

Austerity will lead to further government outsourcing, but key lessons need to be learnt to avoid the mistakes of the past

Blog Admin

The UK government spends nearly £700 billion annually, with over £160 billion of this going to procurement. Even before the coalition's current campaign of public sector spending cuts, attention had moved to how to reduce this amount. [Leslie Willcocks](#) finds that while modern solutions such as shared services and cloud computing may look like easy sources of savings to civil servants and politicians, the Achilles heel of large-scale outsourcing in the UK public sector is most likely to be – as it has always been – a lack of investment in the in-house management capabilities needed to shape procurement strategy and service delivery.



Government seems to know that it has a problem with how it procures goods and services. Sir Philip Green's [Efficiency Review](#) published last October made it very clear that the public sector was not utilising its scale to drive down costs and that better deals were needed with suppliers. This finding seems to hold up whether the goods involved are toner cartridges or large-scale IT systems. But the solution to increase the centralised buying that government undertakes, does not sit well with the Coalition's push for localism and local solutions.

Why is Government bad at procurement and contracting?

So how has this situation developed? Firstly, too much of central and local Government lacks a strategic, centralised buying function and capability. It appears that following the Comprehensive Spending Review there will be a growth in outsourcing of back-office administration (including IT, HR, finance and accounting). This is so much more easily justified than cutting front line services, and for this to be successful, then a fundamental first step would be to radically redesign how back office and IT services are acquired from the market, as well as internally.

This is not merely a UK public sector phenomenon but can be seen in many countries and across sectors. The way forward is for organisations to rethink the unit that they can optimally buy for, and upgrade their purchasing into strategic sourcing and informed buying functions. This in itself is not an anathema to the Government; but what is, unfortunately, is the concept of spending money – that is investing in order to achieve the real economic advantages from this redesign.

Additionally, public sector agencies are not well equipped internally in terms of people capability; not just to procure, but also to [manage external suppliers](#) (as a casual perusal of many reports from the [Public Accounts Committee](#) will illustrate). The civil service is weak in some of the other core capabilities that they need to deliver on business requirements, technology knowledge, strategy and architecture, plus leadership and governance.

This is not a new complaint: there is a long history of this in the public sector. The reasons come down to pay constraints, recruitment strategies, and poor talent management. Within the public sector there are of course budgetary realities, and these have meant departments and agencies being pushed into overuse of external contractors. Organisations that are the best at outsourcing tend to retain relatively few numbers of very capable people with distinct skill sets. They form a high-performance team and can keep control of their IT or back office direction. Only then does large-scale outsourcing begin to optimise its potential impact on cost, quality and innovation.

How will the budget cuts exacerbate this situation?

In the current economic climate, it is clear that major savings need to be made in IT and back-office costs, some estimates put this at around £36 billion a year. A [Treasury report](#) in May 2009 suggested that back-office costs could be reduced by some 30–50 per cent by a combination of re-engineering, shared services, further (or smarter) outsourcing, and offshoring.

But how will this happen? Public sector agencies need to develop dynamic strategies, with business, sourcing and IT objectives all interlinked. They should 'leverage' their suppliers through better collaboration and look for innovation opportunities as well as cost-reduction opportunities. But the Achilles heel of large-

scale outsourcing in the UK public sector is most likely to be – as it has always been – a lack of investment in the in-house management capabilities needed to shape procurement strategy and service delivery.

Would solutions like shared services and cloud computing help?

This view was confirmed in a recent report from the IT trade association [Intellect](#) that warns that too many outsourcing contracts are focused on cost containment, not opportunity, and that there needs to be more of an understanding of business value. Although radical solutions are not those expected from the public sector, the growth in shared services and the Cabinet Office's championing of cloud computing may be ways forward. But will these work? Although these are both technically possible, neither seem to be really viable for the public sector. Both approaches have implications for internal capabilities: first, to make organisational and technical changes; and second, to manage and operate in these radically different ways.

There are plenty of examples throughout the public sector where shared services in particular make both economic and processing sense, but there are real staffing, organisational and political barriers that would need to be overcome. The change process needs to be determinedly managed. With cloud computing, such a shift in the public sector would not be easy – and it would need to be evolutionary. Much of the initial enthusiasm for cloud services is being driven by the cost savings associated with the provision of large data centres by companies such as Microsoft and Amazon. So-called 'pay-per-drink' services are useful in situations where instantly scalable and flexible technology is required. They can cut costs dramatically. However – as firms have learned the hard way – a focus on cost minimisation through contracting is unlikely to lead to sustainable innovation, or the savings that come from that. This is particularly true as applications using cloud services will become more complex and embedded in critical business processes.

Government knows it needs to be more flexible but is wary of using these pay-per-use that can scale up or down to meet demand. Additionally most organisational data processing is not of that kind, it is much more predictable and stable. Therefore the potential benefits from these kind of services are less significant. It is not clear why an organisation with a successful, collaborative outsourcing arrangement in place for its mainstream transaction processing would look to the cloud at this time. Cloud Computing has much to learn from outsourcing.

Also, as with all technological solutions, users need to be able to navigate through the hype, the technical capabilities and the useful technology phases to get to a strategic agenda – and that takes time. Hype fails to account for the heritage of client investments in IT and outsourcing, the influence that they and their suppliers have on the market, and on the types of service and the speed of their development. Most 'traditional' suppliers are pursuing cloud computing services. They are also powerful enough to influence how these develop with their customers. In addition, technology-driven scenarios like cloud can unleash strong forces of innovation among existing and new players. It is clear that supplier collaboration is going to be a requirement if cloud services really are going to take off. The real innovations may well be through how those collaborations play out as superior business models.

Has technology been the focus of change rather than a solution?

Governments of every hue have tended to buy technology as an enabler of modernisation – that was very clear under Blair, for example. Every Government underestimates the difficulty of implementation, the feasibility of projects' objectives, the resources required – and the real likely cost as a result. There has been too much focus on policy, not enough on implementation, and as a result IT has been seen almost as a fire-and-forget missile.

The present Government will probably make the same mistake with outsourcing. Signing contracts that look favourable is one thing; getting them delivered is quite another. To try to ensure this happens, the public sector needs to develop its own centres of excellence in such areas, and in-house capabilities that can be used across other parts of the public sector on a semi- or fully commercialised basis. But again, that requires investment and time – the two things this Government does not believe we have. Suppliers could help develop those centres, even on a joint venture basis. This has been tried before, but perhaps now the time is ripe. Outsourcing has matured in the last four years. More organisations have the desire to collaborate and move away from traditional contracts.