



Developing the local government services market

Working paper on technology and transformation services



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On 5th May 2006 the responsibilities of the Office of the Deputy Prime Minister (ODPM) transferred to the Department for Communities and Local Government.

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Contents

Executive summary	4
Introduction	6
The current market: key challenges and opportunities	10
The future market: potential for development	18
Implications for a long-term strategy for local government	29
Potential next steps	31
Acknowledgements	33

Executive summary

This draft discussion paper sets out the key findings from recent research undertaken by PricewaterhouseCoopers LLP on behalf of the Department for Communities and Local Government. The paper considers the technology market sector encompassing both the (increasingly) commoditised IT products and services as well as technology enabled change across back- and middle-office functions. There is already an active market in these areas, and the paper considers the extent and manner in which the sector may need to develop. This working paper was completed in August 2006 and is part of a wider study of key local government supply markets. The findings contain messages for policymakers, commissioners and potential suppliers in the sector.

Policy context

The technology sector in local government is a significant sector which extends from 'commodity' items such as PCs, to complex strategic service partnerships involving transformation of the way local authorities meet the needs of customers. The sector faces complex policy drivers – which cut across all public sector ICT markets – such as implementing the efficiency agenda, making public services more 'joined-up' and creating greater customer focus. These drivers trigger the need to consider:

- how to capitalise on the facility of technology to change organisations and processes
- better coordination with wider initiatives aimed at improving service delivery
- improved skills in commissioning and managing complex projects that encompass both technology and service transformation requirements.

Challenges and opportunities

The existing market has complex and often overlapping sub-segments, from commodity IT components to outsourcing targeted service functions that have the potential for improvement through business process-outsourcing. The exploitation of technology by local government to drive improvement frequently 'follows' that in the private sector, often adapting emerging concepts for application in public service environments. The following considerations are key to ensuring that local government exploits such opportunities to greatest effect:

- choice of procurement options appropriate to the type of goods and services needed
- capability to aggregate both demand and supply across the authority, its neighbours and other local agencies as appropriate, and to integrate usage where appropriate
- improved recognition of risk, with appropriate negotiation on risk transfer

- reviewing diversity, capacity and competition in the market through, for example:
 - review of how SMEs might contribute to the sector
 - balance in the supply side resources available for more complex programmes.

Moving forward

The future development of service delivery options could take place via a variety of options including:

- wider exploitation of techniques developed by specialist technology companies that use technology to support improved service provision
- evaluation of shared services to achieve efficiency targets – experience of where and how this works best is urgently needed
- more widespread use of best practice management approaches to deliver successful technology projects.

Finally, there are a number of implications for the Government's long-term strategy for local government, which will be a key to the development of this market sector in the future. These include:

- the convenor role of local government, and the potential for technology and integrated and shared services to support the integration of local public services around users' needs
- local leadership, and the political commitment and managerial capacity required to lead and deliver large change programmes, which are often technology-enabled
- user choice and voice, and the potential of technology and associated transformation programmes to promote both efficiency and 'customer-centric' services, whilst recognising the balance between managing services authority-wide or sub-regionally to encourage productive efficiency, and the need for local flexibility in service delivery to promote allocative efficiency
- performance, efficiency and value for money, and the potential of technology-enabled shared services programmes to deliver significant and lasting cost reduction over time in transactional services.

The paper concludes by identifying a number of issues for consideration by policymakers, local authority commissioners, and suppliers.

Introduction

1. This working paper is one of a series that highlight findings from research undertaken by PricewaterhouseCoopers LLP (PwC) into key local government services markets, on behalf of the Department for Communities and Local Government. This paper is focused on the current and future development of the technology and transformation services market, and is designed to support debate and discussion of key issues by stakeholders.
2. The evidence sources for the paper include a roundtable meeting of local authority stakeholders, relevant professional bodies, suppliers and policymakers that was convened and facilitated by PwC in 2005, subsequent cross-cutting workshops and other referenced research evidence. Where the views of particular stakeholders or groups of stakeholders are described in this paper, these are not necessarily shared or endorsed by either PwC or the Department for Communities and Local Government. Our work has been undertaken in accordance with the terms and conditions agreed between ourselves and the Department on 26th July 2004. We do not accept any duty of care or responsibility to any party other than the Department. Any oral comments made in discussions as concerns our reports and letters are not intended to have any greater significance than explanations of matters contained in the final written reports or letters. We shall not be held responsible for oral advice unless we confirm such advice formally in writing.

Background and market context

3. This market covers a wide range of goods and services in local government, all of which are facilitated by technology at some level. Local government has a long history in exploiting technology, since the first developments in computing. The evolution of buying patterns, from equipment (often supported by large in-house teams of software developers), to software (covering corporate and departmental applications, as well as office efficiency toolsets), to technology services (user support, IT outsourcing, and functional outsourcing of both central services and some frontline services) mirrors a similar progression elsewhere in the public and private sectors. Since councils across the UK deliver broadly similar functional services, some specialisation has arisen amongst technology providers to local government. This commenced in the 1980s with the provision of specialist application software for functions such as revenue and benefits, and regulatory services. The agenda shifted to a focus on eGovernment from the late 1990s onwards, resulting in the availability of improved customer service support functions for the local government front-office, amongst other potential opportunities such as improved back-office transaction handling.

The demand side

4. Local government has been running a programme of activities to ensure that, in line with other parts of the public sector, it meets its commitments on electronic service delivery targets for 2005 – most particularly, those defined in the National Strategy for Local e-Government.¹ More recently, the focus of Government strategy for technology use has extended beyond eGovernment to tackle what the Cabinet Office has defined as ‘Transformational Government’.² The emphasis has moved to ensure three key objectives are pursued:
 - IT services designed around the citizen or business (not the provider)
 - moves to a shared services culture – in front-office, back office and infrastructure
 - a broadening and deepening in professionalism of all aspects of IT delivery.
5. Some of these technology-specific drivers mirror parallel initiatives in wider programmes such as the Efficiency Review.³ This programme, published in July 2004, included potential efficiencies in local government, and set a £6.45bn target by 2007-08. Work subsequently undertaken by Communities and Local Government and local government itself has focused attention on potential approaches to savings.⁴ As with the thinking on Transformational Government, this work highlights the opportunities offered by shared services not only between authorities, but also involving private sector partners. In addition, other potential areas of efficiency including procurement/e-procurement, as well as transactional services, are highlighted for action by local authorities. There is also an increased focus on the potential for efficiency improvements in specific functions, for example the Audit Commission’s recent study of revenues and benefits.⁵
6. Significant volumes of delivery capacity are focused on technology services in local government, not only through in-house staff, but also through a vibrant private sector supplier market. The segmentation of this market is both complex and overlapping, but can be summarised as follows:
 - infrastructure and components – the servers, PCs, networks and communications equipment that are procured directly from the supply-side by some local authorities
 - solution-centred – specific application packages, typically covering a departmental function are procured to support particular processes
 - architecture provision – a more integrated approach to procurement centred around an IT architecture incorporating software and applications with frameworks for hardware provision

1 *National Strategy for Local e-Government*, Office of the Deputy Prime Minister, November 2002.

2 *Transformational Government: enabled by technology*, Cabinet Office, 2005.

3 *Releasing resources to the front line: Independent review of public sector efficiency*, Gershon, P. 2004.

4 *Delivering efficiencies in local government*, Office of the Deputy Prime Minister, 2004.

5 *The Efficiency Challenge: the administration cost of revenues and benefits*, Audit Commission, 2005.

- facilities management of IT operations – the outsourcing of all or elements of the IT operation developed during the 1990's to be a significant proportion of the local government market
 - change management programmes – the fundamental relevance of improved IT provision in changing the culture and processes of an organisation has developed a new segment in which the local authority looks to a private sector partner to refresh its corporate capability, and in doing this the partner introduces new IT services
 - functional outsourcing – some authorities are procuring partners to undertake some of the key functions and services of the authority, and in parallel also passing responsibility for technology to support these functions. Typically the functions transferred are corporate support functions (accounting; human resource management etc) but they can include “front-line” services such as Revenues and Benefits.
7. It has been estimated that local government has spent more than £13bn on IT goods and services over the last 5 years. The pattern of strong year-on-year growth is set to continue with a recent forecast suggesting that the size of the market will be some £3.3bn in 2006.⁶

The supply side

8. The complexity of the market is mirrored by the characteristics of its suppliers. At the ‘upper end’ there are a small number of large suppliers – national or even multi-national in reach – with the breadth and depth of experience, resource and technical capability to manage the whole range of tactical and transformational offerings described above. There are many smaller and medium sized organisations – often with a particular regional focus but commonly with national capability too – with the ability and resource to run a sub-set of the market’s demands. Typically these suppliers are focussed on the provision of sector-wide transactional and/or technical (be it infrastructure or application) goods and services. At the niche end of the market, there are a whole host of organisations – ranging in size from large to very small – that offer particular provision of specialist and tactical technical and process driven solutions.
9. The increasing importance of the functional outsourcing and change management market segments are epitomised by the recent growth of the Strategic Service Partnership (SSP) as a feature of this market. These are characterised by the inclusion of multiple services within scope and a clear prospectus from the commissioning local authority to the market, seeking support in transforming services through redesigning them around the needs of users rather than the traditional models of service delivery organised on functional basis. SSPs usually involve a significant investment in technology, but also an investment in service transformation and change management capacity to deliver the re-alignment of services which technology and service redesign can provide.

⁶ SOCITM, December 2005.

10. Whilst many of the technology providers to local government across these segments are equally active in other business sectors, there tends to be a more restricted set of suppliers active in local government. Typically these organisations will have qualified their interest in the sector, looking at the volume, size of individual authorities and buying cycle, and will have adapted their sales channel structure and skill-set to address the specific requirements of the local government market. Some suppliers target only the larger authorities, on the basis that smaller authorities do not on their own possess the buying power to engage larger players, and those supplying more complex and large scale transformational services. Whilst this may suggest that there are opportunities for new providers into particular areas of the market there is an undoubted challenge in bringing this about. Intellect⁷ has observed that the tensions between driving scale-efficiencies across corporate and transactional processes on the one hand and a long-standing cultural desire to use and sustain local, small suppliers on the other may lead many SMEs to enter into partnering arrangements with the large providers or focus their efforts on specific technical or sector niche areas.
11. This is a mature, if still evolving, market with a significant number of players. Within local government itself, the eGovernment agenda has given the IT profession a new-found importance stemming from its ability to contribute to strategically significant policy agendas around improved customer services and efficiency, rather than just being 'technicians'. The private sector supply base has also matured, from simply advocating the newest capabilities of the technology, to developing skills, experience and a wider offering linked to the transformational capacity of technology as a tool for redesigning and improving service delivery.

⁷ Intellect is the trade body of 1000 companies in the Information Technology, Telecommunications and Electronics industries in the UK.

The current market: key challenges and opportunities

12. The roundtable discussion identified a number of challenges relating to the current structure and operation of the UK technology market. The key issues discussed included:

- *Procurement skills* – the capacity of authorities to run complex procurement exercises covering both new technology, service delivery functions and cultural change objectives is, in general, not well developed, though it varies between authorities.
- *Risk management* – the development of a systematic approach to the identification and management of risk – be it technology risk, transformation risk or delivery risk – is not well established across local authorities, especially when compared to the more narrowly defined project risks on which the private sector bases its decisions in this sector.
- *Fragmented commissioning* – technology and projects aiming to exploit its transformational ability have high entry costs. Smaller authorities may not be able to exceed the entry threshold if they consider only their individual needs.
- *The potential contribution of small and medium-sized enterprises (SMEs)* – almost all types of technology provider work with local government, but contributions from smaller, localised technology providers are under-represented at present.
- *Supply-side capacity* – the relatively small number of private sector players interested or have capability in Strategic Service Delivery Partnerships (SSPs) means that available capacity to service the whole local authority market is constrained at present. The larger ‘pool’ of organisations capable of delivering the more transactional outsourced or managed service offerings means that capacity constraints are less apparent in these areas and could be eased further by encouraging the sorts of partnering arrangements between the large providers and SMEs that have been mentioned above.
- *Supply slide competitiveness* – whilst the current market is seen as attractive, with the potential to become more so, demand-side issues of the sort identified above mean that for the large suppliers there are often insufficient incentives and/or the margins are too small to encourage consistently strong competition. At the lower end of the market, the same issues can provide significant disincentives to, or even prevent altogether, smaller players wishing to develop their presence in the market place.

Procurement skills

13. As indicated above, the options for an authority procuring services in which technology play a significant part is very broad. They range from commodity purchasing of PCs from a pre-OJEU tendered catalogue, through to multi-million pound partnership agreements across several departments involving risk transfer, TUPE, and significant culture change to the whole authority. For the IT infrastructure and solution-centred segments commissioning skills within authorities, whilst still sometimes criticised for being overly complicated, have greatly improved. There was some anecdotal evidence that authorities were not sufficiently flexible in the sophistication and application of their procurement approach, sometimes adopting the same methods for all projects, rather than increasing capacity employed on critical large programmes. Contributors to this study also agreed that, for the more complex procurements, there are significant discrepancies between the best and the worst authorities. In these situations procurement capacity is a key issue, and ability to manage all stages of major procurements and the subsequent delivery phases is variable across local government at present.

14. This is supported to some extent by a survey of local authorities conducted for the evaluation of the local government procurement agenda where a “lack of staff ability” was the most frequently cited obstacle to improving procurement.⁸ Whilst two-thirds of local authorities had a corporate procurement unit, and might therefore be better placed to tackle the cross cutting nature of the larger procurement exercises, there are reservations around whether or not the experience of staff in these units matches those of the private sector sales channel. Related arguments are presented in the CBI Procurement Survey,⁹ though this report was based on input from the supply-side. The most commonly cited factors resulting in high bid costs were:
 - inadequate specification
 - complex procurement models
 - the absence of a standardised approach.

15. There are tenable reasons why this is the case. Since PFI is not recommended as a method of procuring IT solutions, the sector-wide dialogue from which to evolve mutual understanding of best practice and standardisation does not yet exist in this sector. The result of this shortfall is that there is no well developed “pool” of local government staff with a background in complex technology procurements. With major SSPs it is unlikely that any particular council will negotiate more than a single agreement in any one decade, so each procurement is a “one-off” exercise (although it is increasingly the case that support networks and user groups across local government share valuable ‘how to’ experiences). For the suppliers, on the other hand, replication of these types of arrangements across a number of deals is a key objective.

⁸ *Evaluation of the Local Government Procurement Agenda: Baseline Survey*, Institute of Local Government Studies (INLOGOV), 2005.

⁹ *Public Sector Procurement 2004: survey by MORI, CBI, 2004.*

16. Nevertheless, it is fair to say that many authorities entering this type of procurement for the first time do not prepare themselves adequately. Both internal and external dialogue, firstly to scope the requirement, then derive the procurement plan to achieve it, are sometimes not developed robustly enough. Examples of projects jumping straight to the procurement phase of the commissioning cycle, and using this to shape the deliverable are not uncommon. Given the complexity of such procurements and the lack of precedent in individual authorities, a well developed market in procurement advice has developed also amongst the consultancy and legal companies. This can support a competent procurement team, but should not supplant it. External support is an expensive option to be used appropriately, not as a panacea. Even with all these extended sources of support, the prime responsibility to manage the procurement successfully will still remain with the local authority.

17. The supply-side has identified and adapted its behaviour because of potential deficiencies in procurement capacity. There are a relatively small number of suppliers in the larger project category – particularly for SSP projects – with over four hundred potential councils to target. Increasingly, these partnerships, which are critically dependent on a high level of risk sharing between the supplier and the client local authority, have led suppliers to be more selective in terms of which projects they will bid for. There have been successful partnerships generated by this route, but equally there have been a worrying number of agreements terminated as they have not met the needs of the partners involved. The suppliers' qualification criteria may depend on the perception of the client in relation to:
 - clear commitment from members and officers
 - strategic vision and capacity
 - demonstrable capacity to support change effectively
 - the perceived resilience of the business case supporting the approach to market, in particular the alignment between vision and affordability (i.e. viability)
 - consideration of alternative employee models, apart from TUPE
 - consideration of delivery vehicles.

Risk Management

18. The overt recognition that risk is a crucial issue in many business situations is a relatively recent development, but it has generated a significant management discipline to ensure it is adequately considered when planning new developments. In relation to the more complex technology procurements under consideration here, virtually all the key suppliers have incorporated a consideration of risk management into their professional assessment of individual deals.

19. Given that it has experience in risk management, the private sector also needs to acknowledge the responsibilities that this brings. Good practice in risk management acknowledges that early sharing of risk evaluation through, for instance, joint risk registers can result in a more robust evaluation of risk by both parties. By being proactive on these issues, the private sector can secure a better deal, whilst schooling the local authority client in developing an understanding of the balance of risk that it needs to achieve. The temptation to exploit the difference in sophistication on risk that may exist between the two organisations, whilst superficially attractive, generally results in an antagonistic relationship later in the project.
20. In local government the disciplines on risk assessment and risk management are not as well established as the private sector, and it is fair to say that there is a more diverse range of risks that they must consider. In many authorities risk transfer, though better understood than it was, is still not being handled effectively. The naïve approach is that the maximum amount of risk transfer is the best option for the authority, but this will either result in increased cost (where the private sector seek to protect themselves from the risk) or catastrophic failure (where the private sector is unable to mitigate a risk for which it has no leverage on the issue). Local authorities either do not recognise risk – because they are accustomed to carrying it without having to measure or manage it effectively, have not developed and formalised processes for managing risks once they are recognised, or they assume suppliers will pick up these risks in their entirety. Given increasing focus on good procurement in general, and risk management in particular, local government is becoming more aware of its shortfalls on risk, which are shared across the public sector, but it may take some time before new levels of competency can be introduced across each and every authority.
21. Some suppliers also claim that authorities take an inadequate approach to due diligence during major projects where risk may be transferring, and that this leads to problems later in the project.

Fragmented commissioning

22. Procurement of projects involving technology sit on a spectrum, as indicated earlier, between purchases of commodity items such as PCs through to complex programmes involving transfer of process and function with a high degree of change management. These are analysed below, within the segmentation proposed earlier. At the commodity end of the spectrum there are several available mechanisms to take advantage of bulk-buying discounts and to minimise the administrative cost of procurement. These include government sponsored catalogues and e-procurement marketplaces. Whilst not all authorities maximise their use of such methods, the fragmentation of the demand is not a crucial issue for such procurements.
23. In the areas of solution-centred procurements and architecture based procurements, the buyers have a lengthening track record of procurement, which has gradually improved in generating a synergy between discrete procurements, although there are still some examples of departmental priorities taking precedence over a strategic corporate approach.

24. In the outsourcing segment the situation achieved by the commissioning authorities is less clear. Some authorities have achieved improvements and savings based on the transfer of some of their staff to their private sector delivery provider: efficiencies are typically realised through the provider's ability to streamline and rationalise the activities that the in-house staff used to perform. Other authorities have gone a step further by transferring a number of operations and staff to larger – sometimes shared – service delivery “hubs” established by the providers. Whilst TUPE requirements are important in such agreements, tenders which seek to ensure local delivery can significantly reduce the savings achievable from such delivery options.
25. Improved two-tier local authority delivery of electronic services has emerged as a significant trend during changes brought in by e-government, with collaboration at sub-regional (often County) level developing in several localities. Extending this cooperation to back office services is potentially a next step with a shared IT service delivered by a specialist outsourcing or managed services company being a possible way forward. For district councils in particular, cooperation of this sort may increase interest from the supply-side as the contract values will increase to levels that are more attractive to outsource and managed service organisations than those that can be offered by stand-alone district authorities..
26. The specific service delivery challenges typically tackled in functional outsourcing, has meant that most of these contracts have traditionally applied to individual authorities. Scale of the contracts is a key issue, as most district councils are not considered by many suppliers to be significant enough to cover the fixed costs and inherent risk of entering such a contract. The grouping of contracts to cover single functions (for example, revenues and benefits) across multiple authorities is being advocated as a potential route to gain benefit by overcoming fragmented procurement.
27. The supply of a change management contract is specific to the organisation being addressed since processes and cultures to be adapted are often unique to that organisation. It may be true that there is some commonality of processes that could be applied to multiple local authorities. But unless they take some very specific steps to work together towards some shared objectives, aggregation around this kind of contract is problematic, even if a common IT infrastructure could in itself bring some benefit.
28. An analysis of shared services as a mechanism for gaining economies of scale and scope is set out in the next section of this paper, along with other methods of aggregation that could be considered.

Contribution from small and medium enterprises (SMEs)

29. Currently there are few mechanisms for propagating effective partnering and procurement of technology based projects in local government involving the SME sector which move much beyond gesture. The technology supply market is characterised by its global brands that either monopolise the high value contracts themselves, or develop sophisticated sales channels working with a hierarchy of alliances and partnerships. SMEs in the technology sector, though high on innovation, do not tend to have the depth of capacity nor the investment capability to implement and run major operational workloads.

30. As risk management skills become further developed in local authorities, the current situation may become more formalised. As we have noted elsewhere technology projects tend to be both complex and carry a high entry level cost. Such projects carry significant risk, and if problems develop during a project the private sector partner can need deep pockets to get them back on track. The larger suppliers – where such a struggling project may be one amongst many more profitable projects – have this capacity. They usually recognise that in a highly networked sector such as local government, it is in their interest to expend money to ensure project success. Smaller companies, whilst not necessarily being any less willing to meet their obligations, may face a much more constrained financial capacity when exposed to such problems.
31. These issues of apparently ever increasing complexities, sophistication and potential higher risk of IT enabled change programmes may be lessened by recognising that incremental approaches to some programmes may be more appropriate – particularly where SMEs are involved. As Intellect has observed, incremental partnerships allow public services to pick and choose from the best of the private sector, to place new expertise and innovation alongside existing systems and bring the best mix of solutions to meet changing needs. They offer organisations step-changes in service provision without comprehensive commitment and with lower risk. It means working with partners normally on a long term basis without an all-inclusive arrangement or the need to contract with a provider that has knowledge and capacity in every conceivable discipline.
32. There is a significant history of SMEs in the development of niche departmental software applications e.g. environmental health and planning, but as noted earlier these solution-driven procurements represent a small and probably decreasing portion of the total marketplace. In the less specialised applications such as accounting, human resources, payroll etc (where UK legislation does not shape the product requirement) even application software has tended to move from local government specialist providers to market leaders because they can build a product much richer in features and facilities by spreading investment in development across thousands of world-wide licences rather than the tens or (rarely) hundreds of licences that a UK local government specialist can expect to achieve.
33. Some projects around e-government have favoured some of the smaller suppliers either because they have been able to provide a focus on the issue that larger suppliers have deemed uneconomic within their wider portfolios, or the technology has been sufficiently close to the initial development for no clear market leader to have established dominance. Some of the e-government projects run by the local e-government team within Communities and Local Government have capitalised on this contribution from small providers, but even here ramping up the volume of users has faced difficulties from the depth of implementation resource available.

34. One argument put forward to counter the difficulty that SMEs come across in trying to enter into direct procurement exercises with local authorities is that the SMEs could act as local sub-contractors to the major providers. However this model has failed to become established in the field, because in projects with tight deadlines and low margins the major providers want to remain in complete control using the project methodologies and processes that are proprietary to them rather than risking the relatively unknown skills of a smaller third party. The reduction of risk in major technology-led projects has successfully been achieved by replicating the use of skill-sets and project methodologies rather than, as in the past, simply repeating software implementations. The larger outsourcers, for example, now tend to rely on best of breed software packages with a large installed base which typically have a pool of implementation support resource that can be called upon to meet implementation programmes.
35. Intellect has, at the request of the Department for Communities and Local Government, considered these issues. It has been suggested that the following mechanisms – some of which are already established within the local government sector, others of which may require further consideration – are routes by which SMEs might become better involved:
- focus on skills and training within local authorities to develop coherent IT strategies: such strategies allow for specialist companies to identify and get involved with the authorities that need them
 - promotion of open standards, which provides opportunities for small companies to prove compliance and therefore be considered
 - better catalogue buying classifications for specialist areas and sub-contracting: this would reflect the skills of the SMEs, and also allow them to get major companies to accept them as sub-contractors
 - simpler procurement on low-value tenders – or allowing suppliers to bid for parts of contracts: this would prevent high bid costs from excluding SMEs
 - investment in SMEs by favouring them in procurement, or recognising local providers as having advantages
 - incremental partnership and multi-agency working, including incremental partnerships allowing SMEs to grow as confidence in their ability is established; multi-agency working encourages open learning with and from organisations that would otherwise be excluded.

Supply-side capacity

36. The segmentation identified earlier recognises the increasing complexity of the procurement requirements that local government is seeking. In some cases the volume of such complex deals across local government can mean that the supply-side resources are over-stretched. This happens both on capital investment and project staffing, as described below.

37. Some authorities have acknowledged that their current performance is handicapped by a history of low investment in IT infrastructure, or in the softer skills of using technology to enable process/culture change (or both). Certainly for a period before the introduction of the prudential borrowing regime there were a number of landmark agreements where the partnership on major programmes (incorporating change management and function outsourcing) also emphasised the contribution which a significant investment in an immediate technology “refresh” could contribute to enabling change. The private sector in some projects was putting in an additional boost of up-front (i.e. year one) investment in technology of the order of 10-15% the value of the full contract across the multi-year length of the agreement (typically ten years).
38. At least one of the providers of this kind of deal was forced, after some degree of success, to re-consider its overall strategy. After winning several local authority contracts where investment was a factor, the company recognised it would start to have unsustainable financial liabilities if it went on using the same model. It changed its favoured approach to ensure that further bids concentrated more on exploiting the skills brought in to the organisation through TUPE transfers in previous contracts, and less on up-front investment.
39. Some suppliers have recently moved away from this type of investment-led programme. This is partly because the prudential regime – some 50% of authorities are already (or are planning) to use these borrowing powers¹⁰ – allows authorities to consider this kind of commitment within their own capital plans, but also because the investment front loading started to become a burden on the relatively small number of providers in this segment of the market.
40. This reality check of taking on the investment shortfall in technology across the whole of local government is not the only area in which the capability of even the largest suppliers to local government has been tested. Despite the best of breed strategies mentioned earlier, the other area that some suppliers have indicated they have reached limits on capacity is in staffing with appropriate project resources. This is true in two key areas – firstly, in high quality programme management. These are scarce resources both in the private and public sectors as well as local government. Secondly, specialist skills in technology programmes can be subject to large fluctuations in demand. At times when demand peaks across all sectors, the margins in local government contracts frequently tighten in response, thereby restricting suppliers’ flexibility.
41. With around four hundred councils to service even the largest providers have encountered difficulty in aligning their resources to match a potential wave of authorities who wish to adopt radically new delivery mechanisms within their technology strategies. As has been discussed already, a potential solution to resource capacity issues amongst suppliers is to encourage greater use of supplier partnering or consortia arrangements where by SMEs can provide locally based resource to complement those in the larger organisations – either in specific skill areas or during times of peak activity.
42. The points raised in the earlier section, ‘Contribution from SMEs’, are worth reiterating in the context of supply-side capacity: many of the capacity issues could be addressed – with the added benefit of opening-up the market to new and existing SMEs – if the points around adopting different procurement styles and programme execution strategies are given further consideration.

¹⁰ *Loosening the reins: a survey of local authority approaches to prudential borrowing, charging and trading*, Local Government Association, 2004.

The future market: potential for development

43. This section of the paper considers potential future changes to this market sector, and ways in which some of the challenges set out above might be addressed. One of the key issues identified is the potential for greater aggregation of demand for these services, as a driver of increased efficiency, to increase market capacity as a whole, and to enable smaller authorities to access some of the transformational offerings of suppliers who are currently focused predominantly on working with larger authorities with greater purchasing power. Given the transformational issues identified in the Government's technology strategy, in relation to shared services, this formed a key issue for discussion at the roundtable. This section of the paper goes on to consider other significant issues for this market sector; improved market dialogue, and enhanced procurement capacity.

Aggregation and shared services

44. In the preparation of this paper and our engagement with commissioners and providers, a consensus emerged that the fragmented nature of procurement was an issue that needs to be tackled, to make progress not only towards achieving efficiency but also transforming customer service delivery in local government. However, the debate around how to achieve this is complex, as could be seen in the roundtable discussion, and is recognised within policy in this area, such as the Efficiency Review and Transformational Government.
45. These parameters will need to be refined as they are applied to local government in particular, to confirm:
- which services can best be aggregated
 - what is the right level of aggregation
 - what are the best structures for delivering shared services, particularly in relation to ensuring the right mix or integration of service delivery
 - what potential benefits can be achieved
 - what common challenges need to be addressed in the development of shared services across local government.

Which services to aggregate?

46. Even in the policy guidance issued on Transformational Government it is recognised that patterns of successful aggregation are, as yet, poorly understood. The debate identifies certain characteristics in which technology issues are often relevant – shared data, common infrastructure and information standards. But it does not assume that technology is necessarily central to a shared service. So in looking at which services to integrate, a shared service which simply pulls together the “pure” information technology functions within multiple organisations may be the most obvious starting point, but should by no means limit considerations.

47. An initial approach looking at the market defined earlier provides a useful starting point. An initial analysis suggests the following:
- Mechanisms for aggregating demand in commodity products exist already, as noted above, in the form of catalogues and e-procurement markets.
 - Shared services using common architectures are likely to respond to aggregation particularly across multiple authorities wishing to invest in a common approach to technology provision. Many of the elements of IT architectures – platforms, communication networks, even software licences – respond to the economies of scale. Transformational Government argues for standardising architecture across all parts of Government. Such consistency will inevitably take a long time to achieve, but by starting the process within a significant sector – such as local government – the process can be initiated and momentum built.
 - Outsourcing of IT services is another segment which is based on the outsourcer being able to reduce costs by taking advantage of running similar workloads on shared platforms. Providers here are already focused on the improvements they can make through adding work to existing processing hubs, rather than leaving diffuse delivery centres, but tenders published by local government need to reflect that this may mean staff moving geographically as well as organisationally as part of outsourcing functions.
 - Change management is more difficult to aggregate, since it depends on recognising the particular starting point for each authority in the shared arrangement, though if the shared service is designed to move the participants to a common set of processes working in all the participants, then the techniques can be adapted.
 - The function outsourcing segment is perhaps the most interesting in terms of shared services. Here, sharing technology is only part of the issue. Equally relevant are the benefits of aggregation within the function itself. So, for example, aggregating HR functions across a number of authorities may allow co-location of staff with economies on accommodation costs, alongside “softer” benefits such as enhanced business processes, better quality information and improved decision making.
48. A shared service arrangement, regardless of the governance model under which it operates, can in theory handle any business function effectively, as long as there is competent management to realise the benefits from the arrangement and performance criteria that meets the needs of the ‘parent’ councils. As well as the “pure” IT functions already mentioned, the following functional areas are typically considered when introducing shared service provision in local government:
- Revenues and Benefits administration and collection.
 - Building Control.
 - Development Control.
 - Shared customer service centres and other areas of front-line activity such as payment processing centres.
 - Shared back office services such as HR, payroll, finance services and legal services.

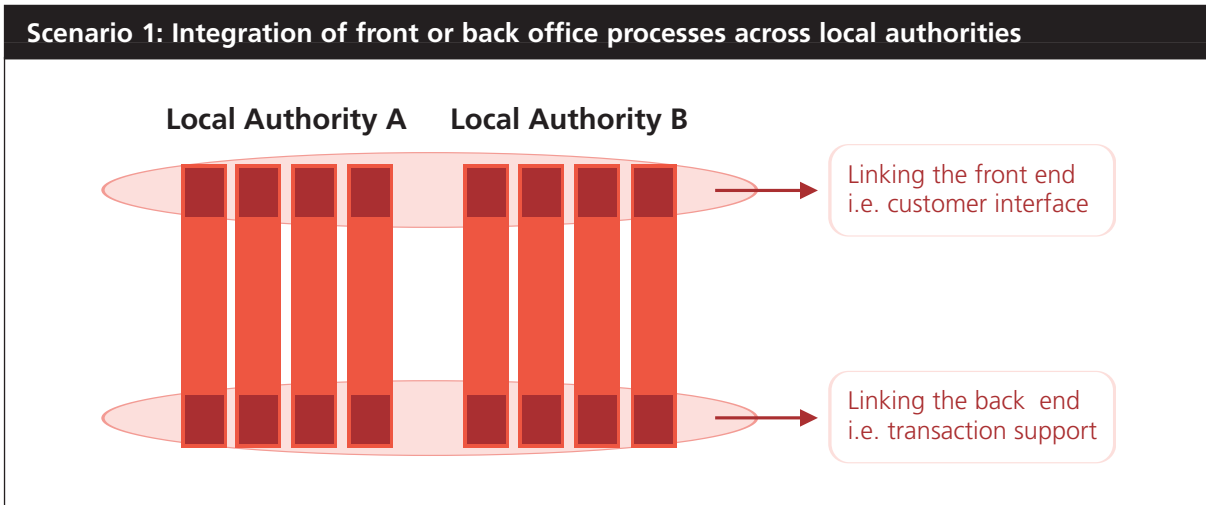
What is the right 'level' of aggregation?

49. Moving to the level of aggregation to be achieved, there are a number of factors to consider. Geographic links to deliver shared services are a natural building block given the location-based emphasis of many local government services. There are options of regional, sub-regional, county and smaller groups of co-operating local authorities that might be adopted. At the roundtable suppliers did not unanimously favour regional aggregation as a way to maximise economies of scale in both demand and supply and, as borne out by current developments, the spontaneously emerging groups of cooperating authorities are often much smaller than this. Cooperation has been triggered in many two-tier areas for collaboration on local e-government tasks at county-wide level, and these existing links may prove a good foundation for the wider development of shared services. Supplier concerns about the regionalisation of shared services have probably more to do with competition issues, with the potential to 'lock-out' suppliers if unsuccessful on a small number of opportunities.
50. Since this paper focuses on technology-led change, it should be acknowledged that the technology could enable "virtual" partnerships that rely on common objectives rather than common geography as their trigger. Yet without a significant shift in some of the supporting HR issues, staff side concerns may continue to undermine what is a practical and common sense way forward. In considering Revenues and Benefits, the Audit Commission points out the benefits that can be gained from locating processing capacity outside London. The advantages of this are the availability of a stable but skilled workforce, as well as reduced wage costs. There are good indications that remote delivery of shared services could be achieved if aggregation could be built in to the procurement considerations.
51. Some forms of aggregation could, on the other hand, be even more dependent on location. One concept to be further investigated is the delivery of local services across several organisations delivering local services – not just local authorities. This scenario introduces new and different considerations:
 - which other local services have similar functional requirements?
 - how will the partnership of bodies be constituted to recognise the non-local government participants?
 - who will lead on operational issues?
 - how will the supply side evaluate the risk in such diffuse partnering arrangements?

52. Government policies are looking to encourage joint-working between local agencies, building on the experience of Local Strategic Partnerships (LSPs) in the introduction of Local Area Agreements (LAAs) which will focus resources and onto local (and national) priorities ensuring that outcomes meet local needs. In topics which may need technology to address joint aims, cross agency working opens up new challenges that will need to be addressed. Amongst local agencies only a minority are purely 'local'. Most, whilst having a local dimension, are part of wider regional or national organisation. Since such organisations typically operate within their own IT strategies, any local IT provision to be delivered as a shared service must be capable of integration with the wider constraints of each of the participating partners. Whilst Transformational Government argues for common infrastructure to be adopted across all government services, this aspiration may need to be tempered with some pragmatic solutions if truly local technology-enabled shared services are to flourish in the immediate future.
53. There is a need to balance the benefits that may arise from aggregation against deterioration in the general market conditions already raised such as problems with resourcing and capacity, limiting the ability of SMEs to play a really active role in the market and a tendency towards larger, more complex projects implemented through a 'big bang' approach.
54. The Office of Fair Trading have argued that aggregation could have a negative impact upon competition by increasing the potential for incumbency advantage and reducing the scope for 'yardstick' competition, especially where a single contract is created. In addition we also found during our discussions with suppliers that contract aggregation can lock-out suppliers that are not successful in the 'first wave' of competition and has the potential of disrupting deal-flow if aggressively pursued in a market. That said, both OFT and our discussions with suppliers have identified a number of ways in which contract aggregation can promote competition through committing a significant amount of business to overcome barriers to entry, and as a stimulant for investment. These effects on competition are complex (and in some areas contradictory) and require the intelligent balancing of the administrative costs of procurement, the potential scale or scope economies and maintaining competitiveness. However, as the OFT have observed that over-emphasis on short-term savings in a market at the expense of maintaining competitiveness in the long-term is likely to occur as the long-term benefits are difficult to quantify.

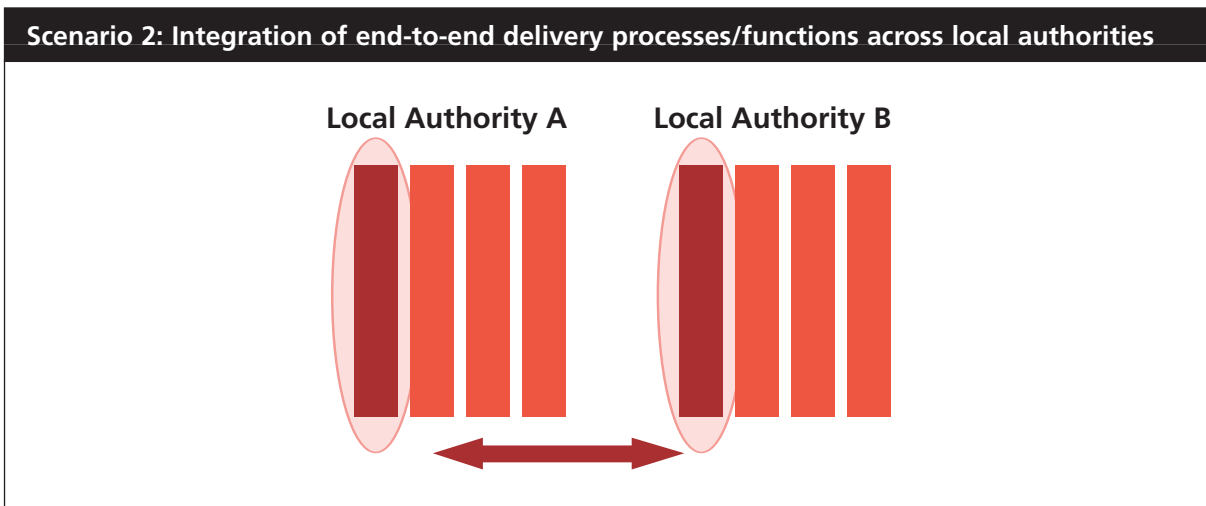
What is the best structure for a shared services arrangement?

55. The structure of a partnership between public sector bodies can take many forms. Some models have emerged to describe common scenarios, and these include:



What might this scenario look like in specific local government services?

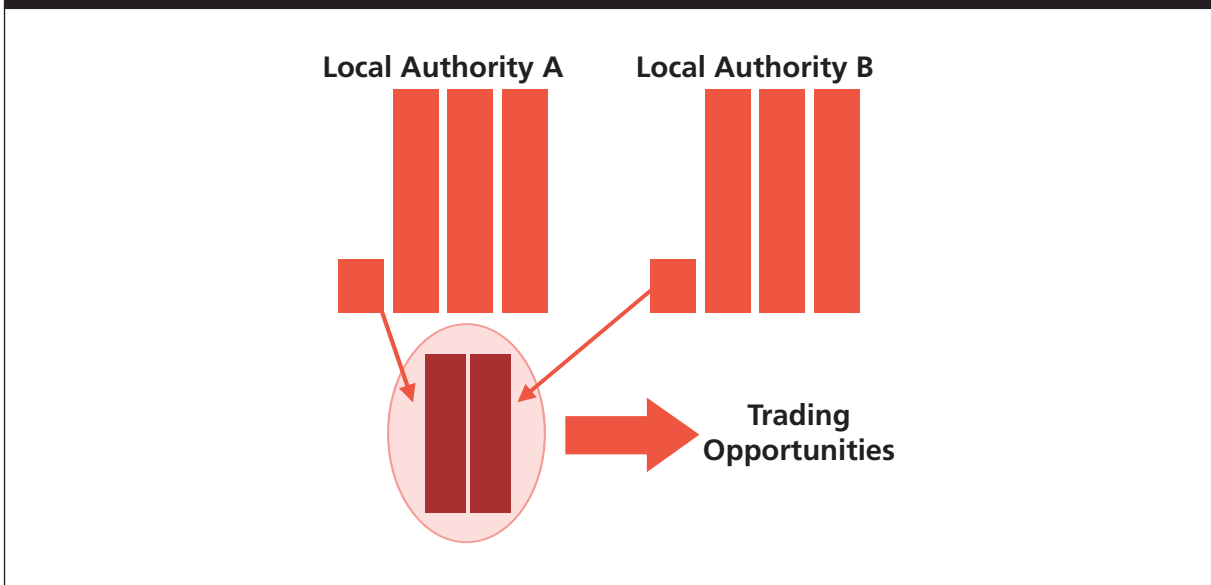
Service	Configuration
Corporate Services	<i>[For example...]</i> 'Virtual' contact centre providing a single point of initial customer contact for two or more local authorities backed up by a single back office support function.



What might this scenario look like in specific local government services?

Service	Configuration
Corporate Services	<i>[For example...]</i> Integrated provision of customer service centre(s) and transaction processing of revenues and benefits service across two (or more) local authorities, but separate accountability and governance.

Scenario 3: Integration of end-to-end delivery processes and functions across local authorities into entirely discrete organisation



What might this scenario look like in specific local government services?

Service	Configuration
Corporate Services	[For example...] Joint Venture Company established with a private sector partner to delivery end-to-end R&B service to 'parent' authorities and other local authorities.

56. The most informal of these structures have little legal standing so are probably not appropriate, but nor is it necessarily essential to define a shared service as something requiring the formation of a completely sovereign legal entity to take on the duties from the participating partners. Indeed, informal structures are often the starting point in the journey of much bigger change and so should not be readily dismissed. Again the decisions on structure need to be pragmatic, based on the aims of the partnership and circumstances of the partners involved.
57. The partnership between the public sector partners is an essential ingredient in commissioning a shared service, but the technology dimension means that delivery is also going to involve provision from a private sector supplier – even if only to provide the technology platform. In some arrangements the relationship sought by the public sector partners with the supply-side may be more sophisticated, including IT and/or functional outsourcing. Some examples of such public-public-private partnerships have emerged in tackling eGovernment projects, and experience shows that strong project management is necessary to coordinate the various partnering and procurement activities throughout the project.

What are the benefits of a shared service?

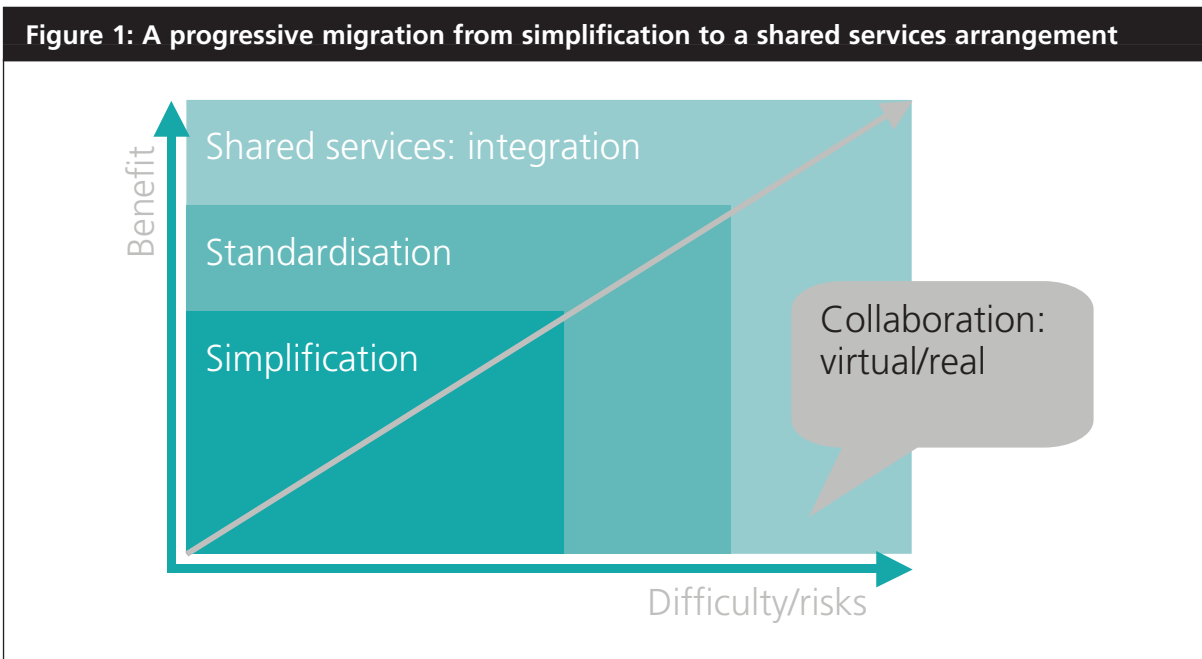
58. The potential benefits of shared services are numerous, and can include:
 - cost reduction through the economies of scale in service delivery
 - improved attractiveness to potential suppliers, plus increased buying power

- rationalisation of service cost through simplification, standardisation and common delivery processes
- opportunities to focus on customer needs, and simplify customer access
- effectiveness gains through economies of scope – where reduction of duplication allows specialist and scarce resource to be used more effectively
- reduced management overheads and other fixed costs
- rationalisation of accommodation requirements.

59. In the technology marketplace, the second of these benefits is particularly important. As noted earlier the supply-side is increasingly targeting large procurements – especially in those segments that involve significant risk and risk transfer, such as outsourcing and change management. This means, typically, that individual district councils are not seen as viable customers by suppliers of these services. On the basis of an assumption that the spending power on technology services of individual district councils is around 20% that of a larger unitary or county authority (a broad generalisation, but one that has held true in successive analyses of local government IT Trends by SOCITM), the new spending potential opened up through this kind of aggregation could increase the target market for transformation projects significantly in the future.
60. Focusing on the potential for cost reduction, this is clearly a key area of interest. Independent analysis of the savings opportunities in developing shared services arrangements across the public sector for HR and Finance functions for example, suggests that the public sector could save up to £9bn per year if it equalled ‘best in class’ performance in the private sector; the equivalent of 15 new hospitals, 30 new secondary schools, 50 new primary schools and 200 miles of new motorway each year. The same analysis suggests, taking account of investment requirements and migration costs, that if the public sector were to implement shared service solutions in HR and Finance functions, in a manner consistent with ‘best in class’ private sector arrangements, that this could yield £40bn in savings over a ten year period.¹¹
61. Private sector experience suggests that savings can come from a number of areas through a progressive approach to simplification, standardisation, aggregation and integration (see Figure 2), including:
- reduction of management to staff ratios – which in the private sector has yielded savings on ‘baseline costs’ (i.e. pre-transformation) of between 20% and 30%
 - headcount reductions
 - process re-engineering and standardisation – which in the private sector has yielded savings on ‘baseline costs’ (i.e. pre-transformation) of between 10% and 25%

¹¹ Based upon data suggesting that total public sector spend on HR and Finance functions is around 2.5% of total spend, compared to a ‘best in class’ private sector average of 0.75%. Research set out in Shared Services in the Public Sector, IT World Ltd, 2006.

- common ICT and shared platforms – which in the private sector has yielded savings on ‘baseline costs’ (i.e. pre-transformation) of up to 30% on software licensing alone
- integrated procurement
- accommodation rationalisation.



What common challenges need to be addressed in the development of shared services?

62. Finally, in considering future application of a shared service model we should consider the difficulty of bringing such partnerships into existence in a robust and sustainable form. Experience in the National Health Service can be used to illustrate some of the barriers that need to be tackled. Shortly after the millennium the NHS developed the concept of shared services for two key functions – Financial Accounting and Human Resources. It piloted activity in these two areas by developing hubs which were intended to take over the workload from existing bodies within the health service working at more local levels. Gaining customers for these programmes provided a key challenge; there was some resistance to transferring workload from local provision to the shared service. The NHS initially considered mandating transfer of these responsibilities to these new ‘centres of excellence’, once ‘proof of concept’ had been achieved. However, at that point, wider legislation giving greater independence to some Health Trusts meant that this mandate could no longer be effected, so current plans have been revised to recognise this change of emphasis.
63. Transferring the concepts in this model to local government would create some immediate issues about autonomy and local independence. Most of the supply side representatives attending the sector roundtable did not favour shared services at regional level unless as this might ‘lock-out’ unsuccessful suppliers and would impact upon competition.

64. The balance between central incentives on the one hand and locally driven ‘organic’ solutions on the other will ultimately determine the future scale and scope of operations across the sector as well as the most appropriate governance and levels of local ‘buy-in’.
65. The political and democratic dimension of local government makes elected councillors a key stakeholder, for whom any perceived ‘loss of control’ through shared services arrangements represents a key risk and a big obstacle to a move towards shared services. The perceived importance of ‘local identity’ in service provision also plays a part in such debates, though careful selection of the services involved may counterbalance this; it is more difficult to argue that financial accounting processes need a ‘local’ dimension.
66. Two related issues should also be considered when looking towards joint commissioning of shared services. The first is that the “process” of partnering to procure common services between local authorities is under-developed. When procuring from the private sector, local authorities have a well developed process model based around OJEU and related guidance. When bonding to form a committed group of joint commissioners this process model does not exist, and many embryonic partnerships spend quite some time in preparation before they realise that their objectives are not wholly compatible; such partnerships can be undermined (sometimes mortally) by some authorities walking away at a late stage.
67. At an even more pragmatic level, the complexity of existing procurements can themselves be an obstacle to developing shared services arrangements. IT services typically involve the funding of high value investments (hardware, one-off software licences, and implementation service costs) that are paid for across several years by leasing or similar financial models. These arrangements can be quite complicated to synchronise in order to develop a new project even within a single authority. Across multiple organisations coming together to deliver, say, a joint revenues and benefits service, there will be no easily determined point that all the authorities can break their previous financial commitments to move across to the services with their new funding streams. Phasing in of the service amongst a sub-set of the partners involved may alleviate this – indeed, at the roundtable discussions, many suppliers favoured the concept of incremental partnerships – but the arguments for economies of scale may mean that there is a threshold in the number of active initial participants below which the project is not viable.

Improved market dialogue

68. Besides a focus on shared services, the future market could benefit from developing an improved dialogue between commissioners and suppliers across the technology market. ‘Market shaping’ activities of this nature can be separated into two related themes:
 - market intelligence
 - market dialogue.

69. Market intelligence refers to the availability of market data covering current market activity, current and potential suppliers, future opportunities, and strategic direction. The research and collation of such data may need to be catalysed by an agent outside the commissioners and providers. There is potential benefit to both parties if this intelligence exists, but it is outside their natural remit to gather such information. For the commissioners the advantages are that they can see whether their strategy matches that of other authorities in their situation, and can assess the supply-side capacity required to meet their need. The suppliers can monitor demand and better allocate priorities and capacity plan accordingly. Both parties can look at the successes and failures of others who have embarked on similar projects and adapt accordingly.
70. Market dialogue is a more interactive set of behaviours which would typically make use of the market intelligence collated above. An example of such dialogue is provided by SOCITM which established a supplier forum in 2004 to create greater debate between the customer and supplier community in the local government marketplace. Such dialogue is essentially between the commissioners and the providers with the aim of identifying and shaping commissioning and procurement activities to the benefit of both parties. The commissioners can learn about the innovation available from the suppliers, and match this to their own circumstances, and the providers can understand more about the underlying problems of the authorities and assess whether there are new ways to address them. The dialogue described is of value when it occurs at the level of individual organisations – one local authority consulting potential providers before structuring its exact procurement requirement and process, or conversely a supplier investigating customer need before it decides on its marketing and service delivery strategies.
71. Also of merit is the more formal construction of a dialogue at a strategic level – potentially regional or national. The promotion of national dialogue or support for national intelligence is likely to require an initial impetus from Government as it needs both even handedness to capture the engagement of the active participants, and resource to facilitate the action (at least in the development stages).

Procurement capacity

72. Procurement capacity is the focus of other capacity development programmes, not least the National Procurement Strategy, but specific attention needs to be focused on the specialist requirements relevant to the technology sector. Although this segment is underpinned by technology, the most difficult procurements are not dependent solely on technical issues surrounding IT. More noticeably they require project leadership that understands the relationship between business outcomes, culture change, risk and the technology elements. These are general management skills that are not necessarily provided by a background in any one of local government's professions. They do require conscious nurturing of talented individuals and their retention within the local government community when they have completed a successful programme. Currently such staff members are an attractive target for suppliers seeking to bolster their sales capability, particularly where such staff have experience of large scale procurements under their belt.

73. In the current market, the commissioner role is usually resourced from within the authority that wishes to procure the service. The individuals selected have a natural understanding and empathy with the requirements of their own organisation, and are well placed to communicate this to the potential providers. The future market, as envisaged earlier, may incorporate many more shared service procurements. In these situations a wider perspective and a broader skillset will be required. Projects will require additional focus to manage the complex dynamics of the participating authorities and agencies, as maintaining the partnership between the public sector participants is, as pointed out elsewhere, a very significant task. On top of this the procurement managers have to reflect these complex dynamics to the supply-side, and ensure that they understand both the composite requirement and any non-standard requirements of a sub-set of the commissioning partners. This immediately upgrades the job specification of such procurement specialists, and will entail significant preparation and training to ensure that such capabilities are developed and rewarded within the participating bodies.
74. In parallel to the adaptation of current procurement processes to the technology sector and the special demands of shared service procurement, local authorities will also have to adapt to a parallel re-profiling of local government behaviour as it moves from single service procurement to the new strategic commissioning role as envisaged in the Communities and Local Government sponsored debate on the future of local government. The key aspects of this new role will be to widen the responsibilities tackled to cover delivery of services across a locality to suit the diverse requirements of service users. Broadly this will encourage wider range of dialogues between users, commissioners, potential and actual providers, related service areas, other local stakeholders etc. This aspect too envisages a much more strategic role for the commissioner than is present within existing procurement specialists. Professional recognition for procurement specialists has only recently started to emerge, but it is going to need to continue to accelerate if the demands identified here are to be matched.
75. There continues to be sporadic debate about whether a pool of expertise could be held within other organisations rather than individual local authorities that might be called in as project kicks off. The main problem with this is finding a vehicle that is likely to be able to balance the needs of the local authorities with the availability of suitably qualified practitioners.

Implications for a long-term strategy for local government

76. The debate on the future of local government has highlighted a number of key considerations that will be important for the future development of this market sector. The principles within which the potential future development of local services are considered include:
- local leadership – the ability to lead large change programmes such as those discussed throughout this paper
 - user choice and focus – the use of technology to promote efficiency whilst recognising the inherent tensions between efficiency and potential duplication in user access channels and choice
 - performance, efficiency and value for money
 - the convenor role of local government – how technology and shared services can support the integration of local public services
 - decentralisation and devolution – discourage top down approaches to service provision when at the same time trying to encourage shared services.
77. One key aspect that will need attention is local leadership. We have noted the trend away from procurement of “pure” IT goods and services towards more complex arrangements involving organisational change supported by technology. In the initial stages of such complex projects the political leadership needs to take mature decisions on best value which recognise that they have implications on accountability and democratic control which may last longer than their (or their parties) term of office. Of course, this implies a responsibility on IT and procurement professionals within both authorities and their (potential) suppliers to give decision makers the support and skills to use complicated information effectively.
78. It is a feature of complex programmes that leadership in both the private and public sectors needs to be more directly involved in establishing a partnership relationship than it was when simply buying to specification. Throughout the programme leaders have a responsibility for dialogue at these senior levels, but this can be particularly important at times of potential conflict by providing an escalation route that allows a broader perspective to shape decisions. The governance arrangements that frame delivery programmes will become increasingly critical and it is important that decision making is transparent and clearly reported.
79. Improvements will be needed to the way in which performance is managed, especially where services are delivered to or across multiple organisations. Compatible and widely used performance indicators will be required in order to measure and demonstrate service delivery and improvement.

80. Some local authorities are better placed than others to lead the development of partnerships simply because they have greater capacity, experience or expertise. Local and central government has a long tradition of working closely together: but there is room for improvement. Government departments and 'strong' authorities should be encouraged to actively assist weaker ones, both through direct collaboration but also through on-going contribution to regional and national support networks.
81. User focus is an area where technology can deliver a real boost to wider service considerations. As well as supporting the transactional elements of service delivery (calculating a benefit claim or scheduling inspection visits in regulatory functions etc), technology underpins the improvement of customer channels to improve access to services. In the most extreme cases these changes can allow citizens to control their service usage directly using internet or other mobile technologies. It is important that the services are designed with customer focus rather than in ways which fit with current organisational templates.
82. Efficiency underpins the move to extend the use of technology in many of the aspects discussed in this paper. Examples such as the Audit Commission's work on Revenues and Benefits indicate how transactional services can be made more efficient. There are already SSPs that demonstrate that corporate functions such as accounting, HR and IT itself can be made more efficient by the use of appropriate contracts with suppliers. We have also explored the potential yet to be derived from shared services. One essential issue is to ensure that as technology creates new and less expensive channels to deliver service, the customers are encouraged and enabled to use these improved methods.
83. Technology is also the enabler of different models of service provision. This extends beyond the freedom to offer choice between customer channels identified above. It can help introduce new routes to service fulfilment e.g. remote partnerships between authorities with common aims where geographic location is not the trigger for joint working. As noted on Revenues and Benefits location of the back office functions outside of London has the potential to improve both content and quality of services on offer. This remote operation is already used by many providers of customer contact centres in segments beyond local government. One of the topics that will bear careful examination is local choice. In areas such as housing, decision making and service content are being devolved down to area and even street level. The mapping of these different service options against the location of customers would be impossible without appropriate technology support. Further service developments using technology emerge from time to time – usually in the financial or retail sectors in the private sector. Customer relationship management was one such concept which has been subsequently adapted and adopted by local government. Local authorities will need to be alert to the emergence of such new service developments, and innovative in their take-up.

Potential next steps

84. There are a number of potential areas for improvement, which could contribute to a more effective commissioning environment and a more vibrant supply market in the future. These observations are grouped as issues for consideration by commissioners, suppliers and policymakers:

Policymakers should consider:

- The sponsorship of an improved market dialogue bringing together the innovative suppliers with the leading thinkers in the local authorities on service improvement, with the possible support from those responsible for framing policy at national level. Building on the market intelligence mechanisms that have been trialled may also generate confidence.
- Some innovative projects are “lost” because the development costs and consequent up-front funding that they therefore incur are not within the capacity of the local authority to finance. This is despite the potentially positive business benefit accruing when full life business case is considered. Some creative work on the financing of a central fund against which individual authorities could claim at the start of a project and subsequently repay in the cash positive years at the end of the project could regain these potentially valuable projects.
- The focus on better practice should not just be on local authority ‘upskilling’ – although this is important – but also on mechanisms to have a more ‘rational conversation’ about risk transfer that is commercially viable and makes business sense for the authority and the supplier. There may be a possible role for Government here in providing ‘models’ of risk transfer that are appropriate for deals of different size and scope, that might start to address this issue.
- Examination of whether location based partnerships enabled by technology have a significant role to play in service improvement. If so mechanisms to encourage and support such location based partnerships need to be devised, utilising the cooperation between sponsoring departments at national level.
- Whether and how procurement capacity can be extended at regional level by creating pools of expertise, which local authorities can draw from.

Commissioners should consider:

- Involving suppliers at an earlier stage within the commissioning cycle, to enable a more constructive dialogue about framing procurement objectives and specification development, and sharing risks.
- Improving Member capacity to enable them to engage more productively in complex commissioning decision-making, in particular giving officers, and therefore suppliers, more certainty about objectives at an early stage in the commissioning process, with potential reductions in transaction costs.

- Identification of programme managers capable of bridging the interconnected worlds of change management, service delivery and technology. Such individuals are essential in the increasingly complex programmes being developed amongst larger authorities.
- Development of skills in commissioning shared services. Competences that are relevant in procurement for individual authorities are improving, but the complexity of partnering with others to define a shared service adds another dimension to the problem.
- The adoption of more creative approaches to commissioning, which encourage consortia bids and provide incentives for large established suppliers to work with smaller and new suppliers.
- How to track emerging technologies and their application. Until recently this role has been fulfilled to some degree by the local e-government projects resourced via Communities and Local Government, but as the funding for these winds down the responsibility for tracking innovative sectors such as retail and financial management needs to be picked up locally.

Suppliers should consider:

- Demonstrating greater willingness to lead and to shape the market, in their responses to individual transactions and their willingness to engage nationally on the strategic development of the market over the longer term.
- Engaging with local authorities earlier in the commissioning cycle, and supporting them in shaping local objectives and specifications that are deliverable, contribute to the strategic agenda, and are commercially viable.
- Whether they can create mechanisms which support shared service concepts but which are driven from the supply side rather than commissioned by authorities. This happens to some extent in existing outsourcing contracts run from a regional or national hub, but could be extended into functional outsourcing.
- Building strategic partnerships with authorities that have the vision and creativity to develop services which could be delivered to other councils, but lack the funding and commercial resource to develop as a business proposition.
- Mechanisms to involve SMEs in the value chain for technology based projects.
- More active representation to policymakers to indicate the blockers which are preventing more widespread market participation (such as TUPE, Pension risks etc).

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Birmingham City Council	PA Consulting
Cap Gemini	Regional Centre of Excellence for the West Midlands
Capita Group	Serco Solutions
Deloitte	Vertex
Department for Culture, Media & Sport	SOCITM
Department for Health	
Hampshire County Council	