

# Public Service Transformation and Reform

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## *Abstract*

*The performance gap between private and public service provision is widening. Yet this is happening at a time when there is cross-party recognition of the need for reform of public services and when investment is casting a spotlight on public sector productivity rates.*

*The obstacles hampering efforts to transform public sector delivery are no longer ideological. They range from systemic issues, risk aversion, change management capability, lack of understanding of what is possible and inflexible procurement processes. Yet the appetite for involvement in public service delivery amongst the provider community remains strong. In addition, the market in many areas has matured and expanded significantly, and there is a willingness to work with government in new and innovative ways.*

*This paper argues that alternative service delivery models (ASDMs, a mix of public private and third sector provision) are inevitable as a prerequisite for transformation; only the quantity and pace of change is unknown. We examine ways of accelerating that process so that the significant benefits expected can be delivered more quickly.*

## *Introduction*

The idea of Public Service transformation is not new. Since the introduction of the Welfare State in the late 1940s successive governments have looked at how to balance public need and available funds.

What is different is the pace of change. Changes in society, public expectations and attitudes, use of technology (particularly the web), types of industry, working practices and the private /third sector capabilities have accelerated in the past 10–15 years. The public sector has struggled to keep up and the performance or productivity gap between public and private sector has widened. But there is now a clear determination to deliver meaningful transformation, as political parties seek to differentiate themselves on efficient and effective provision of public services.

A number of obstacles lie in the path of reform. For example, infrastructure, processes and technology do not provide a suitable platform for any government. Other barriers include: fear of failure (due to the public scrutiny and accountability of civil servants and ministers); resistance to change, either because of familiarity with established processes or sectional interest; political and social constraints; the drive for excessive fairness when policies are being developed which leads to over complicated rules and processes which are unintelligible to the general population; or a fundamental lack of understanding of what really could be achieved through properly harnessing the capabilities of the private and third sectors to the public sector.

Despite some improvements, our current Government finds itself increasing investment without necessarily producing the step changes needed. There is a political consensus on improving public services, increasing fairness (equality of opportunity, needs vs. ability to pay), devolving responsibility to the individual and capitalising on private and third sector capabilities. Indeed, there has been a shift in ideology, with the result that the whole concept of 'fairness' has become synonymous with 'competition' and choice. Yet there is no apparatus or know-how to achieve those outcomes.

Real transformation requires reform of the delivery mechanisms involved in public services. Reform comprising a combination of private, third and government sectors is inevitable. Such plurality of provision should introduce contestability, helping to drive

innovation and close the public/private productivity gap. However, such an approach will require shared objectives under creative commercial arrangements (what we have called Alternative Service Delivery Models or ASDMs). Successful implementations such as National Savings and Investments and the congestion charge in London point the way. The questions are *when*, or *how much* and *how fast*, not *if* and the answers depend on the balance between the drivers for change and the lack of current capability.

On the plus side are factors that augur well for reform: growing demand from users; increasing dissatisfaction of wider stakeholders; recognition of the systemic nature of some current problems; and the growing maturity and flexibility of the provider community.

However, concerted and co-ordinated effort is required to capitalise on those drivers, remove the barriers and accelerate delivery of the expected benefits.

### *The drivers for change.*

#### **1. 'Customer' demand**

A drive towards devolved responsibility and customer-centricity fuelled in large part by a population whose expectations and demands of Government have risen in line with private sector improvements and who are no longer tolerant of poor standards. The Varney Review *Service Transformation: a Better Service For Citizens and Businesses, a Better Deal for Taxpayers* and strategy paper *Transformational Government - Enabled by Technology* both identified the need for 'customer' (either business or citizen) centricity.

#### **2. Wider stakeholder expectations**

Increasing criticism from media, Treasury, parliamentary and departmental reviews as current initiatives are seen as not working or are over-sold. For example, some departments are relying almost exclusively on LEAN techniques to deliver all their desired changes – efficiency, service quality improvement and greater customer-centricity. Criticism is coupled with a clear desire for radical reforms across all Government Departments and a need for prioritising public spending, putting transformation at a premium. That desire for the radical is linked to a shift in ideology. There is now a

widespread belief that competition is synonymous with fairness. As a result, rather than 'fairness' being the exclusive domain of the public sector, plurality of provision, driving contestability and innovation, are seen as the route to closing the productivity gap between public and private service provision. Lastly, there is a growing realisation that, structurally, information mechanisms within the public sector appear to be less sensitive than the private or third sectors and therefore struggle to harness the market as a selection mechanism.

### ***3. Underlying systemic failures***

Recognition that change is not possible within an infrastructure that cannot support or facilitate it, where the investment in modernising legacy infrastructure outstrips government ability to fund it and where big bang IT investment at best delivers only discrete new capabilities. It is also widely understood that fragmented operations between and within departments have a detrimental effect on service quality such that citizens need to deal with a multitude of government touchpoints to accomplish even basic tasks. For example the Varney Review recognised that the consequences of bereavement can require 41 separate notifications to government agencies.

### ***4. A maturing market***

A maturing and expanding third-party provider market with the ability to transfer know-how, share risk and rewards, provide examples of proven concepts and cover more 'niche' service provision. This is coupled with a genuine willingness on the part of the major providers to explore creative commercial constructs with Government. In addition, there is a recognition at senior levels within government that the private (and third) sector has a crucial role to play in effecting transformation and developing / maintaining the pre-requisite systems and processes

### ***5. Untapped benefits***

Untapped benefits which derive from the ability to change the underlying business model to deliver better services at lower cost. Direct benefits include: vast reductions in cost; avoidance of capital expenditure; sustainable service improvements; guaranteed service levels; variable pricing; influx of talent; sharing of know-how; more flexible service provision able to respond more quickly to change – either in terms of new services, or additions/amendments to existing services.

*True transformation remains elusive.*

Despite the many drivers *for* change there are **barriers** to be overcome. These range from resistance to change; inflexible, procurement processes and regulations; lack of know-how and experience; concern about public services not being provided directly; and the private sector preferring to react to demand rather than spend time offering creative solutions when there seems to be no appetite for them. At their heart is a lack of understanding of what really could be achieved if the Public sector could properly harness the capabilities of the private and third sectors.

As a result, creative delivery models are rare in the public sector because the roadmap for getting there is not understood. That roadmap comprises - formulate strategy, engage the potential internal and external service suppliers, compare, negotiate, finalise, transition and manage. In addition, the models themselves are feared by many of those who should promote and create them because they are seen as adding risk when there is so much to do, rather than mitigating the risk. The argument is often that 'now is not a good time'. Such an approach means that 'now' will never be a good time – whenever now is.

The process itself isn't complicated but there is a lot to do and you need a clear outcome (or picture of the new service delivery model and underlying processes), sufficient resources, robust methods and a flexible procurement process. Government procurement processes lack this flexibility and are geared toward selecting the lowest cost 'offer'. This precludes creativity and innovation as competing suppliers pare their services to the bone in order to stay in the hunt. That might be appropriate for product procurement, but complex services require a more sophisticated approach and selection criteria. There is also a lack of upfront acknowledgement that things will go wrong and little attention paid to how all parties will work together to put things right. Procurements should be decided much more by the track record of organisations to sort problems when things go wrong, rather than those who tender the lowest price. The 'blame' culture which prevails is not healthy and merely serves to make suppliers defensive or to factor risk cost into their tender responses.

Despite some notable exceptions, the end result is often poorly constructed, adversarial arrangements where neither party is satisfied with the outcome, relationships that are

strained at best, the service levels are unsatisfactory and there is often early termination. Most highly visible use of external providers to provide complex service solutions are therefore examples that have failed. This ‘fear-of-failure’ becomes a self-fulfilling prophecy — that the provision of public services and support functions (rather than simply their procurement) must be the exclusive domain of civil servants. This colours approaches to existing services, and to new ones. The latter should be encouraged to start with the opposite presumption; that is, the service should be delivered by the private or third sectors rather than the public sector (in line with the Public Sector Reform Model published in 2006).

It is widely accepted that there is massive demand is for high calibre individuals to drive complex Change Programmes, and that there are not enough of these people to go round. In any market where there is a shortage of resources the logical answer would be to distribute the scarce resources which are available in the most effective way. Public sector reform would be massively assisted by ‘seeding’ individuals with these skills into their major programmes and recognising that they are provide exceptional value (despite their high cost).

Government departments need to learn how to become better clients, and how to get the maximum out of their chosen providers. In the public sector, commercial performance-management and governance typically means applying service metrics and penalties. Relationship building and incentives to over-perform and provide innovation are rarely considered – yet these are the areas which offer the most potential for a step-change in service performance.

### ***Accelerating Transformation through Alternative Service Delivery Models (ASDM)***

ASDMs in this context reach beyond traditional outsourcing, off-shoring, joint ventures or even shared-service solutions (see Annex A for further details on some of the issues raised by these approaches). The supplier/provider market has matured and expanded substantially over recent years. Providers recognise the need to innovate and adapt services to meet the specific needs of their customers. Large-scale, off-the-shelf, one-size-fits-all solutions are no longer the order of the day. While some contracts remain large,

there is a growing trend towards smaller-scale tailored solutions, with the customer and supplier working in partnership to deliver a set of shared outcomes. Notable successes can be found in local government, but these have not as yet become commonplace in central government. For example: front office services in Westminster City Council (provided by Vertex).

The challenge is to exploit and capitalise on the drivers for change, by addressing the barriers identified above. We believe a number of steps can be taken to accelerate the process – their timing, start-point and sequence will depend on the particular circumstances involved. In summary, these are (see Annex B for more details):

- **Build Acceptance** – a key early step is to gain widespread acceptance that monopolistic service provision is not the only option; there are other better, (cheaper and more effective) delivery approaches available. As a result current initiatives are unlikely to deliver the required transformation on their own. This will require *education* (see below) on what ASDMs can deliver, in particular how they can de-risk current approaches.
- **Education** – acceptance and then transformation will not happen without a better understanding of ASDMs – what is possible, the potential benefits and where support can be found. This can best be done in dialogue with the provider community (see also below).
- **Identify suitable candidate processes for ASDM's** –trying to identify possible candidate functions for transformation can be daunting when faced with the scale and the multiple objectives that characterise many public sector organisations. One approach that has been piloted successfully, is to filter the main processes by applying a series of coarse filters and asking key questions at each stage (for example – is the process specialised or generic?). More details of this approach are provided in Annex B.
- **Create Heroes** – these are the sponsors who will champion the processes through, turning the concept into delivered reality. 'Heroes' are likely to be responsible for strong-candidate processes as well as embracing the concept of ASDMs.

- **Engage the Provider community (both private and third sector)** –in the past ten years this market has matured and changed almost beyond recognition. Harnessing the power of the private and third sectors is a crucial step on the transformation journey and will require working with the internal commercial department to set up informal Provider ‘advisory groups’ to explore innovative technical solutions and commercial constructs (non-traditional, faster, less-formal, more creative and politically sellable). This, we believe, is the step that will be the biggest challenge and require the highest level of support.

## *Conclusion*

The gap between private and public sector service provision will continue to accelerate unless more radical approaches to transformation are adopted within government. We believe that radical changes to procurement processes and attitudes coupled with alternative service delivery arrangements – integrating public, private and third sectors in innovative ways — are the key to that transformation. There are clear steps that can be taken now that will speed up the process of change — particularly to educate the public sector and engage the provider community. The benefits are significant (fewer disaster projects, massive cost reduction, avoidance of capital spend, better quality provision, more flexible/responsive services); the time for action is now.

## *Annex A – Issues facing traditional external service delivery models*

Theoretically these traditional approaches have the potential to provide real value. Indeed some such solutions have been highly successful; for example National Savings and Investments.

However, each traditional approach carries its own set of problems and issues. For example:

- **Outsourcing:** the attractions and benefits of Outsourcing need to be off-set against negative connotations such as the loss of jobs and potential transfer of work offshore leading to social and political resistance as well as being the least welcome option for the civil servant to buy-in to. Outsourcing transactions themselves are fraught with pitfalls and the public sector doesn't have the know-how to avoid the pitfalls and manage the risks. Typically it will try and rely on draconian, rigid contract terms and conditions that stifle creativity, co-operation and innovation.
- **Shared Services:** shared services (between or within departments) are beginning to emerge as transformation agents but require huge augmentation from outside which is expensive and rarely, if ever, do the requisite skills and know-how transfer to the public sector staff and this jeopardises the sustainability of the model. Shared services have struggled to materialise because Departments do not like giving up control and there is no incentive for Departments to share because Government does not yet reward its senior people by reference to the way they work together & there is nothing similar to a share price to show the result of the overall endeavour.
- **Joint Ventures:** joint ventures (or enterprise partnerships) are even less well understood than outsourcing or shared-services. Theoretically, an enterprise partnership will overcome many of the traditional weaknesses and pitfalls by providing an influx of talent, a close working relationship and responsibility which is designed into the concept and real incentives for both parties to perform. The reality is that the providers who prefer this commercial approach are working with the financial service and other industries where buying services has become far more sophisticated in the past decade and [with the exception of PFi initiatives] this option is largely (and in our opinion wrongly) eschewed in the Public sector. Joint Ventures

have proved difficult because Government has worried about a perceived conflict of interest if the senior Civil Servants involved in the Joint Venture focus on its success rather than the Department's. In our view it should be possible to design things in such a way that the two are mutually compatible.

Other variations on the above themes, such as smart-sourcing, right-sourcing, right-shoring etc are insufficiently understood with little knowledge of the upside or how to create and manage them, insufficient resources to pursue and social / political factors.

## ***Annex B – Detailed steps to accelerate transformation through ASDMs***

- ***Build Acceptance***

A key step on the road to transformation is widespread acceptance that there is a problem. There are innumerable initiatives currently underway involving armies of consultants and various change methodologies but few, if any, will result in radical or sustainable improvements to public services. This is partly because the external resources are not augmenting the departmental staff, partly that the results aren't guaranteed and partly due to the lack of skills and know-how transfer during the process. Acknowledgement of the need for a more radical approach is hampered by the belief that the programmes underway are radical enough, are already stretching the resources and are presenting risk.

- ***Education***

Delivering transformation by definition means changing established and familiar delivery models. Many of the difficulties lie in 'soft' barriers because it means changing the perspectives that people are attached to and gives them their sense of identity. Transformation will not happen without a better understanding to dispel myths, broadcast benefits, reduce fear and anxiety and help people become aware of the support available. Seminars allow people to meet to share their challenges and help key sponsors identify 'transformation heroes' and generate a feeling of change inevitability. That's necessary to convince decision makers that proposals are soundly based. Finally education instrumental in helping foster 'Acceptance'. Training programmes can be run in-house or by the private sector; either way you need to involve both for maximum effect. The courses should include work-shops involving private sector solutions-architects and senior executives to broaden the debate away from the traditional models and demonstrate the willingness, capability and passion that these organisations have in this area. Workshops ensure that stakeholders feel part of the solution. They should involve the directors of the centres within government that *are* meeting both parties' objectives (for example Westminster City Council / Vertex or the congestion charge in London). Aside from the levelling of knowledge, part of the objective would be to create a lasting excitement around ASDM's to replace the suspicion and fear that currently exists.

- **Identify suitable candidate processes for ASDM's**

Government departments can, and should, integrate where it makes sense or needs, to but government is too big to treat as a single entity; and this is where things often fail. A single Department could have tens of thousands of civil servants and hundreds of bespoke processes. Trying to identify possible candidate functions for transformation (leverage, shared-services, centres of excellence or any variety of external sourcing) can be daunting when faced with this scale and the multiple objectives that characterise public sector organisations. One approach that has been piloted successfully, is to filter the main processes (e.g. forms processing, form design, call centre and even internal expense claims) by applying a series of coarse filters (process characteristics, internal capability and organisational factors) and asking key questions at each stage:

- i. Can the process be shared or leveraged?
- ii. Is it specialised or generic?
- iii. How does the internal capability compare with external providers'?
- iv. Is there a mature, proven market for the process or function?
- v. Do our customers or employers demand that the process (service) is carried out by state officials?
- vi. What level of comfort would the key stakeholders feel with the various delivery options for this process?

This process categorises the various processes into the delivery option pools that might be suitable and makes explicit any assumptions and possible sensitivities (political and social). Processes can be examined in an environment of continuous improvement, recognising the need to understand the end to end process to avoid lock in by handing off one task in isolation. It also prepares each directorate in terms of readiness for further transformation, anticipating the time when current initiatives run out of steam or further spending reviews demand more radical solutions.

- **Create Heroes**

Another key step is to identify the sponsors who will champion the processes through, and help prove the concept. 'Heroes' are likely to be responsible for strong-candidate processes as well as embracing the concept of ASDMs. Without sponsorship at this level, transformation will remain a concept. There are already some notable successes. Xansa at the DoH has proved that an attractive offering can create competition and attract support.

- ***Engage the Private Sector***

The capacity, capabilities, and willingness of the major service providers to participate in the reform of public services are vastly underestimated. In the past ten years this market has matured and changed almost beyond recognition. There are now sophisticated commercial arrangements in all industry sectors [e.g. IBM, GenPact Accenture] The Public sector has been the slowest to embrace these new commercial models. Often it keeps these organisations at arm's-length and engages with them reluctantly through inflexible procurement structures designed for a different era (the NHS NPfIT programme is a classic example of what not to do in this regard). Harnessing the power of the private sector is a crucial step on the transformation journey. This requires working with the internal commercial department to set up informal Provider 'advisory groups' to explore innovative technical solutions and commercial constructs (non-traditional, faster, less-formal, more creative and politically sellable). This, we believe, is the step that will be the biggest challenge and require the highest level of support.

## About EightyTwenty Insight

EightyTwenty Insight is a new approach to sourcing advice:

- Strategy-led: starting with the end in mind.
- Expert-driven: lean, fast and focussed on what matters.
- Methodology-enabled: but not prescriptive.
- Enabling & empowering: by transferring knowledge, skills, tools & methods.

We understand the pressures organizations face today and the importance of a tailored approach - one that builds lasting relationships and works with your team to provide the best solution. EightyTwenty Insight was formed to provide this more sophisticated approach. We provide sourcing advice to the public and private sectors, in the BPO, ITO, HRO and F&A markets; utilising a team of experienced professionals.

EightyTwenty Insight aims to be the 'local pilot' - the expert that can help you navigate a difficult course successfully - reaching your destination faster and with lower risk.

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