be compared. This data has been used to assess the potential savings available in the UK.

All six methods involve estimations of one form or another. However, each method points strongly to the fact that better value for money is achievable from UK public sector IT spend. Overall savings of around 20 per cent of the estimated £16 billion annual expenditure (£3.2 billion) should be achievable without compromising the quality of front line public service delivery. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. This reduction in annual spend should be achievable by the end of a three year period. This is somewhat longer than the average timescales achieved in the private sector.

The estimated savings[9] should be taken into account in determining departmental settlements. This process should, where appropriate, have regard to any significant savings that have already been achieved and to any substantial concentration of major IT-enabled change projects in particular departments. It is the task of management, both within departments and within their wider delivery chains, to determine how the targeted savings can best be delivered.

The programme has developed a suite of recommendations for public sector organisations to assist in the process of delivering these savings. In summary, these are to:

- improve the collection, reporting, benchmarking and review of data on IT spend across the public sector;
- strengthen the governance of IT-enabled change projects;
- strengthen Gateway assurance processes for all IT-enabled change projects;

[7] *Forecast: Industry Market Strategies by Vertical Industry, Worldwide 2006-12*, Gartner, 2009.

[8] *Overview of IT in the European public sector to 2010,* Kable, 2007.

[9] Approximately £1.6 billion of these savings are also included in the collaborative procurement savings, due to improved collaborative procurement of IT.

- implement portfolio management processes to prioritise projects and resources and to reduce overlap and duplication in IT-enabled change projects;
- promote greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector; and
- develop the internal IT capability within the public sector and continue to professionalise the IT function.

The detailed recommendations are as follows:

Recommendation 7: The Government should take into account the estimated £3.2 billion annual savings in IT expenditure when determining departmental settlements (taking note where appropriate of savings already made and any substantial concentration of major IT-enabled change projects in particular departments).

Recommendation 8: Management information on IT spend should be fully integrated into departmental processes and should be collected on a regular, consistent, auditable and transparent basis to allow for robust comparison and review following the principles set out in the recommendations for back office operations. Across the wider public sector, all organisations should use the Audit Agencies' value for money IT indicators. If available for implementation in the next three months, the new Cabinet Office IT benchmarks can be used as an alternative to determine the efficiency and effectiveness of IT spend in central government and to support the setting of prices for commodity-based purchases. The applicability of these new benchmarks for use across the whole of the public sector should be evaluated during the course of 2009.

Recommendation 9: Strengthen the governance of IT-enabled projects so that ministers and accounting officers are regularly updated on high-risk projects and briefed on projects where the delivery confidence is not high. Departmental Chief information officers (CIOs) should actively endorse all IT-enabled change projects. Where the cost of IT-enabled change projects is above departmental delegated limits, HM Treasury should refer projects for approval to the Government CIO before approving expenditure. HM Treasury should also seek advice from the Major Projects Review Group on the status of all large, high-risk IT-enabled change projects.

Recommendation 10: Strengthen the existing Gateway assurance process. This should include introducing "starting gate" reviews of all IT-enabled change projects to prevent large scale IT projects being initiated with a low likelihood of success. Departments should have processes in place to address low delivery confidence Gateway findings and should ensure that appropriate remedial action is taken. Accounting officers should have consult with their departmental CIO before agreeing the continuation of projects receiving "red" Gateway findings.

Recommendation 11: Implement portfolio management processes within departments to prioritise the most important IT-enabled change projects and resources and to reduce the overlap and duplication in IT-enabled change projects across the public sector.

Recommendation 12: Give government CIOs and OGC Collaborative Category Boards the responsibility for achieving greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector. They should be empowered to address duplication and large cost variations across departments. They should act to ensure common infrastructure (including the development of the Public Sector Network) is bought once with the Crown as the purchasing agent, rather than by individual departments. This will allow licences to be available across the public sector. Strategic oversight by CIOs and OGC Collaborative Category Boards should also ensure that all new IT infrastructure is reusable across the public sector.

Recommendation 13: Develop the internal IT capability within the public sector and continue to professionalise the IT function.

Conclusions

This workstrand has identified that significant annual savings in the cost of back office operations and IT are deliverable. Compared to a 2007-08 baseline of around £18 billion in back office operations and £16 billion in IT, in three years time, it is estimated that the annual cost of back office operations could be reduced by around £4 billion and the current annual cost of IT could be reduced by around £3.2 billion (the latter including savings arising through collaborative procurement). Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further.

The savings that have been estimated should be taken into account in determining departmental settlements, taking note where appropriate of savings already made and any substantial concentration of major IT-enabled change projects. It is the task of management to deliver these savings, but this workstrand has set out a suite of recommendations and best practice examples to facilitate this process.

In future, management information on back office operations and IT should be available on a regular, consistent, auditable and transparent basis, and be used to benchmark across the public sector. A system of operational reviews should be introduced to examine spending effectiveness and to ensure that poorer performing organisations improve. These reviews should be driven by the most senior leaders across the public sector. Embedding this new approach will drive sustained operational improvement across the public sector and deliver increased value for money and effectiveness in the delivery of public services in the years ahead.

1 Background

1.1 The Chief Secretary to the Treasury launched the Operational Efficiency Programme (OEP) in July 2008 as the next phase of the Government's value for money programme to deepen and widen the Government's agenda on value for money. Five private and public sector leaders with relevant expertise were appointed to advise the OEP and examine five key cross-cutting areas:

- back office operations and IT, led by Dr Martin Read;
- collaborative procurement, led Martin Jay;
- asset management and sales, led by Gerry Grimstone;
- property, led by Lord Carter of Coles; and
- local incentives and empowerment, led by Sir Michael Bichard.

1.2 The programme has considered the scope to deliver better value for money across these areas, helping to inform the Government's future value for money strategy.

1.3 The programme builds on the progress made by the Gershon Programme,[1] the first phase of the Government's value for money programme. This over-delivered against ambitious efficiency targets to achieve £26.5 billion savings during the SR04 period and a reduction of 86,700 civil service posts. The final report of the programme was published at the 2008 Pre-Budget Report.[2]

1.4 The 2008 Pre-Budget Report announced that, based on this over-delivery and the early findings of the OEP, Government would deliver £5 billion of additional value for money savings in 2010-11 – a total of £35 billion over the 2007 Comprehensive Spending Review (CSR07) period. The OEP's recommendations support and challenge Government to achieve these savings and to go significantly further beyond the CSR07 years.

1.5 The OEP sits alongside the Public Value Programme, which is examining specific policy issues within all major areas of spending, for example healthcare commissioning and road building[3], in order to identify where there is scope for reforms that would deliver major improvements in value for money.

1.6 The scope of the OEP includes the wider public sector, taking in central government departments, agencies, NDPBs, local government, the NHS and police authorities. This is a large and fragmented environment, covering over 1300 individual government organisations as well as over 25,000 schools all of which will have some form of back office function. It incorporates approximately 5.8 million employees and controls the expenditure of around £345 billion[4].

1.7 Back office operations comprise the range of operations that provide support to the frontline delivery of services. This includes finance, HR, estates management, procurement, legal services, travel services and marketing and communications. The term "IT" comprises the full range of IT spend, including hardware, software, IT support and major IT enabled change projects. The terms of reference for the programme are appended at Annex A.

[1] *Releasing resources to the frontline: Independent Review of Public Sector Efficiency,* HM Treasury, 2004
[2] *2004 Spending Review: final report on the efficiency programme*, HM Treasury, 2008
[3] See http://www.hm-treasury.gov.uk/psr_public_value_programme.htm
[4] *Public Expenditure Statistical Analyses (PESA)*, HM Treasury, 2008

Common themes

1.8 Key challenges exist in respect of both back office operations and IT across the public sector, particularly when compared to private sector experience:

- the UK public sector is highly fragmented, with a very large number of individual organisations usually having their own back office operations and IT systems and processes;
- there is a lack of robust and consistent management information on public sector spending on back office operations and IT, making it hard to identify what the accurate costs of back office operations and IT actually are. This makes it difficult to establish trends, make comparisons and manage down costs. What is not measured well, will not be managed well;
- limited mechanisms exist today for reviewing an organisation's operational effectiveness in respect of back office and IT. This means that operational costs and processes get limited independent scrutiny and cross-questioning; and
- there is a cost penalty from the lack of standardisation, simplification and sharing of back office operations and IT across the public sector. Devolution of delivery can provide greater responsiveness in the provision of services, but unchecked proliferation of separate back office operations and IT systems and processes can and does lead to significantly increased costs.

If some of these challenges could be successfully addressed, the resultant savings would be substantial.

1.9 The OEP has been carried out using wide-ranging internal and external consultation and extensive data collection and analysis in order to form a firm basis for the conclusions and recommendations. The full list of people and organisations consulted is set out in Annex B. The details of the bibliography and references used as part of the analysis are set out in Annex C.

1.10 Progress has been made in improving the efficiency of public sector back office operations and IT over recent years as a result of the Gershon programme and related initiatives. There are examples of "best in class" practice, both at the department level and the local level, where significant savings in back office operations and IT expenditure have been made, as a result of operational transformation, the development of a world-class IT infrastructure, strategic outsourcing, increased standardisation, simplification and sharing, and driving the best deals for the provision of IT services from suppliers.

1.11 Government can build on these success stories and go even further to ensure that maximum value for money can be achieved from the UK public sector expenditure on back office operations and IT. Using the information stakeholders have provided and despite the restricted management information available:

- firstly, the level of spend on back office operations and IT has been estimated;
- secondly, the potential savings per year has been estimated using a number of different methodologies; and
- thirdly, the programme has identified how these savings will be achieved through a set of recommendations.

These recommendations and conclusions, alongside the potential savings identified, have been rigorously tested with stakeholders to ensure that they will be effective and practical.

2 Back office operations: analysis

Estimation of spend on back office operations

2.1 There are no accurate cross-government figures for the amount of money spent on back office functions. This is because:

- different public sector organisations report the costs of their back office operations differently, so there is limited consistency and comparability across organisations;
- the costs of back office operations are usually not reported as part of an organisation's regular management information; and
- benchmarking is difficult because the relevant costs are often unavailable and because there are no commonly used definitions of back office costs.

2.2 Most useable information comes from one-off studies, rather than being produced automatically through an organisation's regular reporting systems. As there is little reporting of the relevant management information, the costs of the public sector's back office operations are rarely reviewed and little action is taken to address poor performance.

2.3 This problem also applies to delivery chains within departments as well as across central departments, with limited management information available on back office spend in NDPBs, the NHS and local government. However, some organisations have faced a similar management information challenge which they have managed to overcome – see for example the PepsiCo case study or the County Council case study in Boxes D.E-F in Annex D.

2.4 HM Treasury's COINS (Combined Online Information System) consolidates financial data from all departments and public sector organisations within the scope of the budgeting framework and the Whole of Government Accounts (WGA). There is a Standard Chart of Accounts (SCoA) onto which departments map their own chart of accounts, which is generally a manual step. This does not provide a figure for the total back office spend across the public sector.

2.5 The OEP has estimated the total spend on back office operations through various proxies and data sources to reach the final estimate of **£18 billion spent on back office operations** per year across the wider public sector (not including IT).

2.6 This £18 billion is broken down in Table 2.A:

Table 2.A: Spend on back office operations across the wider public sector

Back Office Operation	Spend
Human Resources	£4.1 billion
Finance	£3.5 billion
Procurement	£1.6 billion
Estates management	£2.4 billion
Marketing and communications	£2.5 billion
Other	£4.0 billion
Total	£18 billion
Source: HM Treasury analysis using a range of sources, as detailed below	

Human Resources (HR)

2.7 For HR, four estimates have been averaged[1] to reach the estimated figure of £4.1 billion across the wider public sector:

1 Gershon[2] data estimated total spend of £3.94 billion (of which £840 million central government and £3.10 billion wider public sector)[3];

2 Cabinet Office[4] have estimated the total spend at £4.1 billion (of which £1.09 billion central government and £3.05 billion wider public sector);

3 CIPFA data[5], using the audit agencies' value for money indicators,[6] estimates the average HR cost at 1.5 per cent of organisational running cost. Across the total public sector spend of £345 billion[7], this gives an estimate of £5.1 billion; and

4 ONS data on civil service professions shows that there are around 8750 HR professionals in the civil service.[8] CIPFA data[9] gives an average spend per HR employee of around £45,000, and applying this to the wider public sector (approximately 550,000 civil service employees and 4.5 million wider public sector employees) gives a spend of £3.2 billion. This is a lower limit, as the HR cost will be greater than just the cost of the HR professionals alone.

[1] Note that throughout this analysis, 'average' refers to the arithmetic mean and 'median' refers to the middle value of the distribution

[2] Unpublished data from the Gershon independent review of public sector efficiency: *Releasing resources to the frontline: Independent Review of Public Sector Efficiency,* HM Treasury, 2004

[3] This figure is likely to be low as HR spend is likely to have increased since 2004 – inflation has not been compensated for due to existing inaccuracies in the data

[4] *Improving corporate functions using shared services*, NAO, 2007.

[5] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

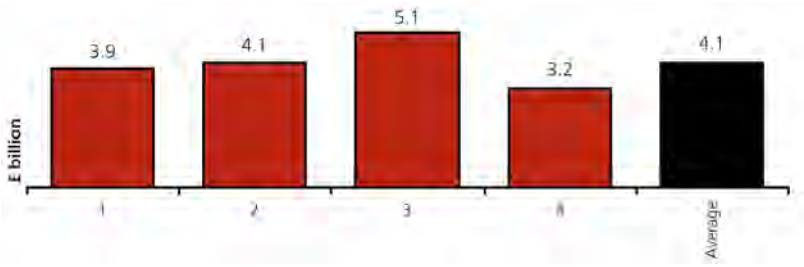
[6] *Value for Money in public sector corporate services*, UK Public Sector Audit Agencies, 2007. http://www.public- auditforum.gov.uk/publicat.htm

[7] Total Departmental Expenditure Limit from *Public Expenditure Statistical Analyses (PESA)*, HM Treasury, 2008

[8] *Civil Service employment by profession,* ONS, 2008.

[9] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

Chart 2.A: HR estimates and final figure



Source: HM Treasury based on Gershon, Cabinet Office, CIPFA and ONS data

Finance

2.8 For finance, four estimates have been averaged to reach the estimated figure of £3.5 billion across the wider public sector:

1 Gershon[10] data estimated total spend on finance of £2.15 billion (of which £400 million central government and £1.75 billion wider public sector)[11];

2 Cabinet Office[12] have estimated the total spend on finance at £3.3 billion (of which £950 million central government and £2.4 billion wider public sector);

3 CIPFA data[13], using the audit agencies' value for money indicators, estimates the average finance cost at 1.4 per cent organisational running cost. Across the total public sector spend (as above) of £345 billion gives an estimate of £4.8 billion; and

4 the OEP questionnaire[14] gave a ratio of finance staff to total staff in the department of 2.6 per cent on average. The equivalent ratio for the HR figure is 2.7 per cent. Comparing these two estimates (assuming an equivalent spend per head on HR and finance staff) gives an estimated spend on the finance function of £3.9 billion.

[10] *Releasing resources to the frontline: Independent Review of Public Sector Efficiency,* HM Treasury, 2004

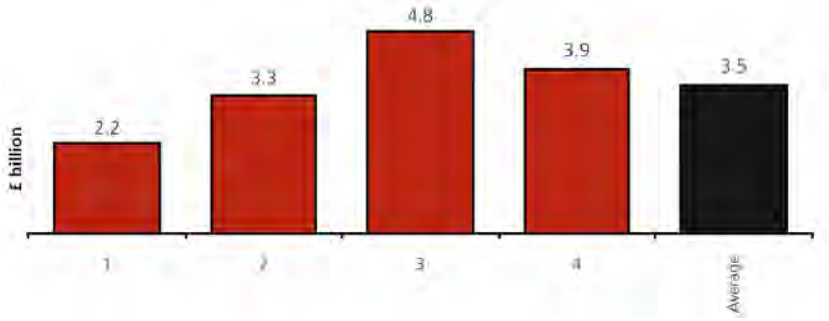
[11] This figure is likely to be low as HR spend is likely to have increased since 2004 – inflation has not been compensated for due to existing inaccuracies in the data

[12] *Improving Corporate functions using shared services*, NAO, 2007.

[13] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

[14] The Operational Efficiency Programme sent a questionnaire to departments asking for data on spend and headcount ratios for corporate functions, August 2007.

Chart 2.B: Finance estimates and final figure



Source: HM Treasury based on Gershon, Cabinet Office and CIPFA data and departmental returns to the OEP

Procurement

2.9 For procurement, four estimates have been used to reach the estimated figure of £1.6 billion across the wider public sector:[15]

1 ONS professions data[16] shows 1847 procurement professionals in the civil service (allowing for non-responses) and CIPFA data[17] shows that 46 per cent of procurement staff are professionals, giving a figure of 4015 procurement staff in civil service. Assume average spend of £45,000 from CIPFA data[18] and applying this to the wider public sector (approximately 550,000 civil service employees and 4.5 million wider public sector employees) gives a figure of £1.5 billion;

2 the OEP questionnaire[19] showed that the procurement function has around one quarter to one half the spend of HR, or around £1.5 billion;

3 CIPFA data[20] showed that the average procurement function cost 0.27 per cent of an organisation's running costs, or around £0.93 billion; and

4 a procurement survey[21] indicated that 1 per cent of the civil service are in procurement. Assuming average spend of £45,000 (as per calculation 1) and multiplying up to the wider public sector gives an estimate of £2.1 billion.

[15] The final estimate is a weighted average due to the accuracy of the individual data points

[16] *Civil Service employment by profession,* ONS, 2008.

[17] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

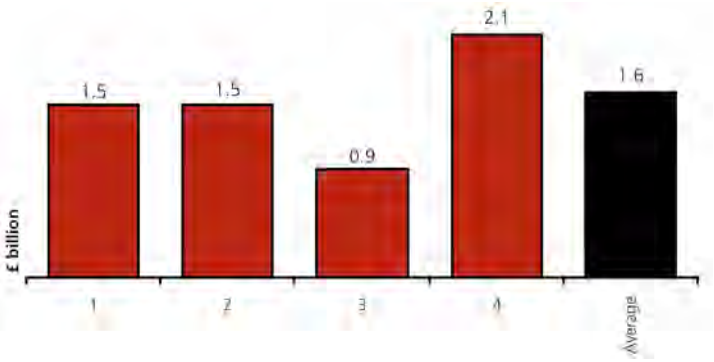
[18] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

[19] The Operational Efficiency Programme sent a questionnaire to departments asking for data on spend and headcount ratios for corporate functions, August 2007.

[20] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

[21] *Survey for the Procurement Reward Strategy*, OGC, 2008

Chart 2.C: Procurement estimates and final figure



Source: HM Treasury, based on ONS, CIPFA and OGC data and departmental returns to the OEP

Estates Management

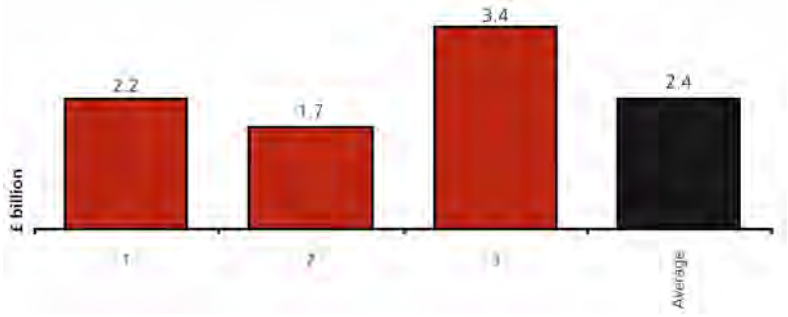
2.10 For estates management, three estimates have been averaged to reach the estimated figure of £2.4 billion across the wider public sector:

1 the OEP questionnaire gave an average ratio of estates management staff to total staff in the department at 1.9 per cent, over half the HR number, or around £2.2 billon[22];

2 CIPFA data shows that the median estates management spend is 0.56 per cent of the organisational running costs. Multiplying this up to total spend gives a figure of £1.7 billion[23]; and

3 CIPFA data shows that the average estates management spend is 1 per cent of the organisational running costs. Multiplying this up to total spend gives a figure of £3.4 billion.

Chart 2.D: Estates management estimates and final figure



Source: HM Treasury based on CIPFA data and departmental returns to the OEP

[22] *Civil Service employment by profession,* ONS, 2008. This is assuming the same average salary as for HR staff

[23] Both median and average have been used here due to the large skew in the distribution and limited number of data points available

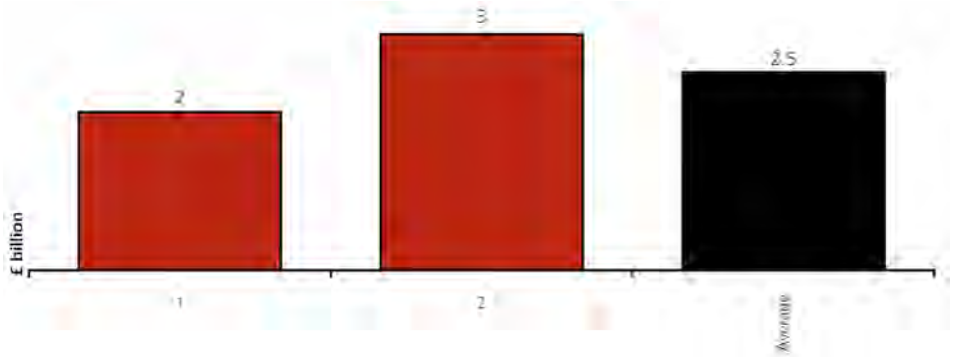
Marketing and communications

2.11 For marketing and communications, two estimates have been averaged to reach the estimated figure of £2.5 billion across the wider public sector:

1 ONS professions data[24] shows 3790 marketing and communications professionals in the civil service (allowing for non-responses). Assuming 25 per cent of the employees are not professionals gives a figure of 4700. Assume average spend of £45,000 from CIPFA data[25] and applying to the wider public sector (approximately 550,000 civil service employees and 4.5 million wider public sector employees) gives a figure of £2 billion; and

2 the OEP questionnaire gave a spend and average ratio of marketing and communications staff to total staff of approximately three-quarters that of finance, or approximately £3 billion.

Chart 2.E: Marketing and communications estimates and final figure



Source: HM Treasury based on ONS data and departmental returns to the OEP

Other

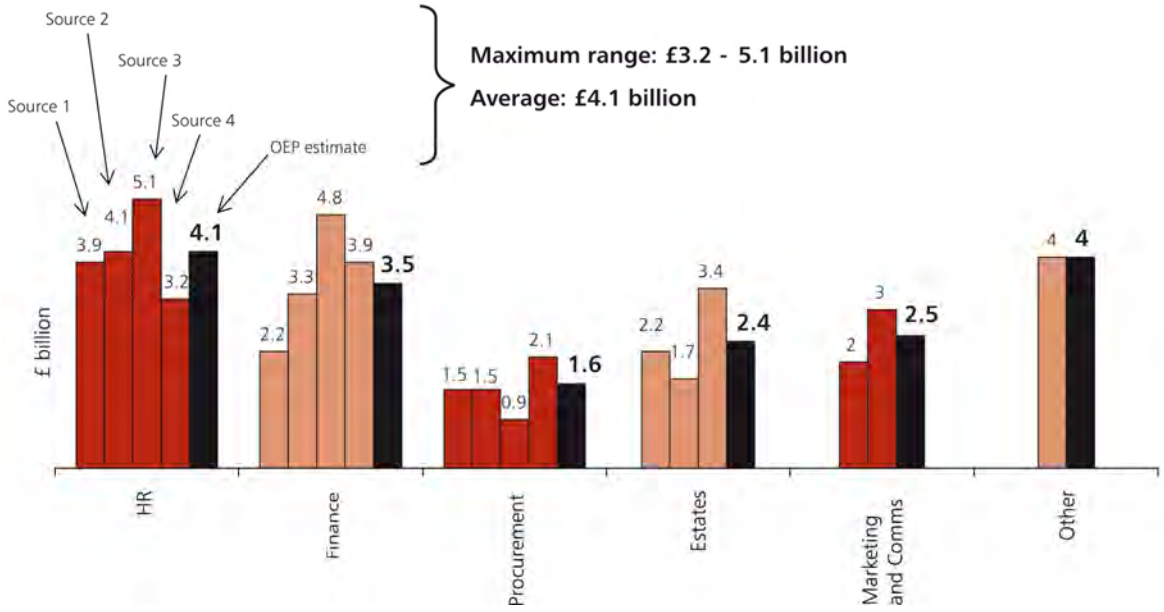
2.12 Other costs include administration costs, legal services, travel services, security services etc, which vary between departments and which cannot be accurately estimated. Responses to the OEP questionnaire have indicated that this spend is around 20 per cent of total back office costs, or approximately £4 billion.

Conclusion

2.13 It has been difficult to accurately estimate the spend on back office functions across the UK public sector. The OEP has used various assumptions, proxies and data sources to reach its estimate of £18 billion annual spend on back office operations across the public sector (not including IT). It is the best estimate from the available data, but the actual figure could be as low as £16 billion or as high as £20 billion. Chart 2.F summarises the full set of estimates for each operation and Chart 2.G summarises the final estimate of how spending breaks down between the different functions.

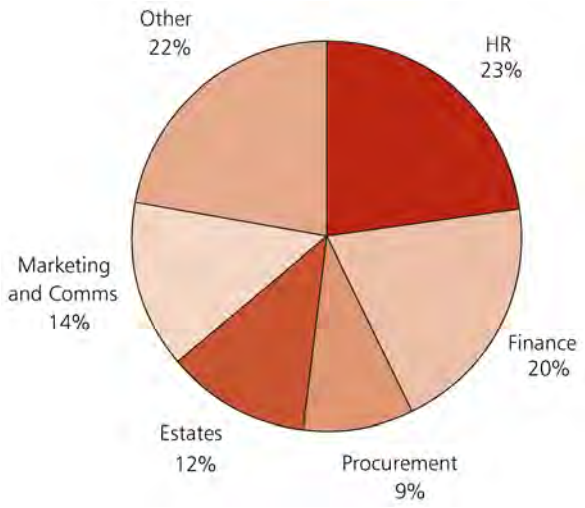
[24] *Civil Service employment by profession,* ONS, 2008.
[25] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

Chart 2.F: Summary of estimates for the cost of back office operations across the public sector



Source: HM Treasury analysis based on a variety of sources as detailed above

Chart 2.G: Breakdown of £18 billion figure by back office operation



Source: HM Treasury analysis, based on a variety of sources as detailed above

2.14 The proportion of back office processes across the public sector which will already have been shared or outsourced has also been estimated. As the data here is poor, it is difficult to accurately assess the total amount of back office processes that already are, or will be, shared or outsourced. Using some proxies, an initial estimate is that around £2 to 3 billion of the £18 billion falls under this category[26]. This is a rough estimate, and the management information

[26] HM Treasury analysis based on data from *IT and business process outsourcing in the UK public sector to 2012,* Kable, 2007 and *The Market for Public Services in the UK,* Oxford Economics, 2008.

does not allow greater accuracy. This leaves a remainder of around £15 billion spent on back office functions across the wider public sector which does not come under this category.

Methodology to estimate potential back office savings

2.15 Having estimated the total annual spend on back office operations at £18 billion, three different methodologies have been used to estimate the potential savings achievable from back office operations across the public sector:

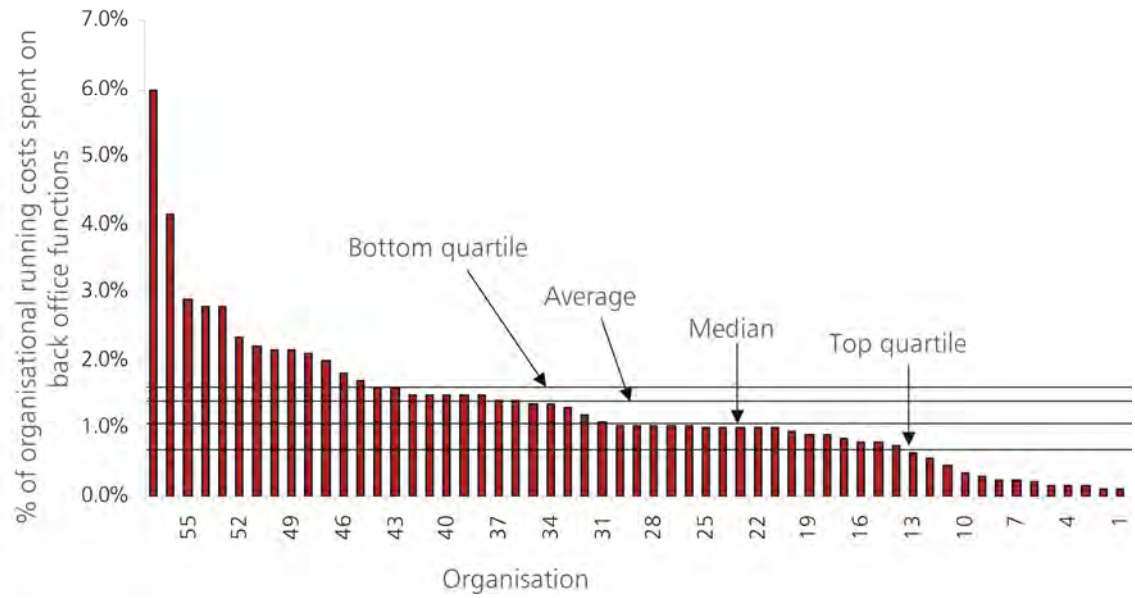
1. **benchmarking:** This method uses spending distribution on back office operations as a percentage of running costs for a sample of public sector organisations. It identifies the potential savings from reducing the spend of the poor performers down to various public sector and private sector benchmarks;[27]
2. **applying private sector cost efficiency experience to the public sector:** Uses experience from across the private sector of how costs have been saved from re-engineering and sharing back office operations (see list of people and organisations consulted in Annex B); and
3. **public sector best practice:** Uses public sector best practice case studies to estimate potential savings. Case studies are detailed in Annex D.

Benchmarking

2.16 The benchmarking analysis extrapolates CIPFA distributions of the percentage of organisational running costs on HR, finance, procurement and estates management. This data is generated from approximately 50-60[28] public sector bodies, including central government departments, primary care trusts, local government and police authorities in similar proportions to their prevalence across the public sector. The analysis treats the public sector bodies as being a representative sample of the wider public sector, and assumes that each of the public sector bodies has the same total organisational running costs. It is likely that the best performing organisations are in this sample, as the best performers are more likely to have entered into benchmarking of back office operations. There are likely to be some inconsistencies between how back office operations have been measured using the indicators and thus the conclusions drawn will be estimates rather than definitive results. Chart 2.H shows an illustrative distribution.

[27] This data is from CIPFA from an anonymous set of around 50-60 public sector organisations. It covers headcount and percentage of organisational spend on HR, finance, procurement and estates management (IT is dealt with separately).
[28] The number of organisations submitting their costs varies between function – for example, more organisations submitted finance data than estates management data.

Chart 2.H: Example distribution of benchmarking data



Source: Illustrative, based on CIPFA data 2006-07

2.17 Using these distributions, various assumptions have been made about potential levels of savings for each function:

1 **bottom quartile:** Estimating the level of savings if the weakest performing organisations reduce their spend to the top of the lowest performing quartile;

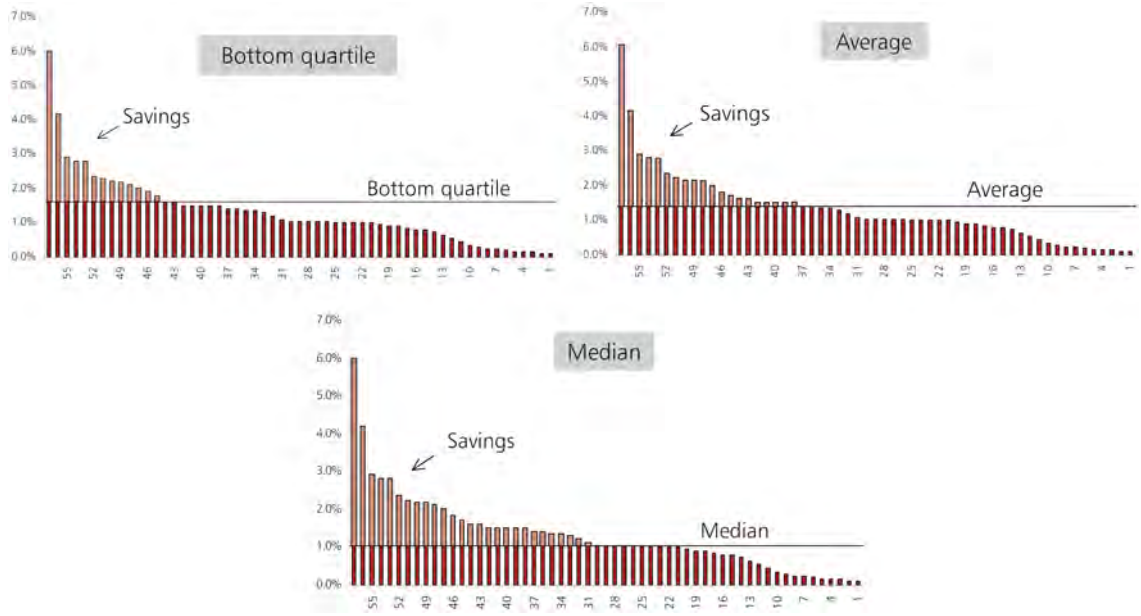
2 **average:** Estimating the level of savings if all public sector organisations spending more than the average level of spend reduce their spend to match that average; and

3 **median:** Estimating the level of savings if all public sector organisations spending more than the public sector median spend reduce their spend to match that median.

2.18 For the remaining functions: 'marketing and communications' and 'other', a flat savings rate of 20 per cent has been applied, which is at the lower end of savings identified in other areas.

2.19 Chart 2.I illustrates these savings estimates. The estimated savings are equivalent to the spend in the shaded areas.

Chart 2.I: Potential savings with public sector benchmarking methodology and illustrative data



Source: Illustrative, based on CIPFA data 2006-07

2.20 In HR and finance, the programme has also examined the potential savings from reducing the public sector spend to private sector benchmarks:

4 **private sector average:** Estimating the level of savings if all public sector organisations spending more than the private sector average reduce their spend to match the private sector average; and

5 **private sector best practice:** Estimating the level of savings if all public sector organisations spending more than private sector best practice reduce their spend to match private sector best practice.

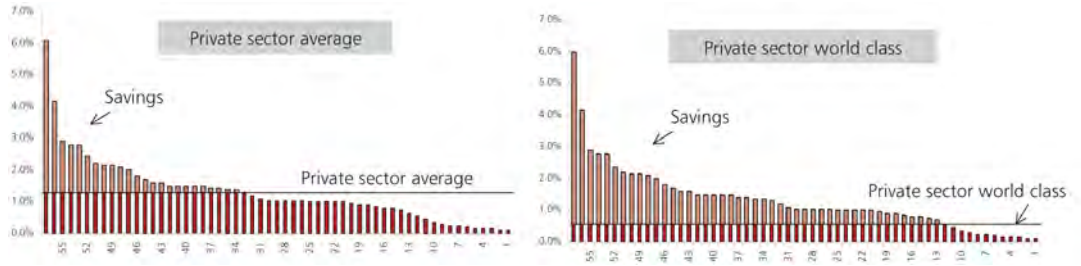
2.21 To identify the private sector average and private sector best practice a range of benchmarks have been used, provided to the OEP by benchmarking companies and consultancies:

- for HR: Using ratios of HR staff to total employees in an organisation, private sector average performance is around 85:1[29]. Private sector world class is around 130:1[30]. This compares to the public sector average of around 80:1[31]; and
- for finance: Using figures for finance cost as per cent of revenue[32], average private sector performance is around 1.25 per cent[33]. Private sector world class is around 0.5 per cent[34]. This compares to an average of around 1.4 per cent[35] in the public sector.

[29] This is an approximation using benchmarking data provided to the programme by Hackett, Saratoga and Bain.
[30] This is an approximation using benchmarking data provided to the programme by Hackett, Saratoga and Bain.
[31] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008..
[32] It is assumed that this can be directly compared to organisational expenditure in the public sector.
[33] This is an approximation using benchmarking data provided to the programme by Bain, McKinsey and Hackett.
[34] This is an approximation using benchmarking data provided to the programme by Bain, McKinsey and Hackett.
[35] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008..

2.22 Chart 2.J illustrates these further savings estimates. Note that the savings estimate for private sector best practice is an upper estimate of potential savings and it would not be expected that all public sector organisations could achieve this.

Chart 2.J: Potential savings with private sector benchmarking methodology



Source: Illustrative, based on CIPFA data 2006-07 and private sector benchmarks

2.23 Table 2.B shows the levels of savings identified from the benchmarking methodology:

Table 2.B: Potential savings from benchmarking analysis

£ billion savings If all public sector organisations get to…	HR	Finance	Procure-ment	Estates	Marketing and Comms	Other	Total savings	As per cent of total spend
1: Bottom quartile	1.0	0.7	0.3	0.9	0.5	0.8	4.2	23 per cent
2: Average	1.1	0.8	0.4	0.9	0.5	0.8	4.5	25 per cent
3: Median	1.6	1.2	0.6	1.3	0.5	0.8	5.9	33 per cent
4: Private sector average	1.2	1	N/A	N/A	N/A	N/A	(Equivalent to £5.2 billion)	29 per cent (average)
5: Private sector best practice	2.4	2.3	N/A	N/A	N/A	N/A	(Equivalent to £11 billion)	62 per cent (average)

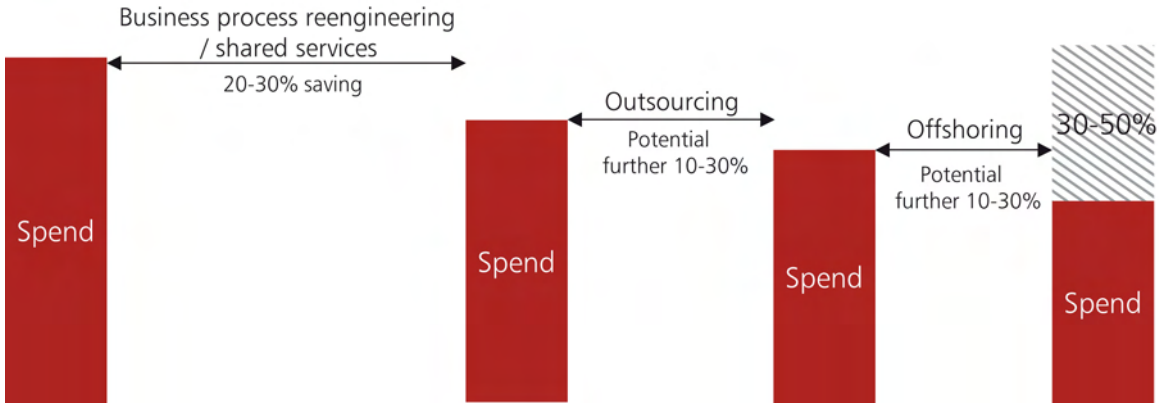
Source: HM Treasury analysis

2.24 Some organisations will, of course, have particular requirements of their back office functions but the scale of the differences between them underlines the potential for cost savings. The public sector would only have to move the weakest performing organisations up to the top end of the lowest performance quartile to generate savings of at least £4 billion a year. More radical improvements, for example moving up to average performance, would generate significantly greater savings. This analysis therefore indicates that savings in the range £4 to 5 billion should be possible, and that **£4 billion** savings is an achievable target.

Private sector cost efficiency experience

2.25 The potential savings from re-engineering back office operations have also been estimated using extensive research on private sector cost efficiency experience, advisor experience and input from private sector companies with experience in improving back office efficiency (see the list of people and organisations consulted in Annex B).

Chart 2.K: Cost efficiency journey



Source: Bain, McKinsey and PWC research provided to the Operational Efficiency Programme

2.26 Private sector cost efficiency experience has shown that around 20 to 30 per cent can be saved from business process re-engineering (BPR) and shared services. BPR is an umbrella term that describes a variety of activities that critically review whether an organisation's processes, systems and procedures are tailored to deliver key business needs. It ensures continuous improvement in the efficiency and effectiveness of the processes within an organisation.

2.27 Some case studies of private sector best practice in making significant savings in back office operations are detailed in Annex D, Box D.T.

2.28 It is assumed (see paragraph 2.14) that around £15 billion of the total £18 billion spend is not shared or outsourced, and thus the potential saving from BPR and shared services is around **£3 to £4.5 billion**. Savings of up to £7.5 billion may be possible through the full cost efficiency journey outlined in Chart 2.K.

Public sector best practice

2.29 It is both notable and encouraging that there are a number of best practice examples across the public sector, where significant savings in back office operations have already been made. Several case studies are set out in Annex D. Box 2.A summaries three of these case studies.

2.30 These case studies show both significant cost savings **and** improvements in the quality of service. Public sector best practice indicates that cost savings of around 25 to 30 per cent can be achieved. Applying this savings figure to the £15 billion of spend on back office operations not shared or outsourced gives a potential savings figure of **£3.75 to 4.5 billion.**

Box 2.A: Public sector case studies

HM Prison Service: HMPS have implemented a shared services centre that delivers finance, procurement and HR functions for all 128 Prison Service establishments. It is expected to deliver a 32 per cent saving in staff costs and just over 30 per cent savings against the gross costs of corporate services. See Box D.C in Annex D;

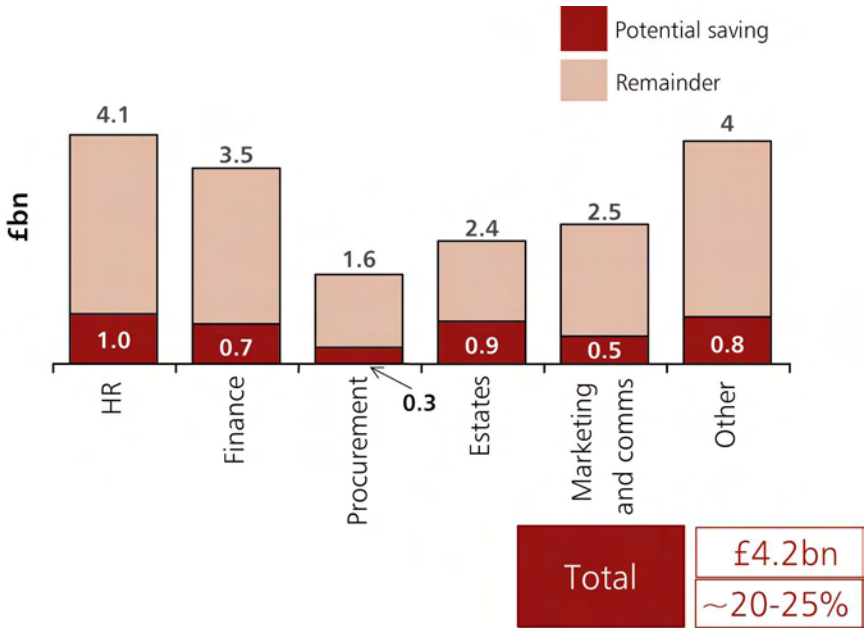
National Health Service (NHS): A joint venture, shared business service between the Department of Health and Steria now serves over 100 health trusts. This shared service delivers 20 to 30 per cent savings on like for like services. See Box D.B in Annex D; and

Department for Work and Pensions: DWP have set up a shared services organisation providing some HR and finance functions to the department, its executive agencies and to other parts of government. Savings from shared services of 15 per cent have been achieved already, with further savings of 13 per cent expected for 2008-09. See Box D.D in Annex D.

Conclusions

2.31 These three different methodologies – benchmarking, private sector experience of streamlining operations and public sector best practice – each indicate that the public sector should be able to achieve a reduction in annual back office costs of around 20 to 25 per cent by the end of the next three years. This is equivalent to a reduction of £4 billion from the 2007-08 baseline estimate of £18 billion annual UK spend on back office operations. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. Chart 2.L indicates how this could split down between different back office operations, though the actual breakdown of how this £4 billion is achieved need not fall exactly in this pattern.

Chart 2.L: Scope for savings from back office operations



Source: HM Treasury analysis

2.32 The three-year timescale for achieving this reduction is at the upper end of private sector experience for the delivery of cost saving programmes of this kind. It is estimated that around 40 per cent could be achieved by the end of 2010-11 and the remaining 60 per cent from 2011-12. Just focussing attention on better management information and benchmarking should lead to some significant savings at an early stage in the process.

3 Back office operations: recommendations

3.1 The OEP's analysis has identified that £4 billion a year of savings in back office operations are achievable by the end of three years. The programme's recommendations for securing the estimated savings focus on the production and review of top-level performance indicators and the adoption of best practice. The approach centres on transparency rather than micro-management. In summary, government should:

1 improve the collection and reporting of data across the public sector. Management information on back office operations should be fully integrated into departmental processes and should be collected and reported on a regular, consistent, auditable and transparent basis to allow for robust comparisons;

2 introduce benchmarking and operational performance reviews across the public sector; and

3 take the identified savings into account in determining departmental settlements (taking note of savings already made where appropriate).

3.2 The programme sets out a range of case studies and recommendations to public sector organisations highlighting how these estimated savings can be achieved. The full set of recommendations is detailed below.

Collection and reporting of back office data

3.3 As noted in the previous chapter, there is a lack of management information on public sector spending on back office operations, making it hard to identify what the costs of back office operations actually are. This makes it difficult to establish trends, make comparisons and manage down costs. What is not measured well will not be managed well. In the private sector, improved management information drives improved cost control.

3.4 The collection and reporting of data on back office operations in the public sector should therefore be improved to address current issues and improve the management of back office operations across the public sector. Information should be available on a regular, consistent, auditable and transparent basis. It should:

- allow the tracking of spend over time;
- facilitate comparisons between organisations in the wider public sector, not just central government departments;
- comprise the *total* spend on back office operations, not just activity in the central back office function (thus avoiding any displacement of activity); and
- be embedded as part of regular reporting rather than as a one-off exercise.

3.5 The five UK audit agencies have produced sets of value for money indicators for HR, finance, procurement, IT and estates management. These indicators define the different back office functions to ensure consistency and comparability, and cover both the efficiency and the effectiveness of back office operations. New sets of indicators in marketing and communications

are being developed by the audit agencies, which the OEP strongly supports. The indicators are set out in Annex E.[1] IT benchmarking is addressed in chapters 4 and 5.

3.6 The five audit agencies' value for money indicators in HR, finance, procurement and estates management should be used by **all** public sector organisations. This should take effect by June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector. This will ensure that data is comparable and robust across all public sector organisations. This is not a burdensome task, as detailed in Box 3.A.

Box 3.A: Departmental experience in using the audit agencies' value for money indicators

Many public sector organisations have voluntarily started to use the audit agencies' value for money indicators as part of their management information. Those who have recently joined have informed the Operational Efficiency Programme that it takes a limited amount of time to join and has been quite easy to do so. This evidence has demonstrated that it is reasonable to expect all public sector organisations to be using the indicators.

3.7 An exception to this data collection could be made for organisations that employ few staff – i.e. organisations employing fewer than 250 people. However, for similar organisations, it is expected that the key indicators be collected at an aggregate level. For example, back office spend across the education sector in a local area should be aggregated by the local authority, and central government departments should be looking at this data across their agencies and NDPBs.

3.8 The data collected should form part of all public sector organisations' regular management information. All public sector organisations should include the cost of their back office operations in their regular board reporting. Boards should therefore be able to consider the contribution these services make to key business objectives, review their performance against similar organisations and assess whether the services are providing value for money.

3.9 In addition, all public sector organisations should use these value for money indicators to set out the costs of their back office operations in their public reporting, preferably online, to improve transparency. The relevant guidance should be updated to reflect this. After the first set of benchmarking in 2009, benchmarking should take place at least every year for the key quantitative data (which should be embedded in organisational management information) and at least every two years for the qualitative data on performance.

3.10 For central government, agencies and NDPBs, the Corporate Functions Board (CFB) should drive the use of these indicators and discussions should be taken forward between HM Treasury and the National Audit Office (NAO) on how the NAO could provide assurance on central government reporting against the indicators. In the wider public sector, the Audit Commission should strongly encourage use of the indicators for all local public bodies within its scope.

[1] See the Public Audit Forum website: http://www.public-audit-forum.gov.uk/publicat.htm for full documentation on these indicators

Recommendation 1a:

All public sector organisations employing more than 250 people must collect and publish data using the five audit agencies' approved value for money indicators for back office operations with effect from June 2009 for central departments, agencies and NDPBs and by December 2009 for the wider public sector.

This information should form part of a department's regular management information and be included in its regular board and public reporting. It should be subject to external audit.

Benchmarking and assessment of back office data

3.11 To ensure that these value for money indicators are used in a way that drives improved performance, the data from across the public sector should be collected, checked and published in a form in which comparisons between similar organisations can readily be made. Improved collection and benchmarking of data should help to identify disparities in performance, raise questions about why differences exist and pinpoint how poorer performing organisations could improve.

Central government

3.12 For central government, this process should be owned by the CFB, with each Head of Profession responsible for benchmarking in their function. Going forward, the value for money team at HM Treasury should provide additional support and link the benchmarking findings into HM Treasury spending teams, to support existing HM Treasury work with departments on improving value for money.

3.13 This same benchmarking data should feed into the departmental balanced scorecard that the centre of government (Cabinet Office and HM Treasury) will use to hold departments to account.[2]

3.14 This benchmarking of functions has already begun in central government:

- in HR, the CFB has just started departments using slightly amended audit agencies' benchmarks. The key quantitative metrics (e.g. HR cost per person) remain the same. The Cabinet Office runs this process, with overall responsibility with the head of HR (at Cabinet Office);
- in finance, the CFB has already started departments using the audit agencies' benchmarks. HM Treasury runs this process, alongside the Cabinet Office, with overall responsibility with the head of finance;
- in procurement, higher direct spend may be a good thing if this is more than offset by savings in the costs of goods procured. Therefore, the effectiveness of the procurement function is especially important. The Office of Government Commerce (OGC) leads on procurement policy and should take forward benchmarking of the procurement function, linked to Procurement Capability Reviews; and
- in estates management, OGC already collect a significant amount of data, some of which overlaps with the audit agencies' benchmarks. Going forward, all the benchmarking data in the audit agencies' value for money indicators set should be collected, including for example the cost of the estates management function.

[2] This balanced scorecard will feed into Permanent Secretary appraisals in order to hold Permanent Secretaries to account for performance in back office operations, and into Capability Reviews. The Heads of Profession should also be held to account for improvements in their profession.

Wider public sector

3.15 The recommendations set out above apply to the wider public sector. Some organisations in local government, the NHS, police and fire and rescue have voluntarily started to use the audit agencies' value for money indicators. This progress should be extended, and all central government departments should ensure that organisations in their delivery chain are collecting and benchmarking this data. Different mechanisms for achieving this objective will be appropriate for different sectors, for example:

- in local government, Regional Improvement and Efficiency Partnerships (RIEPS) should use peer review of back office data in their areas, and their outputs should be available for review by the Audit Commission in its "use of resources assessment;[3]
- for schools, benchmarking data should be collected at an aggregate level through local authorities, who should work with DCSF and RIEPs to benchmark and reduce back office costs across schools in their area;
- all NHS organisations should sign up to the audit agencies' value for money indicators in order to benchmark themselves and identify scope for improvement, including through use of the NHS shared business service. Delivery of savings in back office operations should be incentivised through the tariff;
- in the police service, the indicators should be included in the value for money profiles that are produced by Her Majesty's Inspectorate of Constabulary (HMIC). The Home Office should create expectations and incentives for forces and the police service to place a premium on having cost-effective back office functions, ensuring that the availability of resources for operational policing is maximised; and
- in the Further Education sector, the Learning and Skills Council should drive better value for money in back office operations. The Higher Education Funding Council for England should do the same in the Higher Education sector.

Recommendation 1b:

Benchmarking information from across the public sector should be collected, checked and published in order to drive improved performance. In central government, this is the responsibility of the Corporate Functions Board. For the wider public sector, each sector should ensure that its organisations are collecting this benchmarking information, on a regular, consistent, auditable and transparent basis and that the data is compared and scrutinised.

Operational Reviews

3.16 The much improved collection, comparison and reporting of data will facilitate greater external review of back office performance and costs and make it possible to hold permanent secretaries and ministers to account for the efficiency of back office operations. This is not about micro-management; it is about holding senior leaders to account for performance. It is not intended to add to existing review burdens, but enhance existing processes.

[3] For example, the Capital Ambition RIEP is using peer challenge to lead to efficiency improvements across London Boroughs. It is recommended that this type of programme be rolled out further, using RIEPs to analyse and scrutinise data and encourage improvements in back office efficiency.

3.17 Operational Reviews of organisational performance should be introduced to examine the effectiveness of back office spend and identify how organisations can improve their operational effectiveness. These reviews should make use of private sector experience and focus on organisations that are performing poorly. The first reviews should take place no later than April 2010 and the secretariat for this function should be based at HM Treasury, with support from the Cabinet Office. As well as back office operations, these reviews should include analysis and assessment of progress on the other OEP workstrands including, for example, the effectiveness of IT spend.

3.18 For central government, the Operational Reviews should focus on departmental performance but should also examine benchmarking data for departmental delivery chains at an aggregate level to drive improvements throughout the public sector. This analysis should feed directly into PSX value for money discussions to hold ministers to account and be an input to the six-monthly performance reviews between the Centre and departmental permanent secretaries.[4] For local government and other local public bodies within its remit, the Audit Commission should examine back office costs as part of its "use of resources" assessment, paying due regard to the peer review of costs carried out by RIEPs. It should encourage organisations with poorly performing back office operations to improve.

Recommendation 2:

A system of Operational Reviews that examine performance on back office operations should be introduced for public sector organisations. The initial focus should be on those organisations currently performing in the bottom quartile. The first reviews should take place no later than April 2010.

For central government and agencies, and at an aggregate level, departmental delivery chains, this should be carried out by a small review team incorporating private and public sector experience. The review team should report to PSX and inform six-monthly performance reviews between the Centre and departmental permanent secretaries. The Audit Commission should carry out this function for local public bodies in its scope, as part of its "use of resources" assessment.

Building savings into settlements

3.19 In order to drive out the estimated £4 billion annual savings from back office operations, it is recommended that these savings are taken into account when departmental spending settlements are made. Some of the estimated savings will already be underway or planned as part of the current spending review period, but there is considerable scope to go further. Using improved management information, it should then be up to public sector organisations to identify how best they can make the savings, rather than introducing any micro-management.

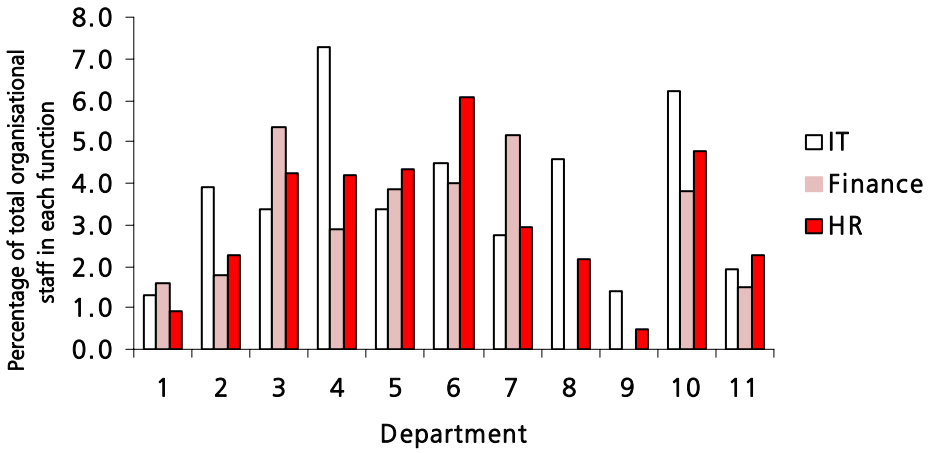
3.20 Due to the paucity of management information, allocating the savings based on existing performance is not possible. Responses to the OEP questionnaire indicate that almost all departments are spending well above the most efficient levels – see Chart 3.A. Public sector organisations will inevitably be more efficient in some back office operations than others, and some organisations within a department's delivery chain may be significantly more or less efficient than others. Therefore, it is expected that the savings be made in the most appropriate areas.

[4] See footnote 2 above.

3.21 Exceptions should be made for those departments which can demonstrate, using the audit agencies' value for money indicators, that they and the organisations within their delivery chain are already operating above public sector median performance across the range of back office operations.

3.22 In the future, it is expected that management information will be improved, and therefore more sophisticated approaches to savings targets should be possible in order to encourage improvements in the poorest performing organisations.

Chart 3.A: Headcount ratios in IT, Finance and HR across a range of departments



Source: Departmental responses to the OEP questionnaire, 2008

Recommendation 3:

The Government should take into account the estimated £4 billion annual savings in the cost of back office operations when determining departmental settlements, taking note of savings already made where appropriate.

Systematic organisational reviews of functions, systems and processes

3.23 A key driver in generating savings in public and private sector best practice examples is conducting a fundamental review of an organisation's activities and processes. Devolution and fragmentation across the public sector mean that there is a wide variation and substantial complexity in back office operations. This lack of simplification and standardisation comes at a significant cost.

3.24 Where efforts have been made to reduce back office costs, they have tended to be based on 'salami slicing', i.e. incremental cuts to existing systems rather than a fundamental review of the business and what back office systems and procedures are needed to support it. Where organisations have undertaken fundamental business reviews, significant simplification and standardisation of back office processes has been achieved.

3.25 Business process re-engineering (BPR) describes a variety of activities that critically review whether an organisation's processes, systems and procedures are appropriate to deliver key business needs. BPR also ensures continuous improvement in the efficiency and effectiveness of the processes within an organisation. Implementing a programme of fundamental and

systematic BPR reviews across public sector organisations will be a major driver in generating savings in back office and other operating costs. An excellent but relatively uncommon case study in the public sector is National Savings and Investments (see Box D.A, Annex D). The private sector provides a wide array of success stories in this area – see for example Box D.G, Annex D.

3.26 It is therefore recommended that all public sector organisations with more than 1000 employees conduct a systematic review of their functions, systems and processes to reduce complexity and cost through simplification and standardisation by the end of 2010-11. This process should not only reduce costs but also improve the effectiveness of service provision.

3.27 The first reviews should take place within the next two years, and then at least every five years. For central government departments, this should be linked to the outcomes of their Capability Review. Organisations should report their progress against these reviews. The Audit Commission's 'Back to Front' report[5] should support local government in this process.

Recommendation 4:

Public sector organisations with more than 1000 employees should conduct a systematic review of their functions, systems and processes to drive simplification and standardisation. Reviews should be carried out by the end of 2010-11, and thereafter at least every five years. They should lead to significantly greater sharing of services and potentially increased outsourcing.

Increased momentum for shared services and outsourcing

3.28 Some progress has been made in shared back office operations in central government since the Gershon programme.[6] Savings to date have been achieved mainly through internal departmental consolidation of HR, finance and procurement. Despite this progress, there remains significant scope to drive further savings from cross-departmental shared services.

3.29 There are some good case studies of successful shared services in the public sector, as set out in Annex D, Boxes D.B-D and D.J. There has also been some success in public sector outsourcing – see Box D.I in Annex D – and some problems with public sector shared services programmes – see Box D.H in Annex D. The Cabinet Office Shared Services Team provides guidance on inter-departmental sharing of services and also publishes best practice on implementing shared services, including case studies. This should help to build capability in this area and identify when a shared service approach will yield most benefits.

3.30 It is recommended that there is increased consolidation of existing shared service centres for central government. Central government should be leading the way in shared services with a robust shared services offer for central departments, their agencies and NDPBs that can be moved onto with minimal transaction costs. This should be:

- comprised of two or three shared service centres, informed by the existing shared services landscape, with sufficient scalability to easily bring in new organisations;
- managed on an arms-length basis with robust Service Level Agreements (SLAs);
- expected to deliver at least 25 per cent savings from the costs of back office functions and achieve upper quartile performance in three years; and

[5] *Back to Front: Efficiency of back office functions in Local Government*, Audit Commission, October 2008.
[6] *Releasing resources to the frontline: Independent Review of Public Sector Efficiency,* HM Treasury, 2004.

- overseen by the Corporate Functions Board and managed on a day to day basis by dedicated Chief Executive(s).

3.31 There is the opportunity to establish centres of excellence across the existing shared services landscape, which should help to inform the consolidation process. Benchmarking should also be used to inform this process and PSX should monitor progress to help achieve this consolidation. It would remain up to individual organisations to decide whether to move onto these central shared services platforms, but they will be called upon to justify that they have made the most appropriate value for money decision for their back office operations. It is expected that the costs of entering shared service arrangements would be met from existing departmental budgets.

Recommendation 5:

Progress in central government shared services should be accelerated by consolidating existing shared back office centres to provide a robust shared services offer to central government (including agencies and NDPBs). This should be overseen by the Corporate Functions Board. The shared service centres should be managed on an arms-length basis via clear Service Level Agreements. The target is to deliver upper quartile performance for all those using the shared service and drive out cost savings of at least 25 per cent within three years. A similar drive towards greater use of shared services should be encouraged across the wider public sector.

3.32 There are several other corporate operations where shared services could be implemented across government. It is recommended that consolidated services are provided, and used where this provides the best value for money, across the following functions within the next two years:

- security vetting (see Box D.L, Annex D);
- pensions administration (see Box D.K, Annex D);
- banking (see Box D.M, Annex D); and
- fraud operations.

3.33 Outside central government, all organisations should be considering a wider range of options for shared services as part of their systematic reviews, and there should not be a 'one size fits all' approach. Local public sector bodies should consider whether the best solution for them is:

- regional cross-service shared services: For example the Southwest One shared service centre which serves Somerset County Council, Taunton Deane Borough Council and Avon and Somerset Constabulary (see Box D.J in Annex D);
- shared services within the same sector: For example, the shared service centre between Cambridgeshire and Northamptonshire County Councils and Slough Borough Council, which is not in the same geographical area, or sharing between district and county councils; or
- contracting out services: It often provides better value for money for an organisation to contract out back office operations and allow the contractor to deliver economies of scale.

3.34 All NHS organisations should be strongly encouraged to join the NHS shared business service within the next two years, using financial incentives if necessary, unless they can prove they are achieving better value for money.

3.35 For police, the Association of Chief Police Officers (ACPO) should take the lead in standardising back office systems and processes to encourage greater collaboration and convergence across police forces. ACPO should ensure greater sharing of back office services, particularly amongst smaller forces.

Improved management information in the longer term

3.36 In the longer term, systems should be put in place to enable management information on the costs of back office operations to be easily collected and reported as an integral part of the public sector management reporting system. This information is the same as that in the five audit agencies' value for money indicators described above, so would not represent an additional data collection burden for departments.

3.37 Over time, the HM Treasury system used to collect public sector financial information centrally ('COINS'[7] – the Combined Online Information System) should have be enhanced where possible to collect this back office data categorised by function. This should include HR, finance, estates management, procurement (the exact definitions of which are included in the audit agencies' value for money indicators), marketing and communications and 'other' back office costs. Initially, this should include management information for central government departments, executive agencies and NDPBs. All NDPB expenditure is currently classified as programme with no administration budget, and therefore incorporating NDPB back office expenditure into COINS is likely to take longer than for departments and agencies. This could possibly pave the way to applying administration budgets[8] to arms length bodies in the future, in order to monitor and control back office expenditure. In the longer term, the aim should be to expand this to back office operations outside central government where possible.

Recommendation 6a:

HM Treasury should enhance COINS functionality where possible to collect data on the cost of back office operations for all central government departments, executive agencies and NDPBs centrally and seamlessly on a monthly basis as part of forecast outturn, using consistent definitions.

3.38 COINS will be replaced over the next few years and lessons from the recommendation above should feed into the replacement. A common chart of accounts for back office operations should be created as part of the COINS replacement. This will require consultation across departments in order to develop a robust, applicable chart of accounts. It may require a staged implementation, similar to the recommendation above – firstly in central government and then should be considered for bodies outside central government. It should bring about benefits in the longer term, for example benefits during Machinery of Government changes and also when comparing financial information across departments.

3.39 The COINS replacement should have the functionality to better integrate performance and financial information in order to link inputs to outcomes. This will be linked to work on costing of Departmental Strategic Objectives (DSOs) and Public Service Agreements (PSAs).

[7] The HM Treasury system used to collect financial information relating to Government Accounts and Resource Budgets.

[8] Administration budgets have been developed to "drive economy and efficiency in the running of government itself" by capping civil service expenditure, preventing departments from expanding excessively or diverting resources away from frontline activities. They are spending control totals negotiated and set during Spending Reviews. At present, they only apply to central departments and agencies.

Recommendation 6b:

As part of the COINS replacement, a common chart of accounts should be considered for back office operations

As part of the COINS replacement, the integration between performance and financial data should be increased.

4 IT: analysis

Background

4.1 The efficient and effective use of IT has the potential to benefit every citizen through higher quality public services. Positive examples of where IT has made important contributions in UK public services are highlighted in Box 4.A.

Box 4.A: IT contribution to UK public services

IT is a key enabler to support the delivery of public services and the examples below demonstrate a number of areas where IT is helping the efficiency, effectiveness, and accessibility of front line public services across the public sector on a daily basis.

Education: already over 99 per cent of schools, colleges and universities have broadband access and 350,000 teachers use IT for lesson planning and administration. Almost a million primary school children use e-learning in the classroom every day and electronic whiteboards are used in almost every school;

Health: after over 100 years of using hardcopy x-rays there is now a national digital imaging system available to all practitioners with over 500 million images on-line – improving diagnosis, speeding up results and saving lives;

Transport: Since its introduction, more than 35 million motorists have used Electronic Vehicle Licensing; and

Provision of joined-up services online: the Directgov website, which provides simple access to numerous public services across central and local Government, now receives approximately 10 million hits in a typical month.

4.2 However, the Government must ensure that the public receives maximum value for money from the implementation of such IT enablers and that the use of IT in the public sector is as cost effective and efficient as possible.

Estimation of spend on IT

4.3 Critical to managing spend and obtaining greater value for money from IT expenditure is understanding how much is spent and where. However, many public sector organisations do not hold detailed information on how money is spent on IT within their organisations and the information that is available is not particularly accurate.

4.4 A total of five different one-off estimates of public sector IT expenditure have been identified. These have been carried out at different times and on different bases:

1 the **CIO Council**[1] estimated total IT expenditure to be **£13.2 billion**[2] in 2006-07 for those parts of the public sector which are represented by the Council. The Council's

[1] The CIO Council acts as a focus for partnership between IT professionals across Government. Membership is listed at: http://www.cio.gov.uk/about_the_council/council_members.asp

estimate provides the most detailed breakdown of spending across government departmental groups and shows that up to 90 per cent of IT expenditure is concentrated within ten areas – see Chart 4.A. However, the Council's estimate relates only to those public sector organisations represented on the CIO Council[3]. The estimate therefore understates total public sector IT expenditure and there is inconsistency in the provision of data – for example, no data was provided by the Scottish public sector in 2006-07, but data for the Welsh and Northern Irish public sectors is included. Furthermore, the figures are subject to the varying accounting practices relating to IT expenditure across the public sector;

2 the **Office of Government Commerce (OGC)** has estimated that the UK public sector spends **£13.2 billion** on **external** IT contracts (i.e. contracts with third party suppliers).[4] OGC's 2007-08 estimate uses information from the Public Sector Procurement Expenditure Survey (PSPES) and bespoke research from market analysts Kable. The estimate does **not** include internal IT costs, such as in-house staff, so also understates total public sector IT expenditure;

3 **CIPFA Benchmarking data** of the internal and external IT expenditure for 50 public sector organisations in 2007-08 has been used to estimate total IT expenditure at **£12.4 billion**. This estimate was obtained by extrapolating the expenditure on IT as a proportion of total organisational costs for the benchmarked organisations to the entire public sector. It is likely to be the better performing public sector organisations that will voluntarily sign up for benchmarking, and they can therefore be expected to have lower levels of IT expenditure as a proportion of total organisational expenditure. The extrapolated estimate of total UK public sector IT expenditure based on the benchmarked organisations will therefore almost certainly understate the true level of public sector IT expenditure;

4 **Kable[5]** data includes an estimate of all UK public sector external (on third party suppliers) and internal (within the organisation) spend. Kable's estimate for 2007-08 is **£16.7 billion.** This estimate is based on market information and Kable's surveys of senior IT staff from within government and IT providers; and

5 **Gartner's[6]** 2007 benchmarking data of international IT spend suggests UK annual public sector IT spend is approximately **£18.4 billion[7].** This, again, is an estimate of all internal and external organisational spend on IT and is based on market information and surveys of senior IT staff from within government and IT providers.

4.5 Based on these five estimates, the OEP's best estimate of **UK public sector IT expenditure is £16 billion in 2007-08**,[8] which represents 4.6 per cent of total departmental expenditure.[9] However, given the differences and limitations of the various data sources, the annual spend could be as low as £12.5 billion and range up to around £18.5 billion.

4.6 Chart 4.A shows the main areas of IT spend by product / service categories, according to Kable:

[2] *Transformational Government – our progress in 2007,* HM Government, 2007

[3] This excludes, for example, Government Communications Headquarters, for which special rules apply

[4] *IT Management Information,* Office of Government Commerce, 2008

[5] *UK Public Sector Overview to 2012-13,* Kable, 2008

[6] *Forecast: Industry Market Strategies by Vertical Industry, Worldwide 2006-12*, Gartner, 2009. The Gartner data estimates total spend across National and International Government, Regional and Local Government, Education and Healthcare sectors and not UK Public Sector IT spend specifically.

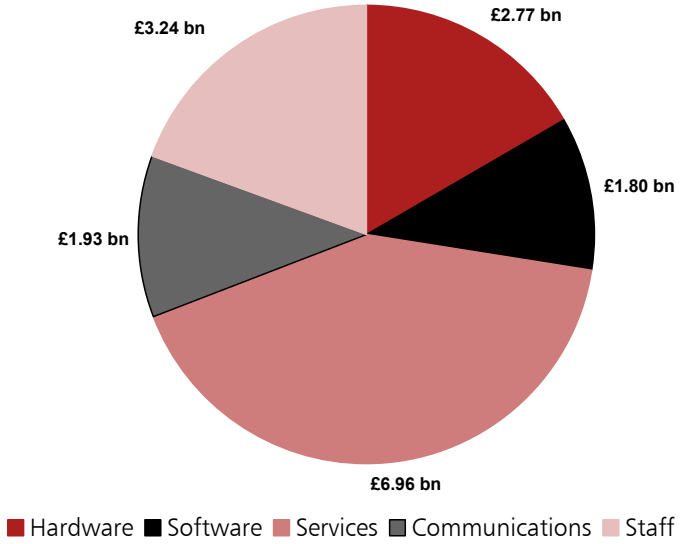
[7] This figure is based on estimated spend of US$36.9billion and an average exchange rate for the year of $2.00 to the £

[8] Although estimates are for different periods, none of the estimates have been adjusted for inflation. The overall level of inflation for software, hardware and resources taken together is not significant.

[9] Total Departmental Expenditure measured by Total Resource and net Capital Departmental Expenditure Limits, which for 2007-08 amounted to £345 billion (*Public Expenditure Statistical Analyses,* HM Treasury, 2008)

Chart 4.A: Main areas of IT spend by product / service categories (Kable estimate)

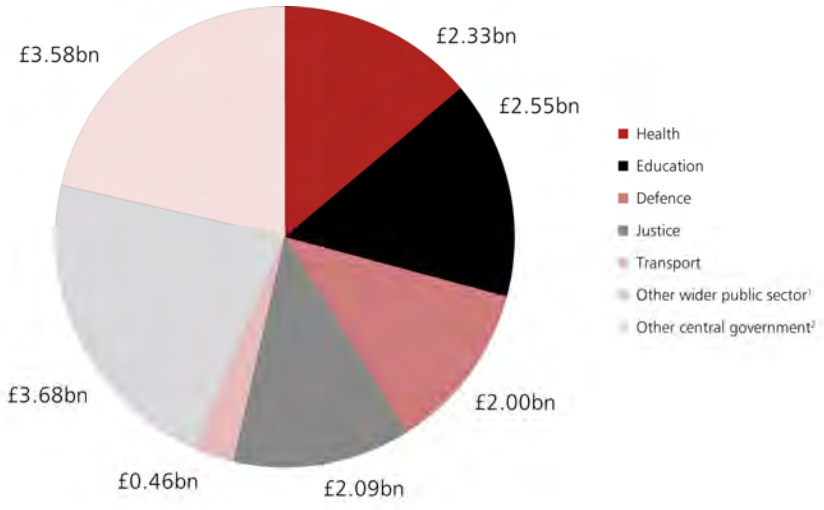
Kable suggest £16.7 billion for UK government IT expenditure in 2007-08, which is broken down as shown below



Source: UK Public Sector Overview to 2012-13, Kable, February 2008

4.7 Kable also break this data down by Government sector, as shown in Chart 4.B.

Chart 4.B: Main areas of IT spend by Government Sector (based on Kable estimate of total £16.7 billion spend for IT in the UK public sector)



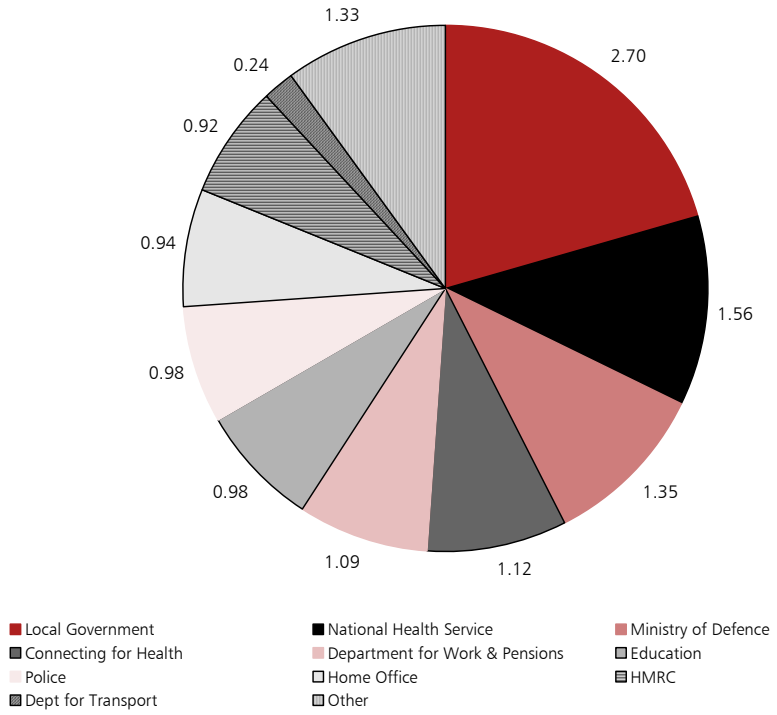
1. This includes all other wider public sector spend not included in health, education, defence, justice or transport
2. This includes all other central government spend not included in health, education, defence, justice or transport

Source: UK Public Sector Overview to 2012-13, Kable, February 2008

4.8 The ten largest areas of UK Government IT expenditure according to the CIO Council are shown in Chart 4.C. They account for around £12 billion of annual expenditure and represent 90 per cent of total IT expenditure. The bulk of this spend is external IT spend. Staff costs are included for some organisations, but not others.

Chart 4.C: UK Government IT expenditure by departmental group (CIO Council estimate)

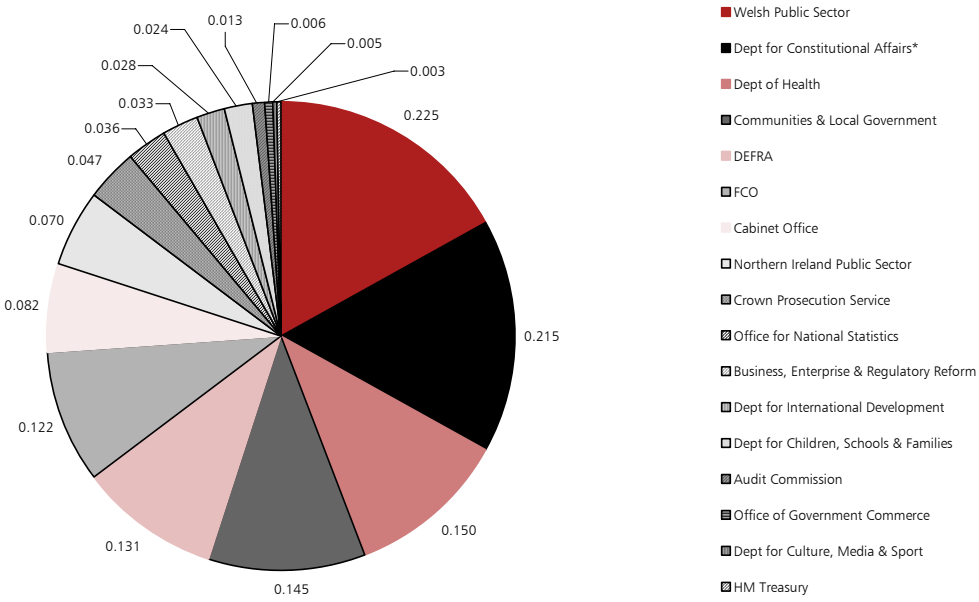
According to the CIO Council, the ten largest departmental groups by IT expenditure represent 90 per cent of public IT expenditure, i.e. £11.86 billion in 2007



Source: HM Treasury using data from Transformational Government – our progress in 2007, HM Government, 2007.

4.9 The remaining 10 per cent of UK Government IT expenditure according to the CIO Council (the £1.33 billion in the "other" category in Chart 4.C) is broken down as shown in Chart 4.D.

Chart 4.D: "Other" areas of IT Spend by Government Sector (CIO Council estimate). Total "other" areas of spend = £1.33 billion



*This data was collected before Machinery of Government changes took place
Source: HM Treasury using data from Transformational Government – our progress in 2007, HM Government, 2007.[10]

Methodology used to estimate potential IT savings

4.10 A detailed analysis of UK public sector IT expenditure is challenging, given the lack of consistent management information available. However, six separate pieces of quantitative analysis have been undertaken to estimate the scope for savings in UK public sector IT spend:

*This data was collected before Machinery of Government changes took place
Source: HM Treasury using data from Transformational Government – our progress in 2007, HM Government, 2007.[11]

1 **CIPFA benchmarking analysis:** this method uses an extrapolation of CIPFA benchmarking data[12] on the IT expenditure of 50 public sector organisations as a percentage of organisational running costs and assumes the performance of the poorest performers can be improved to the top of the lowest performance quartile. On this basis, potential savings of up to £3.3 billion (or 21 per cent of the estimated UK public sector annual IT spend of £16 billion) could be achieved;

2 **best practice case studies**: this method uses an analysis of a number of case studies across both the public and private sectors to assess how much could be saved through a focused IT cost reduction exercise, whilst maintaining or improving the quality of services. At both departmental and local levels, there are examples of

[10] Data collected in 2006-07 and therefore not demonstrative of all current Machinery of Government changes
[11] Data collected in 2006-07 and therefore not demonstrative of all current Machinery of Government changes
[12] Data for 2006-07 from an anonymous sample of public sector bodies, CIPFA, 2008.

public sector organisations reducing total IT expenditure by up to 30 per cent, while at the same time improving service performance;

3 **private sector comparisons:** whilst it is not always easy to compare spend across different parts of government with the private sector on a generalised basis, work[13] has been carried out comparing the proportion of IT expenditure in public sector organisations with the most similar private sector organisations. For example, the OEP has compared the IT costs of transaction-intensive public sector organisations with banks and insurance companies and assessed the potential level of savings available. Savings achieved by private sector organisations from focused programmes of strategic outsourcing and simplification and standardisation of IT infrastructures have also been analysed. Overall, this analysis demonstrates that savings of at least 20 per cent, or £3.2 billion, are possible;

4 **analysis of existing IT contracts:** research from management consultancy organisations[14] demonstrates **that savings of at least 20 per cent** are achievable on UK Government outsourcing contracts;

5 **private sector consultancy experience**: discussions with private sector organisations which have undertaken numerous IT-focused cost reduction programmes on behalf of public sector organisations indicate that savings of at least 20 per cent can be achieved; and

6 **international comparisons of IT spend:** although comparisons across countries are difficult due to the lack of consistent international data collection, analysis comparing spend of similar major economies suggests that the UK public sector spends more on IT than other European Union countries without achieving significantly better outcomes. Even allowing for inaccuracies in the data, the analysis indicates that significant savings should be possible. The analysis suggests that a saving of 20 per cent on the estimated £16 billion annual spend (equivalent to £3.2 billion) is achievable.

4.11 Although each piece of analysis is inconclusive by itself, each points firmly in the same direction and supports the conclusion that across the £16 billion of annual public sector IT expenditure, **savings of around 20 per cent, or £3.2 billion**, can be achieved**.** This reduction in annual spend should be deliverable by the end of a three year period – somewhat longer than the timescales achieved in the private sector. The six pieces of analysis are each explained in detail in the remainder of this section.

1. Benchmarking

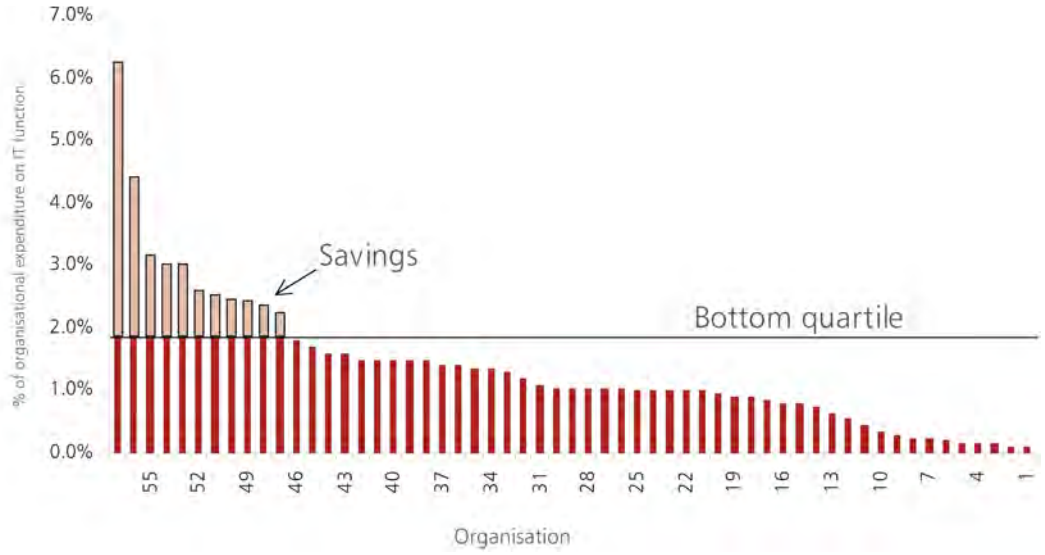
4.12 The benchmarking analysis extrapolates CIPFA IT spend data from approximately 50 public sector bodies, including central government departments, primary care trusts, local government and police authorities in similar proportions to their prevalence across the public sector. The analysis treats the public sector bodies as being a representative sample of the wider public sector, and assumes that each of the public sector bodies has the same total organisational expenditure.

4.13 Possible savings are calculated by improving the performance of the worst performers to the top of the lowest performance quartile. Chart 4.E shows the possible savings for a sample distribution of public bodies. Based on the assumption that the CIPFA IT expenditure data is

[13] *Observations on Back Office and IT*, McKinsey & Company, September 2008.
[14] Incorporating press releases and data from Compass Management Consultants.

representative of the wider public sector and by extrapolating the data to the whole of the public sector,[15] the benchmarking analysis would suggest savings of £3.3 billion could be achieved.

Chart 4.E: Example distribution of benchmarking data and potential savings



Source: Illustrative, based on CIPFA data 2006-07

4.14 Naturally there is no optimal level of IT expenditure for all organisations. However, whilst public sector organisations will not have the same IT requirements and may be at different stages of their IT investment cycles, the size of the variations should not be disproportionate. In this context, it is notable that the benchmarking data does show a wide variation in IT expenditure across the public bodies that have submitted data, giving confidence that significant savings are possible. Additional analysis undertaken shows that there are a number of examples of public sector organisations, including large departments, which spend a significantly larger proportion of their organisational expenditure on IT than contained within the CIPFA sample. This supports the assumption that the public bodies that voluntarily submit to benchmarking would be the better performers. Average IT expenditure for the public bodies represented within CIPFA data is 3.7 per cent of total organisational expenditure, significantly lower than the average of 4.6 per cent the UK public sector calculated in paragraph 4.5. As the number of poor performers within the public sector will be higher than suggested by the CIPFA data, this increases the likelihood that savings of £3.3 billion could be achieved, equivalent to savings of 21 per cent from the £16 billion annual UK public sector IT expenditure.

2. Public Sector Best Practice

4.15 The OEP has analysed examples of 'best in class' practice, both at the departmental level and the local level, where significant savings in IT expenditure have been made in the public sector and improved performance achieved. This has been delivered through operational transformation, the development of a world-class IT infrastructure, strategic outsourcing, increased standardisation and simplification and ensuring that government drives the best deals for the provision of IT services from suppliers.

15 Using the total spend figure of £345 billion for 2007-08 from Public Expenditure Statistical Analyses, HM Treasury, 2008

4.16 The public sector has therefore already demonstrated that large value for money savings can be made on its IT expenditure. Three particularly good examples are the radical rethink of business processes at the Department for Work and Pensions and business transformation projects at Birmingham City Council and Lancashire County Council. The savings achieved in these, and other, case studies show that savings of at least 20 per cent can be achieved. Further examples, such as the Driver and Vehicle Licensing Agency (DVLA) are included in Annex D.

Box 4.B: Department for Work and Pensions are on track to reduce IT expenditure by 30 per cent by 2010-11

The Department for Work and Pension's (DWP) 2004 Spending Review (SR04) settlement was one of the toughest in Whitehall, with DWP required to achieve value for money savings of approximately £1 billion. This led to a radical rethink of business processes, a complete review of procurement contracts with external providers and promoted a real drive to transform the professionalism of the department.

IT expenditure has reduced substantially, while service has improved

Prior to the 2004 Gershon efficiency review, DWP IT expenditure was approximately £1.1 billion per year. Significant efficiency savings have been made during SR04 with further planned efficiencies during the current CSR07 period. By 2010-11 IT expenditure for DWP is therefore expected to be around £720 million, which reflects more than a 30 per cent reduction from pre-Gershon. Also IT operational costs are expected to fall by around 40 per cent over this same period. At the same time service quality and performance has improved.

This has been achieved through:

- commercial professionalisation: The tough SR04 spending settlement gave DWP the "burning platform" to undertake a radical mindset change with suppliers and promoted a greater need to drive the best deals for the provision of IT services;
- standardisation and simplification: DWP's development of shared services is now seen as a good practice model, providing cross-government accounting services, customer payments, debt management, employee services and purchase to pay (P2P) services for Cabinet Office, DCSF and DIUS;
- adoption of industry standard services for desktop / front office, network, hosting, application support and maintenance and applications development to facilitate the assessment of costs and quality. DWP are now purchasing significant volumes of standardised services and are rationalising around common processes;
- improved demand management so the department buys only what it needs, supported by undertaking lean programmes to eliminate unnecessary waste throughout department; and
- leadership: DWP has a Departmental Strategic Objective that it should "be an exemplar of effective service delivery."

Reference: The Department for Work and Pensions

Box 4.C: Business Transformation in Lancashire County Council

Lancashire County Council, through its Business Improvement Programme, is delivering significant efficiency savings across its IT portfolio while at the same time using its investment in IT to support and enable further savings across the wider business. These changes have contributed to value for money savings of over £10 million in corporate services over the SR04 period and a low IT cost base when benchmarked against local and central government.

The Council has reduced its IT costs through:

- standardising desktops and use of e-auction, saving £0.75 million per year;
- replacing its existing network of printers with multi-functional devices, providing a cost saving of 36 per cent; and
- renegotiation of external contracts for data centre and network support to a shared services partnership, saving just under £1 million per year.

IT investment has also enabled cost savings in other areas of the business through:

- re-engineering and restructuring the HR function, saving £1.5 million per year with a reduction of 66 posts; and
- providing the technical infrastructure for a more flexible working environment, allowing the building portfolio to be consolidated with expected savings of £1.6 million per year.

As a result of these IT enabled savings, and some savings from other parts of the business, Lancashire County Council was able to over deliver by 25 per cent on its SR04 savings target. At the same time, the quality of services have been improved generally and in IT specifically.

Reference: Lancashire County Council

Box 4.D: Service Birmingham IT and Business Transformation Project

Service Birmingham is a ten-year joint venture between Birmingham City Council, Capita and HCL, which formed in 2006. Its goals are to deliver, for Europe's largest Council, a world class IT service, enable transformation, and realise savings in excess of £1.5 billion. Service Birmingham supports 20,000 users based in over 650 locations.

Key objectives:

- up front investment in IT infrastructure and servers to deliver the Council's "business as usual" service and to provide a platform to support transformation;
- to provide transformation skills, capacity and capability to the Council to support the nine business transformation programmes; and
- the development of IT staff skills and the opportunity to work with world-class tools and systems.

Key results to date:

- invested £2 million to replace multiple servers to a single state of the art IBM enterprise class technology, rationalising 550 applications down to 150;
- consolidated three different networks to a single world class MPLS[16] network providing a faster, more efficient network and easy expansion;
- Lotus Notes email speed increased to being ten times faster;
- CHAMPS2 (change management methodology for public sector) developed, successfully implemented and shared across local authorities;
- as a result of the Corporate Services Transformation (CST) programme, the Council currently pays 93 per cent of invoices on time or earlier (an improvement of at least 13 percentage points);
- CST also enabled £22 million in procurement savings, which supported the Council in keeping the 2007-08 council tax rise to 1.9 per cent;
- 500 Council staff seconded to the joint venture, retaining their terms and conditions; and
- one of only two local authorities to have a fully certified SAP Customer Competency Centre and one of only three local authorities to achieve the ISO 20000 IT Service Management standard.

Reference: Birmingham City Council, Capita and HCL

4.17 Examples like these demonstrate pockets of good practice, both in central Government and in the wider public sector, by undertaking focused programmes of IT cost reduction and using IT as an enabler to improve the quality of public services. The replication of such good practice case studies across the public sector provides the potential to deliver cost savings of at least 20 per cent.

[16] MPLS is Multiprotocol Label Switching which gives network operators increased flexibility to divert and route network traffic around link failures, congestion and bottlenecks

3. Private Sector Comparisons

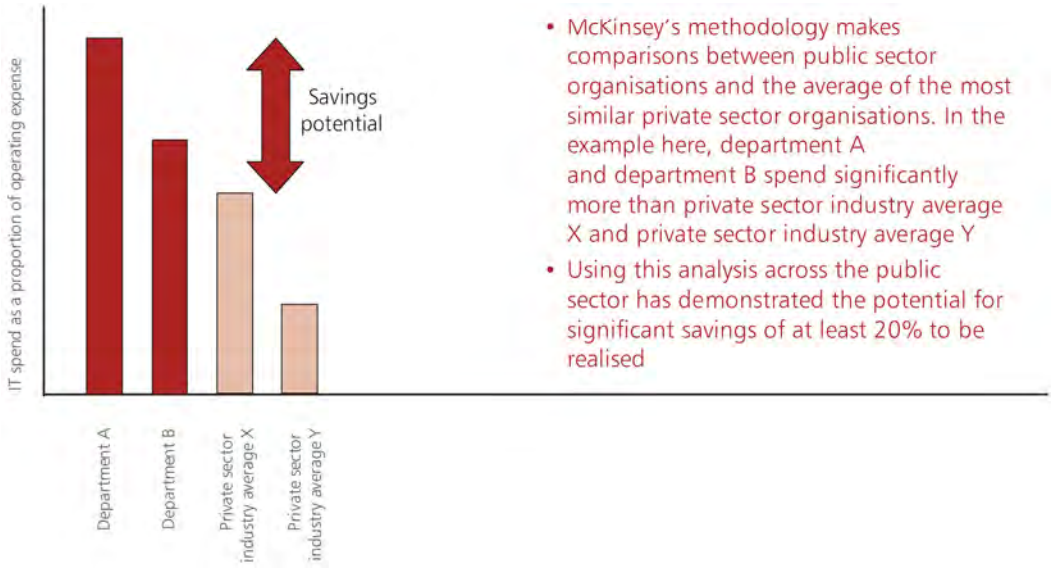
4.18 Public sector IT expenditure can also be compared to levels of IT expenditure and best practice within the private sector. While it is often difficult to make comparisons, it is reasonable to compare the IT expenditure of private and public sector organisations in a number of cases, including:

- benchmarking: comparing the proportion of IT expenditure of UK public sector organisations with the most similar private sector organisations; and
- private sector best practice: considering the reduction in IT expenditure achieved by private sector organisations that have undertaken significant programmes to standardise and simplify their IT infrastructures.

Benchmarking

4.19 Analysis undertaken using benchmarking data[17] comparing public sector organisations' IT spend with the most similar private sector organisations has identified that savings of at least 20 per cent are achievable on UK public sector IT spend. Chart 4.F demonstrates how this methodology works in practice and highlights how the potential for savings has been derived. Whilst there are no completely comparable organisations in the private sector, the OEP has compared the IT costs of transaction-intensive public sector organisations with banks and insurance companies and assessed the potential level of savings available. Naturally there are limitations to this exercise as public sector organisations are universal service providers, which cannot pick and choose their clients, but it does point to the level of saving, which may be achievable.

Chart 4.F: Comparison of IT spend between Private and Public sector organisations



Source: Gartner worldwide IT spend benchmark service 2006 (projected 2007 values); HM Treasury; IMF; Cabinet Office Transformational Government Annual Report 2007

[17] Gartner worldwide IT spend benchmark service

Private Sector Best Practice

Private sector case studies also demonstrate best practice and the potential savings from simplifying and standardising IT infrastructure. The case studies in Boxes 4.E and 4.F indicate how two private sector organisations were able to reduce parts of their IT expenditure by between 30 and 70 per cent. This was achieved through strategic outsourcing of IT infrastructure and support and a focused programme of server rationalisation.

Box 4.E: Global Manufacturing Company

Global manufacturing company reduced its IT costs within a rapidly growing business

The Company's existing IT infrastructure was overwhelmed by rapid business growth, with an expanding product line requiring extensive warehouse and call centre operations. The company's technology infrastructure failed to keep pace. To address these problems the company:

- entered a strategic outsourcing agreement for its technology environment;
- standardised and simplified its IT systems; and
- took advantage of the outsourcing company's global infrastructure and economies of scale to improve quality and service time.

As a result the company was able to reduce its overall IT cost by approximately 70 per cent compared to providing the same services in house, in addition:

- IT support costs were reduced by over 30 per cent;
- services were more constant across all customer interface channels; and
- additional savings could be released from other parts of the business.

Reference: Data Centre Modernisation: EDS Qualifications*, EDS, 2008*

Box 4.F: US Health Insurance Provider

US health insurance provider achieved significant savings by reducing the complexity of its server infrastructure

A lack of standardisation and simplification across the server infrastructure resulted in problems with systems management, running costs, performance and reliability. Through a partnership with an outsourcing company the Insurance Provider:

- simplified and standardised its server infrastructure, reducing the number of servers from ten to three;
- migrated its business to the updated server platform; and
- upgraded its software applications to improve systems management, ownership and performance.

Immediate savings were achieved through reducing the number of servers, however additional benefits included:

- reduction by over 50 per cent in systems administration and ongoing maintenance costs;
- an increase in system performance by two to three times;
- greater energy efficiency through a reduced server footprint; and
- enhanced performance by bringing all third-party and in-house software up to current operating levels and consolidating existing licences.

Reference: Data Centre Modernisation: EDS Qualifications*, EDS, 2008*

4.20 These benchmarking analyses and private sector case studies support the conclusion that savings of at least 20 per cent are achievable on UK public sector IT expenditure.

4. Analysis of Existing Government IT Contracts

4.21 OGC data demonstrates that approximately £13.2 billion of public sector IT expenditure was committed to external contracts in 2007-08. To achieve improved value for money across public sector IT expenditure it is therefore critical to improve the value for money from existing IT contracts. The review and renegotiation of existing procurement contracts by DWP is a good example of where the value for money of existing procurement contracts has been improved.

4.22 An examination[18] of existing public sector outsourcing contracts identified a degree of diversity in their cost effectiveness. Whilst there were many contracts that matched best practice in the private sector, there were also a number of contracts where savings averaging 20 per cent could be made on certain elements within those contracts. These savings had been initially identified by the use of detailed benchmarking techniques which were then used to provide a basis for successfully revising the service level agreements and renegotiating the contracts with the suppliers. This approach allowed the IT suppliers to reduce their costs involved in providing the service and thus pass savings back to the government departments involved.

4.23 Particular examples of where savings have been achieved by this approach include government departments that had been paying up to 65 per cent above the market rate for servers and storage; up to 20 per cent above market rate for outsourced desktops, servers and infrastructure; up to 34 per cent above market rate for end-to-end IT outsourcing and up to 17 per cent above market rates for standard professional services.

[18] Discussions with Compass Management Consulting Limited

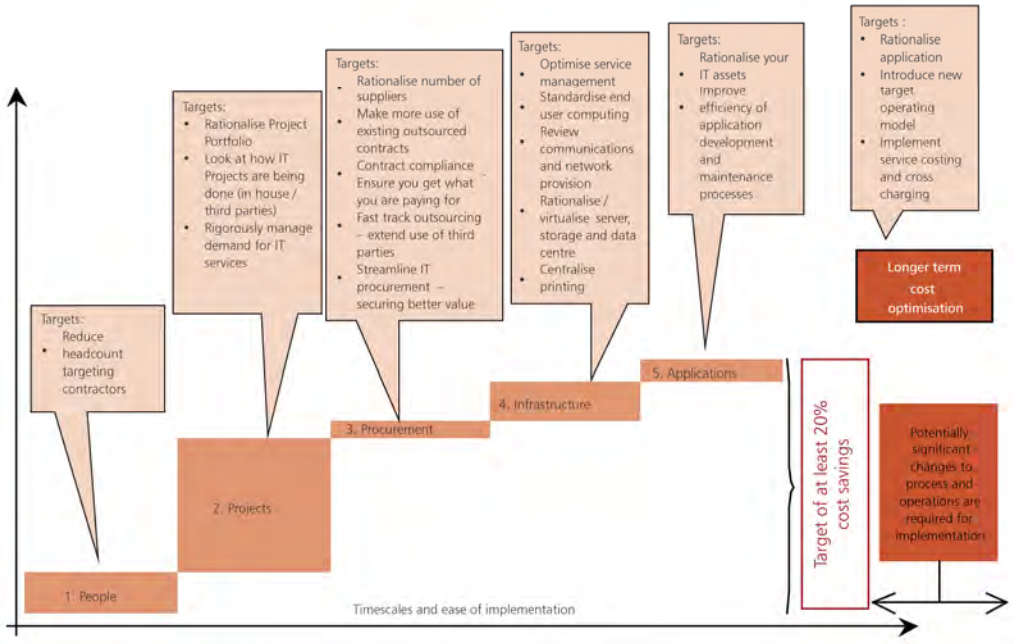
4.24 In addition, the collaborative procurement strand of the OEP has identified that the price paid for standard desktops across government can vary by over 300 per cent in certain cases, suggesting that significant savings can be made from greater standardisation and simplification of government IT hardware procurement. This aspect is explored more fully in the collaborative procurement workstrand.

4.25 Based on the above research, estimated **savings of £2.6 billion could be achieved through a 20 per cent reduction** on total UK Public Sector IT contracts worth £13.2 billion, using the OGC's estimate for external IT contracts.

5. Private sector experience of public sector IT cost reduction

4.26 Discussions with private sector consulting organisations which have undertaken numerous IT-focused cost reduction programmes on behalf of public and private sector organisations, indicate that savings of **at least 20 per cent** can be achieved across the UK public sector. Common themes for reducing costs included rationalising the portfolio of IT projects, improving value for money from the use of outsourced contracts, increasing the virtualisation of services and driving greater standardisation and simplification of IT systems and infrastructure. Chart 4.G sets out these common themes in greater detail.

Chart 4.G: IT Cost Optimisation Methodology



Source: KPMG, 2008

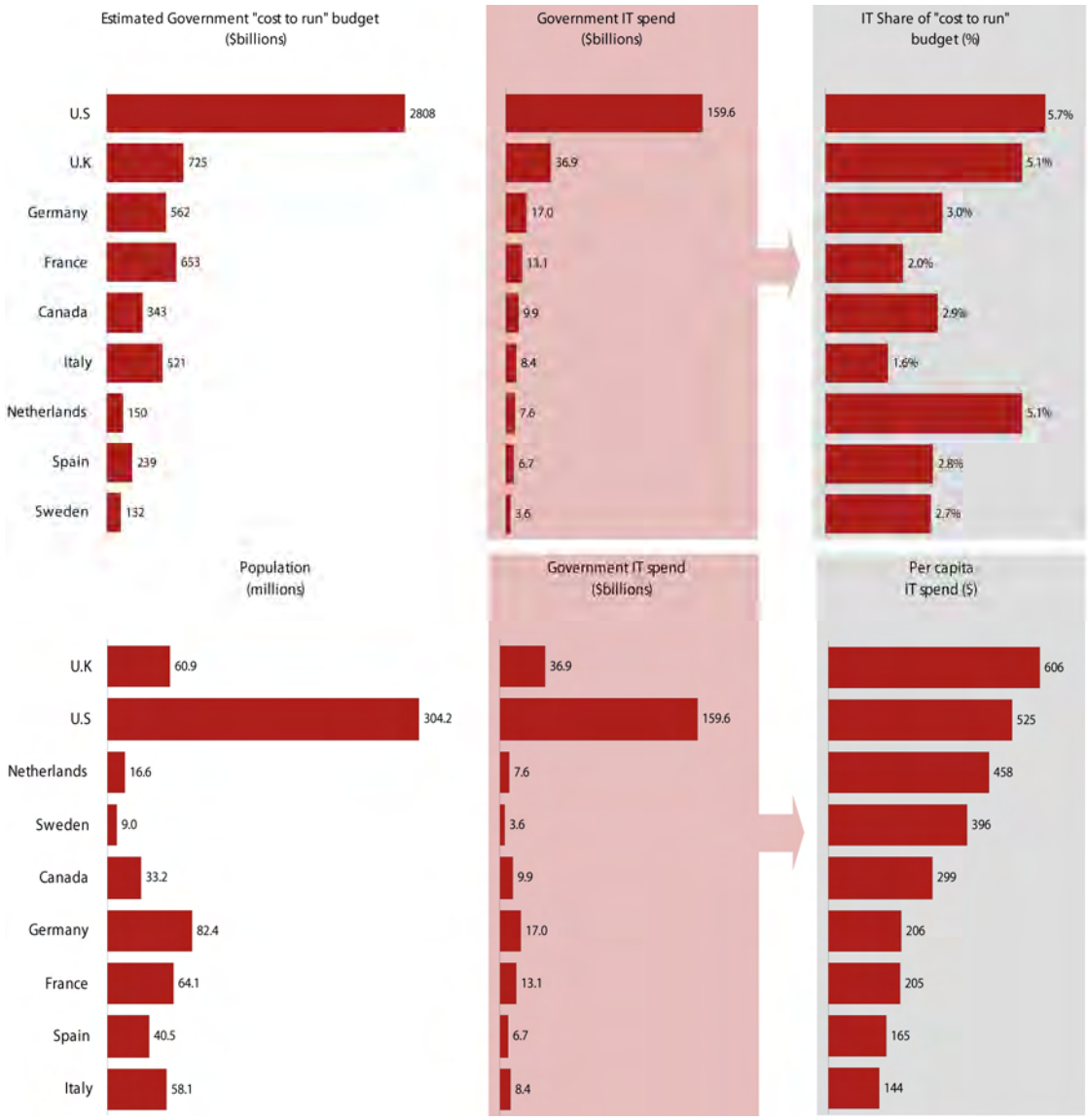
4.27 KPMG's work with major organisations using their IT Cost Optimisation methodology demonstrates that at least 20 per cent savings are generally achievable, depending on the maturity and capability of the IT function and the amount of cost reduction work undertaken to date. The detailed breakdown of the savings across people, projects, procurement, infrastructure and applications will clearly vary from organisation to organisation.

6. International Comparisons

4.28 National differences and the difficulty in collecting consistent data make international comparisons of government IT expenditure very difficult. However, Gartner and Kable have produced data on IT spend across major economies and their research has been used to assess the potential for savings in the UK.

4.29 Gartner[19] has estimated IT expenditure across a large number of countries, as shown in Chart 4.H. The Gartner data suggests that UK public sector IT expenditure could be up to £18.4 billion in 2007. The data also suggests that public sector IT expenditure in the UK is higher than other EU countries, although lower than the United States.

Chart 4.H: IT spending across selected countries



"Cost to Run" calculated as budget excluding estimated share of budget spent on social benefits, grants and subsidies, using IMF 2005 data. Accurate data for 2007 was unavailable, but no expectation of major shifts in the cost to run ratio between 2005 and 2007.

Government IT spend includes External and internal IT spend within the National and International Government, Local and Regional Government, Healthcare and Education sectors. IT spend includes hardware, software and internal / external services expenditure.

Source: HM Treasury; IMF Government Finance Statistics 2006, IMF, 2008; Forecast: Industry Market Strategies by Vertical Industry, Worldwide 2006-12, Gartner, 2009; and, International Database, US Census Bureau, 2009.

[19] *Forecast: Industry Market Strategies by Vertical Industry, Worldwide 2006-12*, Gartner, 2009. The Gartner data estimates total spend across National and International Government, Regional and Local Government, Education and Healthcare sectors and not UK Public Sector IT spend specifically.

4.30 The Gartner data also indicates that the higher level of public sector IT expenditure in the UK is not due to higher expenditure in any one particular area of Government, but that IT expenditure is higher across all areas, thereby implying that both at a national level, and at a departmental level, there is significant scope for reducing IT expenditure.[20]

4.31 High public sector IT expenditure does not, by itself, imply poor value for money. International comparisons of IT performance and productivity are difficult to make. However, a number of studies have been reviewed.

4.32 The Transformational Government Annual Report 2007[21] points to recent improvements in the delivery of public services in the UK, which are becoming increasingly responsive to the needs of users and providing improved value for money. This includes the development of citizen-centred services, which are being reshaped around the needs and preferences of users, as well as substantial progress made in all areas of public service delivery including health, education, criminal justice, benefits and local government.

4.33 Chart 4.I also summarises a number of studies that indicate the UK performs reasonably well on availability of government services online, government IT usage and sophistication of online services.

Chart 4.I: Summary of Surveys on Government IT Capacity

Customer Service	Sophistication of Online Services	Availability of Online Services	Government IT Usage
1. Denmark	1. Portugal	1. Portugal	1. Denmark
2. France	**2. United Kingdom**	**2. United Kingdom**	2. Sweden
3. Netherlands	3. France	3. Sweden	3. France
4. Sweden	4. Sweden	4. Germany	4. Netherlands
5. United Kingdom	5. Germany	5. France	**5. United Kingdom**
6. Germany	6. Spain	6. Italy	6. Portugal
7. Belgium	7. Netherlands	7. Spain	7. Ireland
8. Spain	8. Belgium	8. Denmark	8. Spain
9. Ireland	9. Denmark	9. Netherlands	9. Germany
10. Portugal	10. Italy	10. Belgium	10. Belgium
11. Italy	11. Ireland	11. Ireland	11. Italy

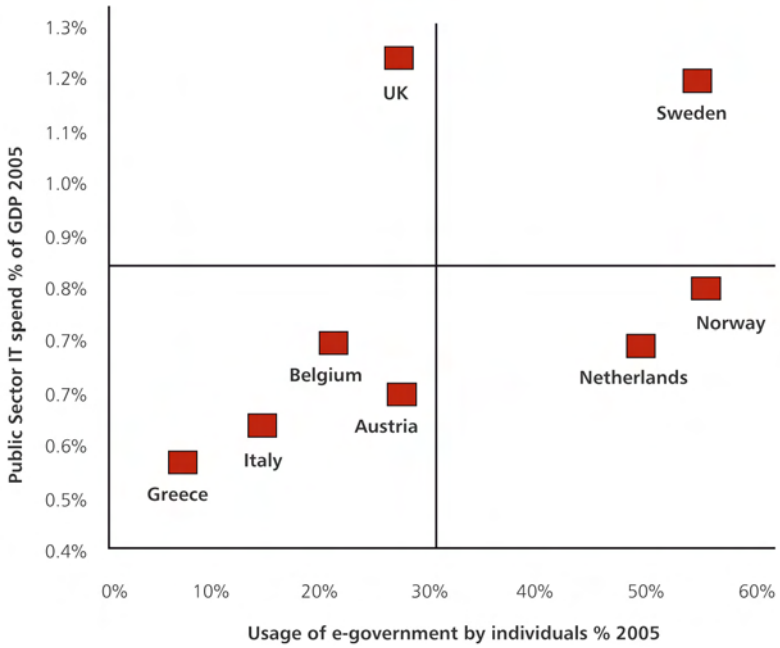
Countries selected based on availability of data on IT capability and government IT spending
Government IT Usage is based on: government success in IT promotion; availability of government online services; IT use and government efficiency; presence of IT in Government offices; and e-participation index.
Benchmarks 12 services to citizens and 8 services to businesses

Source: "Building the Trust, the 2005 Accenture Leadership in Customer Service Rankings", Accenture, 2006; "The User Challenge: Benchmarking The Supply Of Online Public Services", Capgemini, September 2007; "Global IT Report", World Economic Forum and INSEAD, 2008.

4.34 However, while this study indicates that the UK's higher public sector IT expenditure does provide reasonably good services, other countries are providing services of similar levels at lower cost. Other analyses also paint a different picture. For example, Chart 4.J compares the level of public sector IT spend in various European countries with the usage of e-government by individuals. This chart shows the UK as having one of the highest levels of public sector IT spend as a proportion of GDP, but having considerably lower levels of e-government usage in comparison with some of the northern European countries.

[20] The data shows that total spend in each of the National and International Government, Regional and Local Government, Education and Healthcare sectors is higher in the UK than other EU countries.
[21] *Transformational Government – our progress in 2007*, HM Government, 2007
http://www.cio.gov.uk/documents/annual_report2007/tg_annual_report07.pdf

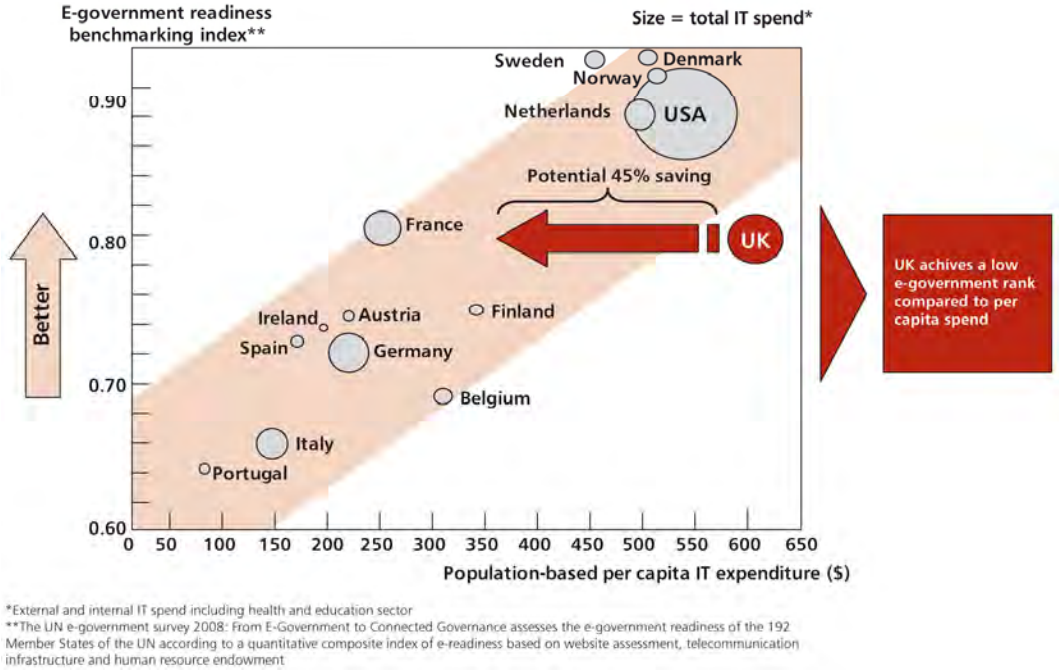
Chart 4.J: Comparison of Public Sector IT spending with usage of online public services by individuals



Source: Deloitte Research, 2007

4.35 Another analysis in Chart 4.K also suggests that whilst e-Government readiness is high in the UK, public sector IT expenditure per capita is also highest. Both of these pieces of analysis indicate that the UK public sector could obtain greater value for money from its investment in IT.

Chart 4.K: E-Government readiness and value for money



Source: UN E-Government Survey, UN, 2008; Forecast: Industry Market Strategies by Vertical Industry, Worldwide 2006-12, Gartner, 2008; and International Database, US Census Bureau, 2008.

4.36 In summary, whilst it is difficult to make directly comparable estimates of international public sector IT spend, and even more difficult to assess the benefits derived from this spend, the above analysis strongly suggests that the UK public sector's IT spend is much more than other similar countries and that the UK does not get a proportionate return from this much higher spend. This analysis is supported by recent data from Kable[22] which shows public sector IT spending in the UK is 22 per cent higher than in France and 37.5 per cent higher than Germany.

4.37 Even if an assumption is made that the estimate of UK public sector IT spend using Gartner data is too high and the estimate of £18.4 billion is reduced by 13 per cent, (i.e. bringing it in line with the OEP's £16 billion estimate) and that estimates for the average of France and Germany's IT spend are too low, and these estimates are increased by the same proportion (13 per cent), the difference in spend would still be 88 per cent. Put another way, even assuming a 13 per cent over-estimate of UK IT spend and a 13 per cent under-estimate of French and German IT spend, the UK still spends nearly twice as much as the average of France and Germany. Even allowing for the inaccuracies of the data collected, it is clear that significant savings should be possible.

4.38 Further support for this conclusion comes from a separate survey conducted by Kable. This shows, for example, that reducing public sector IT expenditure in the UK to the average of France and Germany would involve a 23 per cent reduction in UK public sector IT spend.

4.39 Based on these two pieces of analysis, a 20 per cent saving on the estimated £16 billion spend (equivalent to £3.2 billion) appears to be achievable.

Conclusions on Estimates for Potential Savings

4.40 The information available on UK public sector IT spend is incomplete and the six different methodologies used for estimating the potential savings are necessarily inexact. However, all six methodologies point firmly in the same direction and support the conclusion that across the public sector savings of **approximately 20 per cent, or around £3.2 billion**[23], should be possible without compromising the quality of front line service delivery.

This analysis is also supported by existing work across government

4.41 The Transformational Government[24] strategy led by the CIO Council aims to achieve significant cost reductions for central Government whilst delivering improved services and systems that offer better value for money for UK citizens. Through its Supply Transformation Programme, the CIO Council has a target to reduce overall IT costs by 20 per cent over the CSR07 period, including a reduction in the cost of desktops by 40 per cent. The Council have identified the following areas where a large proportion of these savings could be achieved:

- the Public Sector Network demonstrates what can be achieved through collaboration: it is expected to provide vastly improved agility and a significant reduction in overall operating costs compared to the existing fragmented voice and data network;
- there are substantial opportunities for local desktop cost reduction, particularly if the programme can establish traction in the wider public sector;

[22] *Overview of IT in the European public sector to 2010,* Kable, 2007. Kable's research indicates the market for IT in the European public sector is worth €99 billion, with the UK public sector accounting for 22 per cent, France 18 per cent and Germany 16 per cent.
[23] Approximately £1.6 billion of these savings are also included in the collaborative procurement savings, due to improved collaborative procurement of IT
[24] http://www.cio.gov.uk/transformational_government/index.asp

- ongoing benchmarking is indicating a substantial reduction in government desktop costs since the last baseline was established but there is scope to achieve more. Realising these opportunities is predicated on government's appetite to standardise and aggregate its desktop estate through collaboration. More detail is provided in the section on collaborative procurement;
- a new approach to government data-centres is being developed, based on consolidation, cost and risk reduction; and
- identification and sharing of best practice in applications development and developing a road-map for re-use will ensure significant savings through replicating positive examples of value for money savings in the use of IT in many parts of the public sector and ensuring infrastructure that the Government has bought once can be re-used in other parts of the public sector.

5 IT: recommendations

5.1 In the course of the OEP programme, good practice in the use of IT across the public sector has been identified and case studies have been assessed which show how the effective use of IT can make a real difference to citizens' lives and experiences with Government across the UK. However, the programme has demonstrated that there are significant opportunities for achieving greater value for money from the Government's spend on IT without compromising the quality of front-line public service delivery.

5.2 The estimated £3.2 billion of annual savings[1] (achievable after three years) should be taken into account in determining departmental settlements. This process should, where appropriate, have regard to any significant savings that have already been achieved and to any substantial concentration of major IT-enabled change projects in particular departments. It is the task of management, both within departments and within their wider delivery chains, to determine how the targeted savings can best be delivered.

5.3 In this context, the OEP has identified a number of key issues that need to be addressed:

- the lack of consistent management information and comparator data which can be used as a mechanism for driving performance;
- the high profile failure of some large IT-enabled change programmes;
- the overlap and duplication of IT change projects across the public sector, bringing a significant cost penalty to the taxpayer;
- the duplication of infrastructure, standards and applications across the public sector; and
- a need for greater internal IT capability within Government.

5.4 The programme has developed a suite of recommendations to enable public sector organisations to address these issues and to assist in the process of delivering the targeted savings. In summary, these are to:

- improve the collection, reporting, benchmarking and review of data on IT spend across the public sector;
- strengthen the governance of IT-enabled change projects;
- strengthen Gateway assurance processes for all IT-enabled change projects;
- implement portfolio management processes to prioritise projects and resources and to reduce overlap and duplication in IT-enabled change projects;
- promote greater standardisation and simplification of IT systems, desktops, infrastructure and applications across the public sector; and

[1] Approximately £1.6 billion of these savings are also included in the collaborative procurement savings, due to improved collaborative procurement of IT.

- develop the internal IT capability within the public sector and continue to professionalise the IT function.

5.5 The detailed OEP recommendations are as follows:

1. Take into account the estimated £3.2 billion annual IT savings when determining departmental settlements

Issues: The OEP has identified significant savings in UK public sector IT spend. To ensure these savings are achieved, they should be taken into account when determining departmental settlements.

Recommendation	Owner
Take the estimated £3.2 billion IT savings into account when determining departmental settlements. Ensure this process has regard to significant savings that have already been achieved in specific organisations and to any substantial concentration of major IT-enabled change projects in particular departments.	HM Treasury

2. Strengthen management information and increase use of benchmarking to drive performance

Issues: There is a lack of detailed understanding of how much different elements of the public sector spend on IT. Comparator spend data has not been used rigorously enough in driving purchasing behaviour across Government and there is a lack of understanding of the right price that should be paid to deliver specific outcomes.

Recommendation	Owner
Management information on public sector IT spend (both internal organisational spend and spend on third party goods and services) should be fully integrated into departmental processes and should be collected on a regular, consistent, auditable and transparent basis to allow for robust comparisons, following the principles set out in the recommendations for back office.	Government CIO, Heads of Profession
Across the wider public sector, all organisations should use the audit agencies' value for money IT indicators. If available for implementation in the next three months, the new Cabinet Office IT benchmarks could be used as an alternative to determine the efficiency and effectiveness of IT spend in central government and to support the setting of prices for commodity-based purchases. The applicability of these new benchmarks for use across the whole of the public sector should be evaluated during the course of 2009.	Government CIO, CIO Council
Maintain the benchmarks of the best prices achieved for commonly-bought goods and services, such as desktops, networks, infrastructure and packaged software. These prices should then inform the new benchmark price for government. Continuous assessment and management of the comparator data for value for money should be used to drive supplier interactions on an ongoing basis.	Government CIO, OGC

Box 5.A: Departments must make well-informed, holistic choices, based on good cost / benefit data

"Modern public services rely on information and communications technologies; from the telecommunications backbone to the sophisticated hardware and software that helps doctors, teachers and policemen and women do their jobs. It's important to get the right IT tools at the best price. But it's also important, especially in these difficult times, that departments make well-informed, holistic choices, based on good cost/benefit data. Only then can they be confident they will get the optimum use of good IT to achieve the desired outcomes, whether that's better patient care or reduced crime."

John Higgins, CBE, Director General, Intellect

3. Strengthen the governance of IT-enabled change projects

Issue: There have been a high number of high profile IT-enabled project failures across Government. Government needs to prevent failure of such high-profile IT-enabled change projects and provide improved project assurance. There has been a high level of turnover of Senior Responsible Officers (SROs) on these projects, which has been linked to project failure.

Recommendation	Owner
Ensure accounting officers and ministers are regularly updated on high-risk projects and briefed on projects where the confidence in delivery is not high.	OGC, Project SROs, Department CIOs
Departmental CIOs should actively endorse all IT-enabled change projects. If the cost of an IT-enabled change project is above departmental delegated limits, HM Treasury should refer projects for approval to the Government CIO before approving expenditure.	Department CIOs, CIO Council, Government CIOs
The departmental CIO should have a strong role in the governance of projects and a strong influence in deciding whether projects should proceed when they are not meeting pre-defined milestones or where there is low likelihood of delivering business benefits.	Department CIOs, Government CIO
HM Treasury should seek advice from the Major Projects Review Group[2] (MPRG) on the status of all large, high risk, IT projects.	HM Treasury, MPRG
SROs should be incentivised to stay in post for, generally, a minimum of three to four years or until delivery of agreed milestones.	Accounting officers

[2] The Major Projects Review Group (MPRG) is a Treasury sponsored scrutiny panel for major central government projects

4. Strengthen Gateway assurance process to improve success of major IT-enabled change projects

Issue: Government assurance processes, such as Gateway, provide evidence on the health of IT-enabled change projects, but the response to that assurance is not always strong enough

Recommendation	Owner
Strengthen the existing Gateway review process to introduce "starting gate" reviews of all IT-enabled change projects to prevent large scale IT projects being initiated with a low likelihood of success.	OGC, Department CIOs
Departments should have robust processes in place to address low delivery confidence Gateway findings and ensure that appropriate remedial action is taken. CIOs should be involved in these processes and Gateway reports should be routinely copied to CIOs such that the delivery confidence judgements inform decision to proceed. OGC should escalate Amber / Red as well as Red delivery confidence Gateway findings to accounting officers.	OGC, CIOs, Accounting Officers
The continuation of projects which have run into difficulties must be approved by the departmental CIO, on the basis of an agreed remedial plan. For Amber and Amber / Red delivery confidence projects, the OGC "Assurance of Action Plans[3]" should be introduced, unless waived by the CIO. The Accounting Officer should consult with their departmental CIO before agreeing continuation for projects if they are red-rated.	Department CIOs, Government CIO, Accounting officers

5. Implement portfolio management processes of projects within departments to reduce overlap and duplication

Issue: There is a need for greater strategic oversight of IT-enabled change projects within departments to ensure that the right projects are prioritised and have the most appropriate resources and the relative costs and benefits of IT-enabled change projects across departments can be tracked more effectively.

Recommendation	Owner
To achieve department's objectives more successfully, implement portfolio management processes in order to prioritise the most important IT projects, reduce overlap and duplication, and track cost and benefits. These processes should also: • report on the status of projects in the portfolio, the overall health of the portfolio and the departments' ability to deliver its change agenda; • prioritise projects so that the most critical projects get the best and appropriate resources; • enforce a gated process for determining whether projects should proceed and be funded on successful delivery of the previous phase outcomes and outputs; • ensure learning from both success and failure is captured and applied; • enhance the re-usability of previously contracted and paid-for work; and • ensure accountability is assigned to realise all benefits within the portfolio.	Finance Directors, Department CIOs, CIO Council

[3] A new service designed to increase the delivery confidence of projects and programmes. http://www.ogc.gov.uk/programme_and_project_news_assurance_of_action_plans.asp

6. Promote greater standardisation and simplification of IT systems, desktops, infrastructure and applications

Issue: Lack of standardisation together with duplication of infrastructure, standards and applications across the public sector brings significant and unnecessary cost to the taxpayer	
Recommendation	Owner
Give government CIOs and OGC Collaborative Category Boards the responsibility for achieving greater standardisation and simplification of IT systems, desktops, networks, infrastructure, packaged software and other IT infrastructure and applications to address the large cost variation across departments. Government CIOs and OGC Collaborative Category Boards should be empowered to address duplication and large cost variations across departments.	Government CIO, OGC Collaborative Category Boards
Government CIOs and OGC should act to ensure common infrastructure is bought just once (including the development of the Public Sector Network) and that the Crown is the purchasing agent rather than individual departments, where practical allowing licensing to be available across the public sector	CIO Council, OGC
IT projects should be validated by Department CIO and CIO Council working with OGC Collaborative Category Boards to ensure that common infrastructure, such as desktops, networks and packaged software, is used wherever possible and that any new infrastructure can be reused across the public sector	CIO Council, OGC Collaborative Category Boards

7. Develop internal IT Capability within the public sector and continue to professionalise IT enabled change

Issue: Government relies significantly on expensive external IT capability. There are Finance and HR professions in Government, but there is no IT "Profession."	
Recommendation	Owner
The Departmental CIO should ensure that the correct skills, resources and knowledge are in place between permanent and external staff for the department's IT operations and projects	Departmental CIO
Departments and accounting officers should consult CIOs and the Project and Programme Management (PPM) Board champions on the appointment of SROs for IT-enabled change projects in order that they can be appropriately supported.	Accounting officers
As part of the ongoing professionalisation of IT-enabled change, mandate the use of competency models such as SFIA (Skills Framework for the Information Age[4]), or similar for the selection, development and ongoing promotion of CIOs and IT Senior Civil Service roles. Leverage expert external professional IT organisations within the wider IT community to ensure that departmental resources are as current and skilled as practically possible.	Government CIO and CIO Council

[4] http://www.sfia.org.uk

6 Conclusions

6.1 Across both back office operations and IT, common themes have emerged during the OEP. The fragmented nature of the UK public sector means that there are a very large number of individual organisations, usually having their own back office operations and IT systems and processes. Devolution of delivery can provide greater responsiveness in the provision of services, but unchecked proliferation of separate back office operations and IT systems and processes can and does lead to significantly increased costs.

6.2 The lack of robust and consistent management information makes it hard to identify the costs of back office operations and IT accurately. This makes it difficult to establish trends, make comparisons and manage down costs. Limited mechanisms exist today for focusing on and reviewing an organisation's operational effectiveness in respect of back office and IT operations. This means that operational costs and processes get limited independent scrutiny and cross-questioning.

6.3 Through extensive analysis and stakeholder consultation, the spend on public sector back office operations and IT has been estimated at around £18 billion and £16 billion per year respectively. The OEP has identified that significant savings are deliverable. In three years time, it is estimated that the current annual cost of back office operations could be reduced by around £4 billion and the current annual cost of IT could be reduced by around £3.2 billion (the latter including savings arising through collaborative procurement).

6.4 The core of the approach for delivering these savings is to give decision-makers across the public sector the incentives to drive for maximum value for money in their areas of responsibility without imposing rigid organisational solutions from the centre. The measures recommended will deliver major savings without disturbing the important autonomies that exist to enable better and more responsive frontline delivery.

6.5 The OEP recommends that the savings that have been estimated for back office operations and IT should be taken into account in determining departmental settlements, taking note, where appropriate, of savings already made and any substantial concentration of major IT-enabled change projects. It is the task of management to deliver these savings, but the OEP has set out a suite of recommendations and best practice examples to facilitate this process.

6.6 In future, management information on back office operations and IT should be available on a regular, consistent, auditable and transparent basis, and be used to benchmark across the public sector. A system of Operational Reviews should be introduced to examine spending effectiveness and to ensure that poorer performing organisations improve. These reviews should be driven by the most senior leaders across the public sector. Embedding this new approach will drive sustained operational improvement across the public sector and deliver increased value for money and effectiveness in the delivery of public services in the years ahead.

A Terms of reference

A.1 The back office element of the back office / IT workstrand will comprise the range of corporate services that provide support to the frontline delivery of services. This will include, but is not limited to, finance, human resources, administration and support, IT, estates management, procurement, legal services, travel services and marketing and communications.

A.2 The scope of this workstrand will go beyond a focus on back office costs in central government departments. It will consider corporate services throughout the delivery chain across the wider public sector, i.e. including executive agencies, NDPBs and the NHS, and local government. It will build on the work done by the Gershon Review in 2004 on back office functions, and the savings identified as part of the CSR07 Programme, but it will go further to embed back office efficiency throughout the delivery chain.

A.3 The workstrand will examine the management information currently available to build an understanding of where resources are currently allocated and spent in back office services within the broader context of the overall delivery of services. It will also establish whether the information available is sufficient to effectively allow the comparison and benchmarking of performance across the public sector.

A.4 Through analysis and stakeholder engagement, the workstrand will identify where additional efficiency gains and value for money savings could be achieved in corporate services in the CSR07 period and beyond. In addition, it will examine the system-wide incentives and initiatives to understand how well they enable and encourage achieving value for money in corporate services.

A.5 From this analysis, the workstrand will make recommendations on how the relevant policy frameworks should be improved to provide better value for money from corporate services. It will also set out how recommendations should be implemented in order to successfully deliver the identified savings.

A.6 The IT element of this workstrand will examine how to get more value from government spending on IT, including the IT-enabled change that it supports. It will focus on:

- standardising and simplifying common IT-enabled business processes such as financial reporting, thereby facilitating integration of IT software and service provision and lower cost delivery;
- improving the success rate of the Government's delivery of major IT-enabled change projects, including in respect of:
    - definition – the way in which policy objectives are defined and translated into IT-enabled change projects, how options are considered and selected and how value or benefits are delivered and accounted for;
    - governance – looking at the management, organisation, reporting and reviewing of projects, including the Gateway Review process and the role of internal and external audit; and

    - leadership – the skills required for all senior positions and the way competence is matched to scale and risk;

- improving IT hardware, software and services procurement further, including the cost and timescale to both the supplier and the client, the use of external consultants and managing demand for IT. This will be linked to the collaborative procurement workstrand where applicable;
- driving up supplier and client performance while substantially reducing cost, using the Common Assessment Framework process for calibrating supplier performance as a starting point; and
- extending and reinforcing the use of benchmarking and best practice standards across back office / IT areas, including ensuring that purchasing authorities do not exceed benchmark prices, making greater use of open source, increased re-use of existing systems, processes and capabilities and preventing suppliers from selling back intellectual property which already belongs to the public sector.

A.7 This workstrand will assess the level of efficiency savings that can be achieved in the use of IT and will make recommendations for how government should go about achieving them. It will also build on a number of initiatives, such as the CIO Council's Supplier Management Initiative, which are in place or in development at OGC and the Cabinet Office aimed at improving the Government's performance in this area.

B People and organisations consulted

B.1 The OEP is grateful to the following for their input and contribution to the programme.

Table B.A: List of interviewees and organisations consulted: private sector organisations

Name	Consulting / Audit Organisations
Jeremy Oates	Accenture
Stephen Phillips	Bain
Alan Bird	Bain
Sachin Shah	Bain
Bob Fawthrop	Bob Fawthrop Associates
Tim Cowen	BT
Royston Hoggarth	BT
Mark Quartermaine	BT
Sir Mike Rake	BT
Martin Goodman	Cable & Wireless
Paul Pindar	Capita
Patrick Smith	Capita
Richard Lambert	Confederation of British Industry
Peter Bareau	Corporate Value Associates
Peter Killwick	Corporate Value Associates
Simon Bones	Credo
Chris Molloy	Credo
Phill Everson	Deloitte
Chris Loughran	Deloitte
Martin Blackburn	EDS
Sean Finnan	EDS
Sir Robert Fry	EDS
Rodney Halstead	EDS
Darrell Muffitt	EDS
Bill Thomas	EDS
James Close	Ernst & Young
Richard Holway	Farnham Consulting
Chris Doutney	Fujitsu
Nicola Bain	Gartner
Darren Payne	Gartner
Saotarshi Routh	Gartner

Jason Whitfield	Gartner
Roy Barden	Hackett
Robert Bromley	Hackett
Neville Shevlin	Hackett
John Higgins	Intellect
Keith Bannister	KPMG
Iain Gravestock	KPMG
John Machin	KPMG
Brian Ledbetter	McKinsey
Paul Wilmott	McKinsey
Brian King	Northgate
David Meaden	Northgate
John O'Brien	Ovum
Adrian Kamellard	Partnerships UK
Peter Bebb	Perendie
Dave Allen	PwC
John Berriman	PwC
Mike Cowan	PwC
Gary Bettis	Sandrunner / Serco
Martin Campbell	Sandrunner
Steve Tuppen	Sandrunner / Serco
Keith Brassington	Saratoga
Chris Hyman	Serco
Chris Leggett	Service Birmingham
Andy Page	Service Birmingham
Nick Corrigan	Steria
Debbie Brockbank	Steria

Table B.B: List of Interviewees and Stakeholders Consulted: Public Sector

Name	Organisation
Liz Bushell	Arts Council
Helen Cox	Arts Council
Agniezska Scott	Audit Commission
Peter Wilkinson	Audit Commission
Lukasz Bohdan	Audit Commission
Steven Bundred	Audit Commission
Alex Stobart	Audit Scotland
Dusty Amroliwala	Cabinet Office
Jo Clift	Cabinet Office
Sue Jenkins	Cabinet Office
Sir Gus O'Donnell	Cabinet Office
Gill Rider	Cabinet Office

John Suffolk	Cabinet Office
Chris Wright	Cabinet Office
Michael Shryane	Cabinet Office
Martin Fuller	Cabinet Office
Dominic Rowley	Cabinet Office
Brian Etheridge	Cabinet Office
Martin Bellamy	Connecting for Health
Andrew Campbell	Communities and Local Government (CLG)
Andrew Culver	DCLG
Toby Nerval	DCLG
David Bell	Department for Children, Schools and Families (DCSF)
Vernon Adamson	DCSF
Matthew Purves	DCSF
Richard Handover	DCSF (Independent Reviewer)
Barbara Moorhouse	Department for Transport
Rob Breedon	Department of Health (DH)
Gordon Hextell	DH
Ruth Ormsby	DH
Hugh Taylor	DH
Jayne Nickalls	DirectGov
Ian Watmore	Department for Innovation, Universities and Skills (DIUS)
Sir Leigh Lewis	Department for Work and Pensions (DWP)
Jane Ball	DWP
Jeremy Moore	DWP
David Thorpe	DWP
Kevin Roberts	DWP
Dean James	DWP
Jos Creese	Hampshire County Council
Gerry Smith	HM Prison Service
John Kingman	HM Treasury
Nicholas Macpherson	HM Treasury
Karen Sanderson	HM Treasury
Louise Tulett	HM Treasury
Edward Twiddy	HM Treasury
Paula Diggle	HM Treasury
Joe Stuart	HM Revenue & Customs (HMRC)
Richard Saunders	HMRC
Deepak Singh	HMRC
Sir David Normington	Home Office (HO)
Annette Vernon	HO
Heather Foster	Land Registry

Sir Paul Stephenson	Metropolitan Police
Anne McMeel	Metropolitan Police
Ailsa Beaton	Metropolitan Police
Jon Thompson	Ministry of Defence
Andrew Budge	Ministry of Justice
Keith Davies	National Audit Office
Steve Owen	National Savings and Investments
Tim Bett	Office of Government Commerce
William Jordan	Office of Government Commerce
Ray Long	Office of Government Commerce
Jonathan Simcock	Office of Government Commerce
Nigel Smith	Office of Government Commerce
Brad Roynon	Southampton City Council

B.2 In addition to discussions with the individuals and organisations above, the programme's findings and recommendations were discussed with permanent secretaries and members of the Ministerial Committee on Public Services and Public Expenditure (PSX). Workshops were also held with departmental finance directors.

C Bibliography and reference

Table C.A: Bibliography

Organisation	Document Name	Date
Accenture	Building the Trust, the 2005 Accenture Leadership in Customer Service Ranking	2006
Audit Commission	Back to Front: Efficiency of back office services in local government	2008
Bain	HM Treasury Operational Efficiency Programme	2008
Cabinet Office	Shared Services Transformation Programme: DWP Sector Plan	2006
Cabinet Office	Shared Services	2008
Capita	A Comparison of the Central Government and Local Government outsourcing markets	2008
Capgemini	The User Challenge: Benchmarking the Supply of Online Public Services	2007
CIPFA & PWC	Shared Services: where now? A guide to Public Sector implementation	2008
CIPFA	Public Sector Corporate Services value for money Indicators, Human Resources, IT, procurement, finance and estates	2008
Corporate Value Associates	CVA Approach & Key learning	2008
Department for Work and Pensions	Improving both Efficiency Service – the DWP challenge	
Deloitte	Outsourcing / offshoring reports	2007-08
EDS	Data Centre Modernisation: EDS Qualifications	2008
Gartner	IT Key Metrics data: Key industry measures	2007
Gartner	Forecast: Industry Market Strategies by Vertical Industry, Worldwide, 2006-2012	2009
Hackett	Profile of World-Class Finance	2003
Hackett	How reducing complexity through a "keep it simple" transformation programme is securing cost and compliance benefits for a global technology company	2006
Hackett	World-Class Procurement Organisations Staff more Strategically: Pay 41 per cent more; require 50 per cent less staff; invest in skills	2006
Hackett	Shared Services: Sometimes the best choice is not having a choice	2007
Hackett	World Class 'back office' overview	2008
Hackett	G&A Business Process Globalisation Study Results	2008
Hackett	World Class 'Shared Services' Expanding beyond the Transaction	2008

Hackett	Real-life experiences in managing the transition to a global service delivery model	2008
Hitachi Consulting	Shared Services in Whitehall	2008
HM Treasury (Gershon)	Releasing resources to the front line – Independent Review of Public Sector Efficiency	2004
HM Treasury (Gershon)	Efficiency Review Interim findings	2004
HM Treasury (Gershon)	Efficiency Review HR Progress Review	2004
HM Treasury	2004 Spending Review: final report on the efficiency programme	2008
HM Treasury	Public Expenditure Statistical Analyses (PESA)	2008
HM Government	Transformational Government – our progress in 2007.	2007
IMF	IMF Government Finance Statistics 2006	2008
Intellect	Overview of Intellects Transformational Government Programme.	2008
Intellect	Getting IT Right for Government	
Intellect	Implementing Shared Services in the Public Sector	
Intellect Public Sector Council	Briefing Note for Tom Watson following discussion with the Intellect Public Sector Council (July 2008)	July '08
I&DEA	Front Office Shared Services: Delivering Public Service Transformation	2008
Kable	IT and business process outsourcing in the UK public sector to 2012	2007
Kable	Overview of IT in the European public sector to 2010	2007
Kable	UK public sector overview to 2012/13	2008
KPMG	Operational Efficiency Programme – discussion document – Back Office and IT	2008
LGA – 4ps	Delivering Efficient Corporate and Transactional Services in Local Government	2008
McKinsey	Observations on Back Office and IT in Government	2008
McKinsey	Applying lean production to the public sector	2006
McKinsey	Boosting government productivity	2004
National Audit Office	Private–Public Partnership with Siemens Business Service	2000
National Audit Office	National Savings and Investments' deal with Siemens Business Services, four years on	2003
National Audit Office	Shared services in the Department for Transport and its agencies	2008
National Audit Office	Improving Corporate Functions Using Shared Services	2007
Office of Government Commerce	Governments use of Shared services	2008
Office of Government Commerce	IT Management Information	2008
Office of Government Commerce	Survey of Procurement Reward Strategy	2008
Office of Government Commerce	Review of IT Projects	2008
ONS	Public Sector Employment	2008
ONS	Civil Service employment by profession	2007
Ovum	The future of shared services in the European public sector	2008

Ovum	Use of offshore IT and business services by the UK public sector	2007
Oxford Economics	The Market for Public Services in the UK	2008
Public Accounts Committee	Delivering Successful IT-enabled business change	2007
Public Accounts Committee	Improving Corporate Functions Using Shared Services	2008
Public Accounts Committee	Shared services in the Department for Transport and its agencies	2008
PWC	HM Treasury Operational Efficiency Programme – Back Office IT Section	2008
PWC	Incentives for Efficiency	2005
Saratoga	Key Trends in Human Capital: a global perspective	2008
Scottish Government	Baseline study: draft project initiation document, project board minutes, work plan	2008
Shared Services Advisory Group	Shared Services in the Public Sector: Benchmarking and Measurement	2006
Sunningdale institute	Take-off or tail-off – Evaluation of the capabilities review programme	2007
UK Public Sector Audit Agencies	Value for money in public sector corporate services	2007
US Census Bureau	International Database	2009
World Economic Forum and INSEAD	Global Information Technology Report	2008

D Case studies

Box D.A: National Savings and Investments

A fundamental review of the functioning of the business which led to outsourcing of non-core functions and a saving of up to 60 per cent against original running costs

National Savings and Investments (NS&I) provides government financing through the sale of savings and investment products in the retail market. In 2007-08 NS&I provided £5.9 billion worth of net financing to the Government requiring sales of NS&I products totalling almost £16 billion.

In 1996-97 NS&I commissioned a fundamental review of its role and function. The review confirmed that NS&I created significant value for the taxpayer but warned this value would be eroded unless operational delivery was modernised to allow NS&I to compete more effectively with the private sector.

In 1999 Siemens Business Services (SBS), through a Public-Private Partnership, took responsibility for all IT, transactional and customer facing functions and some 4183 staff. By contrast NS&I retained only its core strategic functions, which included the business strategy, design, management and marketing of savings and investment products, and contract management functions. NS&I now employs 135 people.

SBS (now called Siemens IT Solutions and Services or SIS) used its private sector expertise and investment to transform and modernise the transactional and customer side of the business, generating significant cost reductions and, importantly, improvements to service delivery. The total staff employed in delivering a much larger service than the one inherited in 1999 has fallen to just 1680. The anticipated cost reductions were reflected in the contract price paid by NS&I, which declined each year. Under the contact NS&I achieved savings of up to 60 per cent against its initial operational running costs.

The partnership also allowed NS&I to focus solely on its core strategic function, which is to increase its value-add through raising funds for the government more cost effectively than the wholesale market. By 2007-08, NS&I had generated a total customer investment of £84 billion (up 40 per cent on 2000) and value-add of £375 million compared to value-add of £117 million in 2000.

While NS&I benefited significantly under the contract, it took SBS some time to consolidate necessary improvements, generate significant third party business to absorb staff transferring from NS&I and also manage a number of risks transferred. These initial challenges were overcome by genuine partnership, focused management attention and the successful introduction of 'Lean' continuous improvement techniques, enabling staff to play a leading role in identifying and implementing improvements. The initial 10-year contract has been renewed for a further five years to 2014 and SIS counts it as one of its most important and successful customer references.

References: National Savings and Investments' deal with Siemens Business Services, four years on, National Audit Office, 2003; *Private –Public Partnership with Siemens Business Services*, National Audit Office, 2000; National Savings and Investments.

Box D.B: NHS Shared Business Services

Shared services offered through a joint venture that must demonstrate business value to NHS customers and which includes an upfront saving of 20 per cent.

The Department of Health (DH) first considered shared services as a way to reduce the cost of back office functions before the Gershon Efficiency Review. In 2003-04, DH sought a private sector partner to set up a Joint Venture that would grow the shared services business by promoting and selling shared services within the health sector.

The Joint Venture between DH and Steria was established in April 2005, providing the flexibility that DH needed while allowing some control to be retained. DH contributed the assets from the pilot shared services centre and Steria invested experienced people and processes. DH and Steria each own 50 per cent of the business, which contracts with individual trusts for the provision of shared services, including finance and accounting, payroll, e-procurement and family health services. A key feature of the arrangement is that DH retains 50 per cent of the profits, which will be paid as a dividend to the contracting trusts. Board membership is shared between DH and Steria and the DH directors include the Director of Finance from a customer trust.

Because trusts maintain the choice of whether to join, the business value from shared services must be demonstrated for each individual trust. A large part of this business value comes from a guarantee of 20 per cent upfront savings against the contracting trusts total cost of services. In practice, average savings for accounting/financial services have been up to 34 per cent. In addition to these upfront savings, shared services also provide faster and more granular management information and free up internal management accounting time. Significant procurement savings can also be made by trusts as the proportion of financial transactions routed through the shared services centre increases.

There are currently around 100 trusts (of the total 450) purchasing financial/accounting services from Shared Business Services (SBS). Payroll services are currently provided to around 30 trusts. In addition, SBS is now providing Family Health Services to seven London Primary Care Trusts. The National Audit Office examined NHS SBS in 2007 and estimated that shared services would provide Net Present Value (NPV) savings of around £250 million over eleven years. These savings are based on continued growth in the customer base to 65 per cent by 2014-15.

David Nicholson, Chief Executive of the NHS, recently wrote to NHS trust boards saying "Where corporate services are currently retained in-house I would encourage NHS management boards to be clear that the decision to retain them represents better value for money than alternative options such as NHS SBS, or other shared services or outsourcing solutions".

References: *Improving corporate functions using shared services*, National Audit Office, 2007; *Improving corporate functions using shared services,* House of Commons Public Accounts Committee, 2008; Steria; the National Health Service.

Box D.C: HM Prison Services (HMPS) Shared Services

Centralisation of common processes and improved management information

The HMPS shared services centre (SSC) was established following a review of back office functions as part of the 2004 Spending Review. The SSC provides back office functions to 128 prisons through a single shared services centre in Newport. Finance services have been offered since April 2006 and HR from October 2006. Services are provided to 50,000 customers within HMPS.

The shared services centre removes the significant duplication from the 128 prisons each operating its own individual systems. The shared services automates processes that were previously labour intensive and provides HMPS for the first time with detailed financial information across the organisation. Service levels to individual customers are significantly improved.

The National Audit Office estimates that HMPS shared services will deliver Net Present Value (NPV) savings of £120 million over the first nine years of operation. A large proportion of savings come from centralising the procurement of common goods and services worth some £40 million in 2007-08. HMPS expected annual savings of up to 32 per cent of its original staff costs with just over 30 per cent savings against gross costs of back office operations. Savings to date are in line with these expectations

From February 2008, the HMPS shared services centre started offering corporate finance services to the Home Office, and will offer HR services from February 2009. This expansion increases the customer base by a further 30,000 and reduces the costs to the Home Office in the same way as for HMPS.

References: *Improving corporate functions using shared services*, National Audit Office, 2007; and *Improving corporate functions using shared services*, House of Commons Public Accounts Committee, 2008.

Box D.D: DWP shared service centre

Shared services have been geared up to provide standard corporate services to other government departments

DWP established its shared services organisation to provide shared corporate services to the Department and its executive agencies. It will soon commence providing these services to other government departments. The organisation, created on 1 September 2006, brought together the standard corporate services of Accounting Services, Employee Services and Purchase to Pay for the 100,000 plus customers within DWP. Customer Payments and Debt Management are also provided through the shared services organisation.

The new organisation exists as a separate 'arms length' entity with its own board and provides a clear separation between those commissioning and delivering services.

DWP had previously consolidated each corporate function across the department and its executive agencies realising savings through estate consolidation and headcount reductions. By transferring the services to the shared services organisation DWP is able to re-engineer and integrate these processes through lean techniques and rigorous benchmarking to improve customer service and drive out further cost savings.

By the end of the SR04 period, DWP's shared services had delivered cumulative savings of £50 million or around 15 per cent year on year. They are on track to deliver a further 13 per cent by the end of the 2008-09.

Corporate and shared services will be offered to the Cabinet Office from April 2009, and the Department for Children, Schools and Family from September 2009. Discussions are also underway with the Department for Innovation, Universities and Skills.

DWP Shared Services has developed a standard repeatable process for taking new customers on board. Adoption of the standard model will assist in demonstrating the viability of transitioning other government departments onto a shared platform and provide further support for the growth and development of the shared services transformational government agenda.

References: *Shared Services Transformation Programme: DWP Sector Plan*, Cabinet Office, 2006; and the Department for Work and Pensions.

Box D.E: Case Study: PepsiCo

Improved cash-flow management through adoption of single worldwide management information system

PepsiCo had 1500 bank accounts across the world and needed one system where it could see all its finances and bank accounts. In cooperation with Citigroup, PepsiCo's account information was aggregated so that all the organisation's finances could be seen through one portal, allowing for visibility and control. Cash-flow that was once managed on a monthly basis is now managed daily and forecasting has improved considerably. Better management of PepsiCo's revenues of over $30 billion is expected to deliver significant savings.

Reference: Citigroup, 2008

Box D.F: Northumberland County Council

Cost savings and improved management information through the consolidation of financial systems

Northumberland County Council had 26 separate financial and purchasing systems. There were duplicated work processes. Multiple HR and payroll systems and structures created unnecessary work for staff. The council reviewed its financial, HR and procurement systems and considered a number of options to replace the existing systems, including those for financial management. Senior management and officers visited other local authorities that had purchased financial management systems to understand how they reduced work inefficiencies and increased staff productivity.

Following consultation with councillors and heads of service, the council chose a large private company to provide internal management and finance systems to the authority. The implementation of the new system created £4 million of efficiencies, or savings equivalent to 20 per cent, for the authority during SR04 and a reduction of 50 full time posts in the finance department, with staff being redeployed into positions in front-line services.

Reference: *Back to front: Efficiency of back office functions in local government*, Audit Commission, October 2008.

Box D.G: Process standardisation and simplification at an international technology company

An international technology company operating in over 100 countries had a decentralising approach which led to too many complexities in its organisational structure and support processes. The company launched a "keep it simple" approach, focussing on improving finance and HR processes, internal controls and information systems. The company established performance improvement targets based on agreed internal and external benchmarks and committed to reducing 425 separate financial application projects to 30 and moving to a common chart of accounts. The company set stretching targets for its finance and accounting (F&A) and HR benchmarks.

	Actual	Target
F&A employees as percent of total employees	2.8 per cent	1.8 per cent
F&A cost as percent of total revenues	1.2 per cent	0.7 per cent
HR employees as percent of total employees	1.3 per cent	0.6 per cent
HR costs as percent of total revenues	0.7 per cent	0.3 per cent

The project is looking at process improvement across knowledge functions to maximise efficiency gains. It is leading to significant cost savings and greater process transparency and control. The company will also look at the potential for outsourcing.

Reference: *How reducing complexity through a 'keep it simple' transformation program is securing cost and compliance benefits for a global tech company'*, Hackett, 2006

Box D.H: Department for Transport (DfT)

Lessons learned: an overly ambitious timeline resulted in cost increases and deferral/reduction in expected savings

In April 2005, the DfT's Management Board approved an outline business case to establish an in house shared services centre (SSC) to provide HR, payroll (excluding pensions), and finance services for the Department and its executive agencies. An ambitious timeline aimed for design work to be completed within six months and the migration of the first three executive agencies to the SSC to begin in April 2006. The estimated net present value (NPV) in the outline business case was £57 million through to 2015.

The proposed timeline was too tight. Although initial assumptions were known to be incorrect, the scrutiny and review processes did not provide sufficient visibility at all the relevant milestones. In particular, agencies were unable to fully understand and define businesses processes within the available timeframe. As a result, services had not been simplified or standardised sufficiently and required shared services to be customised at an increased cost. There was insufficient business ownership of the change programme underpinning the introduction of the new processes and technology platform. Migrating agencies to the SSC was also made more difficult by not committing staff with the appropriate skills and experience.

The resulting cost increases in key areas meant that when reviewed by the National Audit Office (NAO) in May 2008 the project's NPV stood at negative £81 million.

In its report, the NAO recognised that, since April 2007, the Department had significantly improved the management of the programme through the appointment of experienced civil servants and contractors. Through 2008-09 the programme has made considerable progress:

- performance at the SSC has shown real improvement, with the achievement of all of its 16 KPI targets for the first time in February 2009; this improvement is recognised in customer feedback;
- in February, all three agencies using the SSC achieved 98 per cent compliance with the 30 day prompt payment target;
- programme governance has been strengthened to deliver more effective working between the programme, business users and the SSC;
- the capability of the shared services management team has been enhanced and there is increased leadership of change within business units;
- the Vehicle Certification Agency payroll went live successfully in January 2008 and Highways Agency will join the shared services platform in April 2009;
- management information is improving and is providing a better baseline for targeting further system improvements;
- better commercial arrangements have been agreed with the main supplier and working relations have improved; and
- the DfT board regularly reviews the shared services programme and considers the options for future development.

References: *Shared services in the Department for Transport and its agencies,* National Audit Office, 2008; *Shared services in the Department for Transport and its agencies*, House of Commons Public Accounts Committee, 2008; and the Department for Transport.

Box D.I: Teachers Pensions Scheme

Outsourcing the Teachers' Pension Scheme has reduced the cost base by 48 per cent

The Teachers' Pension Scheme was outsourced to Capita in 1996 to increase the efficiency and effectiveness of the service. This decision was taken due to the large IT investment required, the potential for significant savings and the scheme being self contained and not part of the Education Department's core business.

The contract covers maintenance of in-service member records, deferred member records, pre-retirement administration, pensions payroll and fund accounting. It was re-awarded following a second tender in 2003.

The contract guaranteed reduced costs and improved service. 470 staff transferred to Capita through TUPE[1] arrangements as part of a carefully managed transition. This has now been reduced to 210 staff. The contract has delivered a 48 per cent reduction in the cost base from around £17 million to around £8.9 million per year.

Strong governance of the contract, including robust performance metrics, performance-related payments and regular service review has contributed to its continuing success. Benchmarking against other Pensions Schemes has helped to identify potential cost savings and service improvements and to monitor success. In 2008, the scheme received the award for Best Administration in the Financial Times – Pensions and Investment UK Scheme Awards.

References: Discussions with Capita, 2008

[1] Transfer of Undertakings. This preserves employees' terms and conditions in a transfer situation

Box D.J: Southwest One joint venture

A Police Authority and Local Councils are set to achieve savings equivalent to 30 per cent of the cost of back office functions and transactional services

Southwest One is a joint venture between Somerset County Council, Taunton Deane Borough Council, Avon and Somerset Constabulary and IBM that aims to bring about a step change in the delivery of public services across the region. The joint venture provides a shared services infrastructure that covers the range of back office functions and IT and also includes transactional services such as Police Station enquiries, administration, and revenues and benefits.

The aim of the joint venture is not only to drive out efficiencies in the delivery of support services for re-investment in front line customer facing activities, but to also improve the way that both the police and councils serve the citizens of the South West. The new company aims to improve operational effectiveness and productivity through:

- redesigning business processes and the use of technology to enable more flexible ways of working;
- improving customer access to services by enabling customer facing staff to spend more time in the communities they serve;
- improving service delivery to the public through more effective integration of customer information and delivery; and
- creating a single strategic procurement function that combines the spend of the three authorities with the buying power of IBM.

Greater collaboration also allows better use of all parties' resources within particular areas, which through Locally Based Service Delivery, currently piloted in Somerset and Bristol, identifies the local area's specific needs in terms of services and how they are delivered.

The joint venture is 75 per cent owned by IBM and involved the transfer to 600 staff from the Police Authority and 800 staff from the two councils. Southwest One is expected to produce savings of up to £200 million over the next ten years, through procurement and back office savings, equivalent to 30 per cent of the cost of back office and transactional services. Potential savings could be even higher, as the framework agreement in place means any public authorities in the South West of England can join or purchase services from Southwest One without the need for further competition.

References: Southwest One and the Home Office

Box D.K: Civil Service Pensions

The creation of a shared service capability for Civil Service Pensions administration across government

Following a review of pension delivery arrangements, the Cabinet Office is considering proposals to consolidate to a single administrator the delivery of the Principal Civil Service Pension Scheme from the current eleven Authorised Pension Administration Centres, the Civil Service Pension Division within the Cabinet Office and the payroll provider. The proposals aim to:

- simplify the current system of Civil Service pensions administration;
- strengthen the governance of the scheme and its administration;
- improve service delivery; and
- deliver a more effective, efficient and economic service.

At present, 11 Authorised Pension Administration Centres are responsible for the administration of Civil Service Pension schemes on behalf of some 200 Civil Service employers. The Civil Service Pensions Division of the Cabinet Office is the Principal Civil Service Pension Scheme manager. It is responsible for developing overall Civil Service pensions policy, the scheme and administration governance arrangements, the provision of pension administration software, and for managing the contract with the payroll provider Capita Hartshead which make payments to scheme beneficiaries. Around 1.4 million members are covered by these arrangements.

A single provider, responsible for both Civil Service pension administration, Business and IS/IT systems and processes and payments to beneficiaries, would significantly simplify these arrangements. Greater economies of scale would also be achieved through this consolidation.

Accountability and governance would be improved through pensions administration being a core function of a single organisation. The proposal also removes the administrative functions, including the payments function, from within the Civil Service Pension Division of the Cabinet Office. It provides a clearer lines of accountability between Scheme administration and Governance.

References: The Cabinet Office

Box D.L: Vetting Shared Services

IT enabled shared services to rationalise vetting across government

The Cabinet Office Vetting Transformation Programme (VTP), launched in 2007 is a pan-government initiative to rationalise and enhance national security vetting via an IT enabled shared service approach. Around 250,000 clearances and reviews are carried out per year, at an estimated cost of around £50 million. This is increasingly via two lead organisations: the Defence Vetting Agency (DVA) (70 per cent) and FCO Services (FCOS) (5 per cent). Through collaboration, enhanced coherence, and reducing administrative effort the VTP will improve services and reduce costs. Already more than half the organisations who require security clearances have adopted this approach; and by 2011, vetting processing will be reduced to the two lead providers. The VTP will enable a single IT system across the shared services, led by the DVA, to improve cross government information. It will deliver economies of scale, a faster process and drive the most effective and appropriate vetting by users. At present, too much time and resource is spent on the process and not enough on through life management. The VTP will ensure that DVA and FCOS can process vetting to the required standards, and enable government departments and agencies to reallocate resources to on-going personnel security management.

Defence Vetting Agency (DVA)

The DVA was formed in 1997 to modernise the four former military and MoD civilian security vetting units, co-locating in York in 2001 with the closure of four sites and annual running costs savings of nearly 15 per cent. In support of the VTP, an ongoing programme of development is underway to introduce faster, smarter, and cheaper e-vetting, to replace the current cumbersome paper based systems. The DVA will be restructured to support a single vetting process to better meet its customers' needs and strategic business objectives. It currently provides services to over 70 other Government departments and NDPBs on a repayment basis, earning approximately £3.4 million per year.

FCO Services (FCOS)

FCOS became a Trading Fund in 2008, operating within the Foreign and Commonwealth Office. It delivers over 130 products and services, both in the UK and overseas, to the FCO and other government departments, on a repayment basis. The range of services includes: Information and Communications Technology, Technical and Protective Security, Estate and Property Management, Security Vetting, Translation and Interpreting, and Logistics. Vetting is one of the key services that it delivers. FCOS intends to adopt an effective and proven DVA IT platform as soon as is practicable, currently planned to be during 2011. FCOS has grown its customer base beyond the FCO, such that nearly 40 per cent of its turnover now comes from other government departments.

Reference: Cabinet Office

Box D.M: Government Banking Service

A shared banking service offering commercially competitive services and maximising the value from holding public funds

The Government Banking Service (GBS), established in May 2008, is in the process of introducing a new operating model for banking shared services for the Chancellor's Departments and the wider public sector. It incorporates the old Office of HM Paymaster General (OPG), and will offer direct-to-bank services with GBS commercial banks to its 900+ public sector customers. This will replace the current system where large chunks of retail banking services are provided through the Bank of England using OPG ledger accounts administered by an outsourced Service Integrator (Xafinity Paymaster). At present GBS has around 50 per cent of the public sector banking transactions market, indicating there is significant scope for expansion.

With GBS acting as a single customer voice for government banking, the new model will provide a more customer focused and commercially competitive service through:

- on-line banking directly with the GBS commercial banking suppliers;
- improved visibility of transactions, with associated monitoring and reporting; and
- reduced pricing per transaction and reduced overall costs and charges.

The GBS shared service model also enables public funds to be made available to the Exchequer overnight, thereby helping to reduce the cost of government borrowing. During 2007-08, the GBS average overnight balance was £36 billion. Any funds held in public sector accounts that are not part of the GBS are not included within the above figure and are not made available to help reduce government borrowing costs.

Existing HM Treasury guidance requires that each public sector organisation run its cash management and money transmission policies to minimise the cost to the Exchequer as a whole. This usually means using the GBS. A public sector organisation choosing not to use the GBS as its primary banking services must justify that its policy offers value for money for the public sector as a whole. Given the value to the Exchequer from holding funds overnight, this is a stringent test and must be cleared with HM Treasury.

The GBS banking services are available to public sector organisations without the need to go to tender, saving both time and money from not running a full procurement exercise. GBS will go out to tender from time to time on behalf of its public sector customers to ensure it continues to obtain the best value for money from banking services.

Reference: Government Banking Service; and *Managing Public Money,* HM Treasury, 2009.

Box D.N: Driver and Vehicle Licensing Agency

Significant savings delivered by improved IT procurement

The Driver and Vehicle Licensing Agency (DVLA) is an Executive Agency of the Department for Transport, its primary aims being to facilitate road safety and general law enforcement by maintaining registers of drivers and vehicles, and to collect vehicle excise duty (car tax).

The DVLA has recently undertaken focused IT cost reduction exercises to make significant savings, for example on software licensing. The DVLA established a third-party software forum that analyses contracts which are coming up for renewal and the opportunities for savings that may be available.

A recent example of this was the renegotiation of technical software licences. DVLA negotiated a £600,000 reduction on a £4 million contract over five years and secured £200,000 of additional technical maintenance support included in the contract, amounting to a total £800,000 saving per year (20 per cent) over the life of the contract. Service quality has remained at a high level throughout and with additional maintenance support the IT department were able to focus attention on opportunities for other IT efficiencies and improvements.

Reference: The Driver and Vehicle Licensing Agency

Box D.O: Department for Work and Pensions are on track to reduce IT expenditure by 30 per cent by 2010-11

The Department for Work and Pension's (DWP) 2004 Spending Review (SR04) settlement was one of the toughest in Whitehall, with DWP required to achieve value for money savings of approximately £1 billion. This led to a radical rethink of business processes, a complete review of procurement contracts with external providers and promoted a real drive to transform the professionalism of the department

IT expenditure has reduced substantially, while service has improved

Prior to the 2004 Gershon efficiency review, DWP IT expenditure was approximately £1.1 billion per year. Significant efficiency savings have been made during SR04 with further planned efficiencies during the current CSR07 period. By 2010-11 IT expenditure for DWP is therefore expected to be around £720 million, which reflects more than a 30 per cent reduction from pre-Gershon. Also IT operational costs are expected to fall by around 40 per cent over this same period. At the same time service quality and performance has improved

This has been achieved through:

- commercial professionalisation: The tough SR04 spending settlement gave DWP the "burning platform" to undertake a radical mindset change with suppliers and promoted a greater need to drive the best deals for the provision of IT services;
- standardisation and simplification: DWP's development of shared services is now seen as a good practice model, providing cross-government accounting services, customer payments, debt management, employee services and purchase to pay (P2P) services for Cabinet Office, DCSF and DIUS;
- adoption of industry standard services for desktop / front office, network, hosting, application support and maintenance and applications development to facilitate the assessment of costs and quality. DWP are now purchasing significant volumes of standardised services and are rationalising around common processes;
- improved demand management so the department buys only what it needs, supported by undertaking lean programmes to eliminate unnecessary waste throughout department; and
- leadership: DWP has a Departmental Strategic Objective that it should "be an exemplar of effective service delivery."

Reference: The Department for Work and Pensions

Box D.P: Business Transformation in Lancashire County Council

Lancashire County Council, through its Business Improvement Programme, is delivering significant efficiency savings across its IT portfolio while at the same time using its investment in IT to support and enable further savings across the wider business. These changes have contributed to value for money savings of over £10 million in corporate services over the SR04 period and a low IT cost base when benchmarked against local and central government.

The Council has reduced its IT costs through:

- standardising desktops and use of e-auction, saving £0.75 million per year;
- replacing its existing network of printers with multi-functional devices, providing a cost saving of 36 per cent; and
- renegotiation of external contracts for data centre and network support to a shared services partnership, saving just under £1 million per year.

IT investment has also enabled cost savings in other areas of the business through:

- re-engineering and restructuring the HR function, saving £1.5 million per year with a reduction of 66 posts; and
- providing the technical infrastructure for a more flexible working environment, allowing the building portfolio to be consolidated with expected savings of £1.6 million per year.

As a result of these IT enabled savings, and some savings from other parts of the business, Lancashire County Council was able to over deliver by 25 per cent on its SR04 savings target. At the same time, the quality of services have been improved generally and in IT specifically.

Reference: Lancashire County Council

Box D.Q: Service Birmingham IT and Business Transformation Project

Service Birmingham is a ten-year joint venture between Birmingham City Council, Capita and HCL, which formed in 2006. Its goals are to deliver, for Europe's largest Council, a world class IT service, enable transformation, and realise savings in excess of £1.5 billion. Service Birmingham supports 20,000 users based in over 650 locations.

Key objectives:

- up front investment in IT infrastructure and servers to deliver the Council's "business as usual" service and to provide a platform to support transformation;
- to provide transformation skills, capacity and capability to the Council to support the nine business transformation programmes; and
- the development of IT staff skills and the opportunity to work with world-class tools and systems.

Key results to date:

- invested £2 million to replace multiple servers to a single state of the art IBM enterprise class technology, rationalising 550 applications down to 150;
- consolidated three different networks to a single world class MPLS[2] network providing a faster, more efficient network and easy expansion;
- Lotus Notes email speed increased to being ten times faster;
- CHAMPS2 (change management methodology for public sector) developed, successfully implemented and shared across local authorities;
- as a result of the Corporate Services Transformation (CST) programme, the Council currently pays 93 per cent of invoices on time or earlier (an improvement of at least 13 percentage points);
- CST also enabled £22 million in procurement savings, which supported the Council in keeping the 2007-08 council tax rise to 1.9 per cent;
- 500 Council staff seconded to the joint venture, retaining their terms and conditions; and
- one of only two local authorities to have a fully certified SAP Customer Competency Centre and one of only three local authorities to achieve the ISO 20000 IT Service Management standard.

References: Birmingham City Council, Capita and HCL

[2] MPLS is Multiprotocol Label Switching which gives network operators increased flexibility to divert and route network traffic around link failures, congestion and bottlenecks

Box D.R: Global Manufacturing Company

Global Manufacturing Company reduced its IT costs within a rapidly growing business

The Company's existing IT infrastructure was overwhelmed by rapid business growth, with an expanding product line requiring extensive warehouse and call centre operations. The company's technology infrastructure failed to keep pace. To address these problems the company:

- entered a strategic outsourcing agreement for its technology environment;
- standardised and simplified its IT systems; and
- took advantage of the outsourcing company's global infrastructure and economies of scale to improve quality and service time.

As a result the company was able to reduce its overall IT cost by approximately 70 per cent compared to providing the same services in house, in addition:

- IT support costs were reduced by over 30 per cent;
- services were more constant across all customer interface channels; and
- additional savings could be released from other parts of the business.

References: Data Centre Modernisation: EDS Qualifications, EDS, 2008

Box D.S: US Health Insurance Provider

US Health Insurance Provider achieved significant savings by reducing the complexity of its Server Infrastructure

A lack of standardisation and simplification across the server infrastructure resulted in problems with systems management, running costs, performance and reliability. Through a partnership with an outsourcing company the Insurance Provider:

- simplified and standardised its server infrastructure, reducing the number of servers from ten to three;
- migrated its business to the updated server platform; and
- upgraded its software applications to improve systems management, ownership and performance.

Immediate savings were achieved through reducing the number of servers, however additional benefits included:

- reduction by over 50 per cent in systems administration and ongoing maintenance costs;
- an increase in system performance by two to three times;
- greater energy efficiency through a reduced server footprint; and
- enhanced performance by bringing all third-party and in-house software up to current operating levels and consolidating existing licences.

References: Data Centre Modernisation: EDS Qualifications, EDS, 2008

Box D.T: Private sector savings in back office operations

There are several good examples of private sector companies making significant savings through reforming their back office operations

A luxury goods manufacturer had unacceptably high operating costs and the survival of the business was consequently under threat. To reduce operating costs, eight European Head offices were to be consolidated into a single location. The result was that finance and HR headcount were both reduced by 70 per cent, seven out of eight European Head Offices were closed, real estate savings were realised and complex finance processes were standardised and simplified (from 6400 line items in the chart of accounts to 640 line items) during implementation of a common SAP system.

A telecommunications firm wished to evaluate the implications of implementing a branch structure to accommodate the future trading activities of its European operations and to move finance support functions to a central shared service centre organisation that would be located in the UK. The overall goal was to achieve sustainable cost savings across its European business. The result was a reduction in operational costs of between 50 and 66 per cent.

A global distributor wanted to adopt a common technology platform and set of processes to increase visibility and improve management control while reducing costs. It therefore developed a global shared services model which resulted in cost reductions of between 35 and 40 per cent, greater visibility of its finance and accounting functions across Europe, timely provision of management information and the foundation for further consolidation of its accounting and finance functions, increasing efficiency and reducing costs further.

A response to HM Treasury Operational Efficiency Programme: Prospectus, PriceWaterhouseCoopers, October 2008

E Value for money indicators

The OEP recommends the use of the five audit agencies' value for money indicators across the wider public sector. These provide consistent definitions to be used across finance, HR, estates, procurement and IT. The full sets of indicators can be found here: http://www.public-audit-forum.gov.uk/publicat.htm

HR

HR Primary indicators[1]

1. Cost of HR function:
    a. Cost of the HR function as a percentage of organisational running costs (expenditure)
    b. Cost of the HR function per employee
2. Ratio of employees (full-time equivalents) to HR staff
3. Average days per full-time employee per year invested in learning and development
4. Leavers in the last year as a percentage of the average total staff
5. Average working days per employee (full time equivalents) per year lost through sickness absence
6. Commissioner and user satisfaction index
7. Management practice indicator

Finance

Finance Primary Indicators[2]

1. Total cost of the finance function as a percentage of organisational running costs (expenditure) and within this the proportionate cost of a) transaction processing, b) business decision support and c) reporting and control
2. Cycle time in working days from period-end closure to the distribution of routine financial reports to all budget managers and overseeing boards and committees
3. The percentage of variation between the forecast outturn at month 6 and the actual outturn at month 12
4. Percentage of public sector organisation spend for which there are fully costed outputs which are measured by key performance metrics and for which a named individual is accountable
5. Commissioner and user satisfaction index
6. Management practice indicator – CIPFA Financial Management Model
7. Management practice indicator – the number of practices that have been adopted by the organisation out of a possible total of 10

[1] http://www.public-audit-forum.gov.uk/HRPI0708.pdf
[2] http://www.public-audit-forum.gov.uk/FinancePI0708.pdf

Estates Management

Estates Indicators[3]

1. Total property costs (management, occupancy and operational) per square metre

2. Total office accommodation (square metre) per staff full time equivalents (FTE)

3. Total property required maintenance as a percentage of average annual maintenance spend for the last three years

4. Commissioner and user satisfaction index

5. Management practice indicator

Secondary Indicator 1: Cost of the organisation's estates management function

a. per square metre
b. as a percentage of organisational running costs

Procurement

Procurement Primary Indicators[4]

1. Total cost of the procurement function:
   a. Cost of the procurement function as a percentage of organisational running costs (expenditure); and
   b. Cost of procurement function as a percentage of non-pay expenditure.

2. Actual spend committed against pre-established contract arrangements as a percentage of non-pay spend

3. Percentage of non-pay spend which is actively managed by procurement professionals

4. Average (weighted) savings achieved through procurement for the 5 largest procurement projects delivered in the previous financial year

5. Commissioner and user satisfaction index

6. Management practice indicator

IT

IT Primary Indicators[5]

1. Cost of the IT function (i.e. spend on the IT department or equivalent including employee costs and associated overheads) as a percentage of organisational running costs (expenditure)

2. IT competence of user

3. Percentage of incidents resolved within agreed service levels

4. Project governance and delivery index

5. Percentage of the top five transactional based activities which are made via e-enabled channels

6. Commissioner and user satisfaction index
7. Management practice indicator the number of practices that have been adopted by the organisation out of a possible total of 10

[3] http://www.public-audit-forum.gov.uk/EstatesPI0708.pdf
[4] http://www.public-audit-forum.gov.uk/ProcurementPI0708.pdf
[5] http://www.public-audit-forum.gov.uk/ICTPI0708.pdf

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