

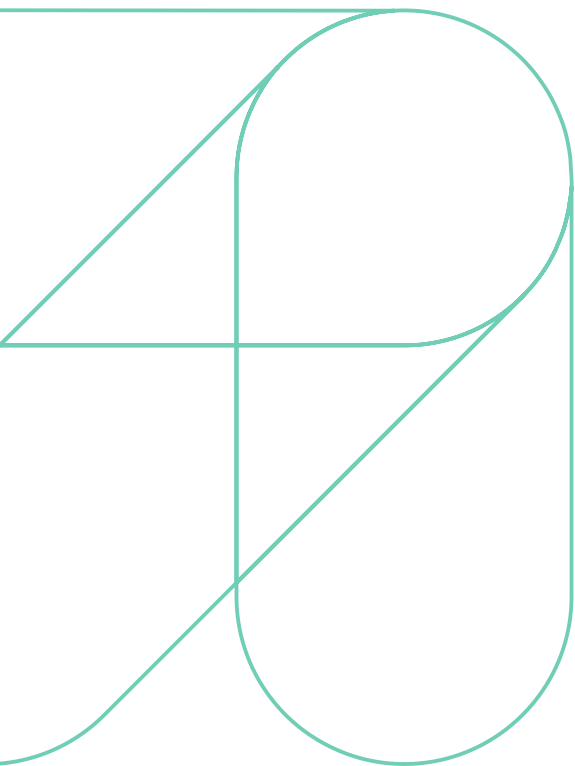


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# World Class Government

Transforming the UK public sector in an era of austerity: five lessons from around the world

A draft discussion paper by David Chinn, Jonathan Dimson, Andrew Goodman and Ian Gleeson



# Contents

Preface	iii
1. Executive summary	1
2. Delivering more for less	2
3. An agenda for change in an era of austerity	3
3.1 Radically redesigning public services	3
3.2 The approach to public finances	7
3.3. Functional leadership Accountability	11
3.4. Optimise the government's structure	13
3.5. Develop the vision for transformation	16
4. Case studies	19

# Preface

GovernUp is an independent research project set up in 2014.

GovernUp brings together senior politicians of all parties, former civil servants, Whitehall advisers and business leaders to consider the far-reaching reforms needed in Whitehall and beyond to enable more effective and efficient government.

GovernUp is working to:

- Produce a rigorous body of evidence to identify the strengths and weaknesses of the current system of government;
- Generate radical but workable solutions to the long-term challenges that require reforms; and
- Shape public debate and build a new cross-party consensus on reform, based on the conclusions of our research.

## *Research projects*

GovernUp's research programme is designed to establish an evidence base on the strengths and weaknesses of the current structures of government. Six research projects aim to develop a set of radical, yet workable steps to reform government, driving through the change required to deliver better outcomes for the British public:

- *Repurposing Whitehall* is considering whether the current organisation of central government is fit for purpose, and how to build a more flexible and accountable system;
- *Localism 2.0* is looking at options for the further devolution of power, not just to local government but also in the first instance to citizens and communities;
- *The Role of Politicians* is studying how to make ministers more effective in their roles;
- *Tackling the Skills Gap* is assessing how government can recruit and retain the best talent, and ensure that civil servants have the right skills. Deloitte LLP is contributing to this work;
- *Digital Future* is exploring how new technology and transparency could reshape the relationship between citizens and state; and
- *World Class Government* is examining what can be learnt from successful reform programmes in central and local governments around the world. McKinsey & Company is contributing to this work.

## *This discussion paper*

The policy suggestions in this paper are produced for discussion by McKinsey & Company as part of the World Class Government research project. GovernUp's formal proposals will be produced following feedback and consultation on these ideas. Responses are welcome and should be sent to [info@governup.org](mailto:info@governup.org) by Wednesday 11 March 2015.

### *The author*

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The authors wish to thank Tomasz Fraczak, Natalia Ferens, Peteris Erins, Tristan Dunn, Michael Helbo, Kalle Bengtsson, Antony Hawkins, Sebastian Muschter, Jill Wilder and other McKinsey colleagues for their support in developing this discussion paper.

### *Advisory Board*

GovernUp's Advisory Board is co-chaired by Nick Herbert MP and John Healey MP and consists of senior politicians of all parties, former civil servants, Whitehall advisers and business leaders.

Members of the Advisory Board offer their expertise and insight to inform GovernUp's work. They have no responsibility for the project's governance, nor do they necessarily endorse the proposals of GovernUp or its research projects.

### *GovernUp*

Further information about GovernUp, including discussion papers produced by the other research projects and a list of members of the Advisory Board, can be found at [www.governup.org](http://www.governup.org).

GovernUp is an initiative of the Project for Modern Democracy, a company limited by guarantee no. 8472163 and a registered charity in England and Wales no. 1154924.

# 1 Executive summary

The UK government faces a daunting challenge: how to deliver services that meet the public's rising expectations while planning to reduce expenditure by almost £50 billion over the next five years.

To meet this challenge, the government will need to embark on a transformation programme on a scale unprecedented in the post-war era. Drawing on a wide range of case studies, we have identified five approaches that, taken together, could constitute an agenda for change in an era of austerity:

1. Radically redesign public services to improve quality of service and cost efficiency;
2. Restructure the government's approach to managing public finances: budgeting, investment and revenue and working-capital management;
3. Strengthen functional leadership and capabilities across government to support delivery;
4. Optimise the government's structure, scale and operating model;
5. Develop the vision, accountability and capabilities needed to drive a large-scale transformation.

The UK is not the first government to face the need for fiscal consolidation or improvement in service delivery. Sweden, Denmark, Australia and Israel all recovered from significant budget deficits in the 1990s and 2000s. Similarly, the US and Germany, as well as smaller governments such as Singapore, Estonia, and, closer to home, Scotland, have taken major steps to improve service delivery and management on tight budgets.

No one country provides a model solution for the UK, but our public sector has much in common with other that of countries, and there are valuable parallels to the private sector. The UK itself has a strong record in innovative government and is often seen as a source of best practice in the design and delivery of public services. However, more of the same will be insufficient, so learning from the experience of others is an important part of driving transformational change within and across government in the coming years.

This paper, prepared by McKinsey & Company for the GovernUp Conference in February 2015, aims to provoke discussion, grounded in examples from the public and private sectors, both in the UK and internationally.

## 2 Delivering more for less: the challenge facing the UK government

The UK government faces a daunting challenge over the next five years: how to deliver services that meet the public's rising expectations at a time when, in the absence of significant economic growth, radical consolidation is needed to restore fiscal balance.

In order to eliminate the deficit by 2019, the government will need to increase its revenue, reduce its public spending dramatically, or both. At present the government plans to reduce spending by £48 billion over the next five years (from £312 billion in 2014/15 to £264 billion in 2018/19), in addition to cuts of £25 billion achieved since 2010. Meeting this target will require reductions in departmental spending in excess of 30 per cent based on the government's current choices about taxation, transfer payments and ring-fencing of expenditure on the NHS, schools and overseas aid.<sup>1</sup> While the details of the opposition's spending plans differ from the government's, they also accept the need for significant fiscal consolidation.

This fiscal challenge represents one of the largest reductions in public spending ever envisaged in a developed country. It exceeds even that of Sweden<sup>2</sup> in the 1990s, which managed to eliminate a budget deficit of 10 per cent of GDP accrued following its financial crisis in the four years after 1994. Such a reduction in spending requires a radically different approach from the 'salami slicing' type of spending cuts traditionally adopted by governments.

Against this background, the government also needs to deliver more to meet rising public expectations and respond to population dynamics and technology trends. As the use of providers like Amazon, PayPal and Uber has surged over the past decade, citizens have come to expect greater choice, convenience and efficiency and to ask why government – to which they pay a far greater share of their income through taxation – does not provide the same level of service.

These fiscal and service challenges provide a clear opportunity for government to reform - to be more cost-effective and better equipped to meet the demands of the UK in the twenty-first century. This paper covers traditional ground such as the efficiency and reform agenda, but also includes the structure of Whitehall, the push towards centralisation and the role of politicians and civil servants. In this paper we do not, however, include proposals to change government policy or fundamentally change the role of the state.

The UK government has, by global standards, been receptive to the experience of other countries over the past five years, importing innovations such as data.gov in the digital arena and remains innovative, exporting initiatives such as the Behavioural Insights Team. But, in

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<sup>1</sup> Chris Giles, "Britain and the cuts: Blow for Cameron as UK faces deeper cuts," *Financial Times*, November 10, 2014

<sup>2</sup> Underlined text indicates that a country or topic is featured in the case studies in the appendix.

addressing the challenges it will face over the next five years, Whitehall can also gather valuable insights from other reform programmes around the world.

## 3 An agenda for change in an era of austerity: five lessons from around the world

### 3.1 *Radically redesign public services to improve quality of service and cost efficiency*

Since 2010 the Government has been focused on making efficiencies in its existing spending. The Efficiency and Reform Group (ERG) in the Cabinet Office recently announced savings of £14.3 billion to 2013/14 against a 2009/10 baseline. These savings have been secured mainly in the areas of procurement and commercial (£5.4 billion), civil service workforce reform (£4.7 billion) and major projects (£2.6 billion).<sup>3</sup>

However, further efficiencies of at least the same magnitude will need to be found if the government is to reduce spending in the next five years in line with its plans. Purely for reasons of scale, further efficiencies are likely to be concentrated in the government's largest service-delivery departments – including Her Majesty's Revenue and Customs, the Department for Work and Pensions, Ministry of Justice, Ministry of Defence – each with more than 50,000 employees, and collectively more than £260 billion in total managed expenditure<sup>4</sup>.

The combination of fiscal consolidation and rising expectations for service delivery represents both an opportunity and an imperative to radically redesign the services government provides for the public, with a focus on the public's needs, service performance and cost efficiency. We focus on four mechanisms to achieve this: digital technology, improved service design, better value from outsourced services and greater use of outcome-based payments for some services.

#### 3.1.1 *Digitise services, processes and workflows to improve cost efficiency*

Over the past five years the Government's digitisation programmes have focused primarily on improving service delivery. The Government Digital Service (GDS) has launched 25 redesigned 'exemplar' services, such as 'Register to Vote', to make these services 'digital by default': simpler, clearer and faster to use.<sup>5</sup>

Several governments that started digitising to improve services are now placing equal emphasis on cost reduction. They focus on digitising front-end interfaces to reduce manual

<sup>3</sup> "Government unveils £14.3 billion of savings for 2013 to 2014," press release, Cabinet Office, 10 June 2014, at <https://www.gov.uk/government/news/government-unveils-143-billion-of-savings-for-2013-to-2014>

<sup>4</sup> Gavin Freeguard, Petr Bouchal, Robyn Munro, Caragh Nimmo and Julian McCrae, "The Whitehall Monitor 2014", *Institute for Government*, 2014

<sup>5</sup> <https://www.gov.uk/transformation>



re-keying of paper forms; migrating cases from paper to digital to reduce processing costs and staffing requirements; shifting payments away from cheques and cash to reduce handling costs; and reducing losses from fraud and error by applying big data analytics to outgoing payments.

In Austria, the government has been gradually digitising the country's justice system since the late 1980s, with a focus on cost efficiency. By 2011, 95 per cent of applications for civil actions and 69 per cent for civil enforcement were processed digitally, and all courts are now computerised. The combination of savings in administrative, postage and other costs and revenue from applications enables the ministry to cover more than 70 per cent of its expenditure from revenue.

In the private sector, several European banks have achieved cost savings of up to 25 per cent by converting complex time-consuming manual processes to straight-through processing (STP). In one example, account opening processes were shortened from over one day to five minutes.

Whereas user interfaces or discrete processes such as payments can be digitised relatively straightforwardly, any transition to STP would require government departments to redesign workflows and core processes, and make critical choices about IT investments, workforce reductions, business rules and decision rights.

One area in which digitisation has the potential to improve both cost efficiency and service quality in the UK is self-service. Significant sums of money are spent in responding to incoming inquiries from the public at call and mail processing centres, yet as digital adoption and familiarity increase, customers express an increasing preference for self-service. Banks are migrating customers from branches and telephone service to online banking, while retailers are replacing traditional checkouts with self-service tills.

As an early investor in self-service as part of its broader e-government platform, Estonia has adopted online as its primary channel for almost all government services. More than 80 per cent of Estonians use an online channel to access a range of government services, and 94 per cent of tax returns are filed online. The Dutch government plans to use e-services as its primary channel so as to adapt to a planned 50 per cent cut in its employment services budget and a two-thirds cut in the number of offices due to budgetary pressure.<sup>6</sup>

### 3.1.2 Services, 'designed to value', based on the public's needs

Government-provided and commissioned services are often designed to meet an internally generated specification rather than the needs of citizens. Shifting this long-standing bias calls for a detailed understanding of citizen preferences. McKinsey's research on services provided by US states, which was based on a survey of 17,000 people across 15 states, found that citizens were 2.5 times more likely to be dissatisfied with state services than with

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<sup>6</sup> Julia Heidemann, Sebastian Muschter, Christian Rauch, "How To Increase Public E-Services Usage In Governments - A Case Study Of The German Federal Employment Agency", Proceedings of the 21st European Conference on Information Systems, July 2013

private-sector services. Their levels of satisfaction depended on factors such as speed, process, channel preference, access to information and value for money.

A better understanding of the public's needs and preferences allows departments to tailor and optimise their service offerings. Understanding the degree to which people value the speed (and the cost) of different delivery times enables departments to redesign services to increase user satisfaction within existing budgets. It also allows departments facing fiscal constraints to decide whether to close down expensive legacy services or channels with limited customer demand or impact.

Between 2003 and 2006, Germany implemented a series of labour market reforms known as the Hartz laws. Hartz III focused on reforming the Federal Employment Agency - Europe's largest public agency, with more than 90,000 employees and 176 regional employment agencies. As part of these reforms, the agency reviewed all its services to understand how long they took, what they cost and what value they provided for job seekers. It discontinued a range of services found to have low impact and refocused on its core mission of reducing the duration of unemployment for job seekers. Each job seeker was assigned a single case worker, and the number of job seekers per case worker was reduced; identified as one of the most important factors in meeting job seekers' needs. As a result of these and other reforms, the agency transformed a €1 billion deficit in 2005 to a surplus of €16.7 billion in 2008, while reducing the average interval between jobs from 164 days in 2006 to 136 days in 2011.

### *3.1.3 Secure better value from government services contracts*

Contracts with the private sector are an important determinant of the quality and cost efficiency of a range of government services. The UK government outsources £88 billion in services contracts, including probation services and some primary care and education support services.<sup>7</sup> This total includes both the direct provision of services to the public and the procurement of intermediary goods and services that support the delivery of core services by the government.

Getting the best value from these private-sector contracts will involve real understanding of demand, insight on the factors that increase supplier costs, greater transparency into contracts, economies of scale in purchasing, and a more robust and skilled approach to commercial negotiations. In particular, deepening understanding of demand and cost drivers together with improving commercial capabilities remain more variable and weaker than in many private sector organisations. The government has made progress in some areas – publishing all central government contract tenders above £10,000 online, rolling out the Government Procurement Card, and creating the Crown Commercial Service – but more can be done.

First, the government's push for transparency has focused on making tender documents and contract awards available to the public. Departments would also benefit from greater transparency regarding the underlying costs and profit rates of individual contracts, without

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<sup>7</sup> Gill Plimmer, "UK outsourcing spend doubles to £88bn under coalition", *Financial Times*, July 6, 2014

which it is difficult to ensure that the government is receiving best value. A more radical step would be to make this information public as well. Second, government can act as a scale purchaser of goods and services. This means taking a government-wide view of the range of contracts with a single supplier and the overall supply market for categories of services, as contract costs and terms can vary significantly, and aggregating demand across departments. Finally, departments should adopt the attitude that they can have a good operating relationship with private-sector firms while also having a robust commercial relationship with them. ‘Best value’ rather than ‘fair and reasonable’ commercial negotiations are the norm in the private sector.

In the United States, the Federal Funding Accountability and Transparency Act of 2006 and the Digital Accountability and Transparency Act of 2014 compel departments to make details of their awards, contracts and payments available through USASpending.gov. The extent of contract transparency and scale purchasing varies, but some departments are making progress in releasing information about contract costs. For instance, the Federal Logistics Information System publishes the cost and purchase volumes of parts purchased under contracts with the US Department of Defense. The Office of the Inspector General has gone a step further, successfully clawing back fees from suppliers on the basis of analyses of their underlying costs.

#### *3.1.4 Expand the use of outcome-based payments for some services*

Outcome-based payments regimes – paying providers for successful outcomes rather than the provision of specific activities – have been piloted in several areas within the UK government over the past decade. Examples include trials of outcome-based payments for children’s services centres in 2011–13 and prison rehabilitation and resettlement services in Doncaster and Peterborough, along with a small number of social impact bonds.

Outcome-based payments can help to increase the efficiency of service provision by aligning provider incentives with government objectives. They can take a number of forms, including “fee at risk” payment models, in which providers must achieve contracted targets (such as job placement) in order to receive their full fees; financial gain-share contracts to incentivise improvements in the efficiency of a service (for instance, by offering providers a 50/50 split of efficiency gains); and payment for non-financial outcomes that reduce the government’s overall costs (such as a reduction in recidivism rates). However, these payment regimes are still at a relatively early stage of development, and success factors such as transparency, the design of the incentive regime and thresholds for scoring savings all need further testing and assessment.

Challenge.gov, a procurement portal set up by the US Federal Government’s General Services Administration in 2010, is an example of how governments can use success-based payments to spur innovation and reduce costs. The portal hosts competitive challenges on behalf of more than 50 federal departments and agencies, such as developing a technical solution to block robo-calls or devising a more effective method for cleaning up oil spills at sea. Participants submit their solutions online and the agencies benefit from all the solutions submitted, paying a prize for the winner. To date the portal has run more than 380 competitions, received 42,000 solutions and dispensed \$72 million in prizes.

In the broader policy sphere, one of the world's largest outcome-based payment systems is the US Low-Income Housing Tax Credit. This gives private investors in housing developments a tax credit on condition that "*the home is actually built and a low-income family inhabits it at affordable rents for at least 15 years*". The scheme has been applied to more than \$100 billion in private investment across 2.5 million homes over the past 20 years, helping to address the shortage of affordable housing in the US.<sup>8</sup>

### *3.2 Restructure the government's approach to managing public finances: budgeting, investment and revenue and working-capital management*

Although some of the consolidation required over the next five years should come from more cost-efficient service provision, this is just part of the broader fiscal agenda. Meeting the fiscal challenge is likely to require substantial efficiencies across government, decisions about spending in ring-fenced areas, reductions in selected outputs, and increases in government revenues.

The government could start by refining the budgeting process to enable more informed choices about where and how to reduce spending within and across departments, and by optimising its capital allocation, management and assurance processes. Moving beyond spending and investment, the government receives £524 billion in tax revenue and £59 billion in non-tax revenues annually.<sup>9</sup> Closing the tax gap, extending service charges and capturing the value from under-exploited government assets, all have the potential to improve the UK's fiscal position. Finally, the UK could emulate several other governments that have improved their payments and collections process, improving their working-capital management and reducing fraud and error.

#### *3.2.1 Move towards next-generation budgeting and spending reviews based on efficiency and outputs*

Spending rounds in the UK have traditionally taken the form of percentage spending reductions that are assigned to departments following a structured negotiating process. This top-down approach has traditionally been characterised by a lack of granularity and consistency in financial data, and limited transparency into the efficiency of spending (both within departments and between departments and the centre).

A whole-of-government map of the efficiency of departmental spend at generating outputs at a granular level - for example of a department's unit costs (per labour hour, per item procured) for specific programs and how these costs aggregate to for the department's total budget - would significantly improve the budgeting process. It would better inform the spending review process, and allow spending reductions to focus on areas where spend is less efficient in order to enforce financial discipline and encourage increased productivity.

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<sup>8</sup> Barry Zigas, "Learning from the Low Income Housing Credit: Building a new social investment model", Federal Reserve Bank of San Francisco – Community Development Investment Review, 2013

<sup>9</sup> Gavin Freeguard, Petr Bouchal, Robyn Munro, Caragh Nimmo and Julian McCrae, "The Whitehall Monitor 2014", *Institute for Government*, 2014

This type of map of spending can also help to inform output-based budgeting, an approach that allows governments to determine spending by looking forwards at the relationship between a budget and its resulting outputs, rather than backwards at historic costs. This approach is complex because it requires an understanding of the relationships between a department's budget, inputs and outputs which are often neither linear (output does not decrease commensurate with budget) nor uniform (the relationship varies in different programmes within the same department).

In Denmark, the Ministry of Finance worked with departments to conduct a number of spending reviews to understand the efficiency of their spending at a unit-cost level. These reviews enabled the government to set spending reduction targets that vary between departments according to the efficiency of existing spending. Such an approach requires collaboration between departments and Treasury and the resources and analytical capabilities to understand and map unit costs at a time when civil service resources are strained.

In Sweden, the government has started to move towards output-based budgeting in some agencies. For instance, the Swedish highways agency recently modelled the total cost of ownership (including renewal and running costs) for the country's 81,000 km road network, which costs €2.9 billion a year. By understanding the relationship between the maintenance budget, maintenance plan and outputs, the highways agency determined that a different maintenance plan could achieve the same output and performance for a lower budget.

### *3.2.2 Take a dynamic, staged approach to investment and capital allocation across the portfolio*

The UK government already leads many others in its approach to investment planning. It has separate capital (CDEL) and operating (RDEL) budgets, clearly defined Treasury review and approval processes for major investments and monitoring by the MPA of its major projects portfolio. Even so, it can still learn from leading businesses in terms of capital allocation, approval and scrutiny processes, and on time, on budget delivery.

The government's capital allocation process is typically static rather than dynamic. This is despite the fact that government, like private companies, faces a rapidly changing external environment and citizen needs. McKinsey research in the private sector has shown that companies that actively reallocate capital (on average reallocating 56 per cent of their capex across business units over 10 years) have an average of 30 per cent higher total returns to shareholders than companies with capital budgets that remain static across departments over time.<sup>10</sup> While government's returns differ from those of a private company, dynamic reallocation of capital is one way of responding to changing demands.

The government sometimes approves extremely large, complex, multi-year projects as a single business case. As a result, major projects tend to layer in high-level risk adjustments, distorting capital allocation decisions. In contrast, some of the most effective private companies encourage investment discipline by breaking down large projects into chunks and

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<sup>10</sup> Stephen Hall, Dan Lovallo, and Reinier Musters, "How to put your money where your strategy is" *McKinsey Quarterly*, March 2012.

stages. Concepts have a very high cost of capital (25 per cent or more) but involve small investment amounts; proven pilots attract a lower cost of capital (perhaps 15 per cent); and scaled businesses can access capital at a still lower cost (less than 10 per cent).

Finally, while major capital investments go through both departmental reviews and the Treasury's gate-based review process, the managing the productivity of capital expenditure often starts late in the review process. The government of Singapore has set up special challenge teams that work with departments to introduce and embed a capital productivity perspective and culture early in the ministry's capital planning process, rather than through reviews alone.

### *3.2.3 Optimise the management of tax collection, commercial fees, government assets and other revenue sources*

Decisions on the level and structure of taxes lie primarily within the remit of policy, not efficiency or effectiveness. However, there are a number of technocratic efforts, led by HMRC, to close the UK tax gap: the difference between tax due and tax actually collected each year. As a result of these efforts, the UK's tax gap has fallen from 8.5 per cent in 2006 to 6.8 per cent in 2013, while remaining relatively stable at around £34 billion.<sup>11</sup>

While HMRC is one of the world's most advanced tax authorities, our research suggests that further progress could be made in closing the tax gap. By making better use of existing data sources and employing robust analytical tools, we estimate that the UK could collect up to 2 per cent in additional tax revenues a year. In the US, for instance, the IRS introduced a new requirement in 2012 that payment-processing companies such as Visa and Paypal must report information on people who sell more than \$20,000 in goods or services and conduct over 200 transactions in a year. The IRS can then cross-check this data with individuals' reported information to identify potential under-reporters. Similarly, the Australian Tax Office uses text-mining tools to help detect high-risk refunds for income tax returns and activity statements. Its portfolio of advanced analytical techniques prevented AU\$665 million of incorrect issuances in 2011.<sup>12</sup>

The government also levies a wide range of fees and charges for services from corporate registration to the issuing of passports, operating through executive agencies such as the DVLA and government-owned companies and trading funds such as the Met Office and the Land Registry. These fees are often set on the basis of legacy charges increased at or below the rate of inflation, rather than as a result of a commercial review of competition, value added or 'what the market will bear'.

Commercial reviews should examine existing fees by asking four questions: is the fee comprehensive (does it cover all portions of the addressable population)? Is it appropriately priced (does it cover the full cost to the government, and how does it compare with fees in other countries)? Is it appropriately differentiated (does it take into account differences in

<sup>11</sup> Gov.UK, "HMRC published 2012 to 2013 tax gap", October 16, 2014  
<https://www.gov.uk/government/news/hmrc-publishes-2012-to-2013-tax-gap>

<sup>12</sup> Thomas Dohrmann and Gary Pinshaw, McKinsey tax benchmarking survey. For more details from previous surveys, see "The Road to Improved Compliance", 2009.



needs and ability to pay among different segments of the population)? Is it convenient (could higher fees be charged for convenience if that is consistent with the government's policy objectives)?

In Singapore, the Land Transport Authority (LTA) has developed innovative purchase-based and usage-based commercial fee models over the past decade as part of a policy to reduce congestion on the country's roads. To drive their vehicles, vehicle owners are required to purchase a ten-year 'certificate of entitlement'. The price for these certificates is based on a sealed-bid, uniform-price auction system in which individuals bid for a certificate in one of five vehicle classes, and successful bidders pay the lowest winning bid. Singapore has also used electronic road pricing, similar to London's congestion charge, for a long time. In 2007 the LTA piloted real-time variable pricing as part of this system, using historic traffic patterns and other factors to vary road pricing in response to congestion levels.

The UK government has also undertaken a number of schemes to monetise government assets, notably by disposing of property assets, selling government-owned companies held by the Shareholders' Executive and mutualising entities such as MyCSP (a public-sector pension specialist), and the Behavioural Insights Team. These programs raise a number of important questions for the government, for example in terms of whether valuable publicly-held data would generate more value if sold or made freely available to the public. Optimising the management of the government's £1.2 trillion in assets clearly presents a significant opportunity. However, while the range of different asset management regimes in other countries is interesting – for example comparing Sweden's framework for managing its state-owned entities to that of the Shareholders' Executive – many of the choices facing the UK in terms of asset ownership are ultimately public policy decisions.

#### *3.2.4 Address improper payments and the collection of non-tax debt and receivables*

A number of departments and agencies administer payments each in excess of £1 billion annually, including the Department for Work and Pensions, the Legal Aid Agency and the Rural Payments Agency. In 2013 the National Fraud Authority estimated that the government loses £7 billion a year in expenditure fraud and error through improper payments (in addition to more than £15 billion through tax fraud).<sup>13</sup> Reductions in improper payments offer one way in which Annually Managed Expenditure (AME) can be reduced without the need for policy decisions about payment levels or claimant eligibility.

In the US the Federal Government has taken steps towards a more systematic approach to improper payments. The US Treasury's Do Not Pay Center, created in 2011, supports federal agencies in their efforts to reduce fraud and error by comparing payment details across different departmental datasets and applying the kind of advanced analytical techniques used by insurance companies and other financial institutions. In addition, the Office of Management and Budget publishes the estimated improper payment rates for 13 high-error payment streams, including almost \$1 trillion of payments with estimated impropriety in excess of 5 per cent.

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<sup>13</sup> National Fraud Authority, "Annual Fraud Indicator", June 2013.

Although non-tax receivables and debts such as court fees are small when considered individually, improving collection of these payments represents a large opportunity when considered in aggregate. Central government had an estimated £7 billion in outstanding non-tax receivables and debt in 2013 (and £15 billion in tax debt due to HMRC).<sup>14</sup>

Other governments have pursued a number of strategies to improve collection, such as centralising the management of all non-tax receivables across government (for example, through a central organisation and cases library), expanding outsourcing the management of some receivables to third parties, and preventing government debtors from receiving other payments, such as tax refunds. The US government, for example, has created a centralised receivables management organisation to manage all non-tax debt and introduced an offset programme to compare payee and debtor information databases and deduct debts from outgoing payments.

### 3.3 *Strengthen functional leadership and capabilities across government to support delivery*

Delivering the service quality and fiscal improvements required will be difficult, unless the civil service can strengthen its capabilities and functional leadership. The Civil Service Reform Plan launched in June 2012 envisaged a workforce of 380,000 people by 2015. By the end of 2014 the civil service had achieved a 17 per cent reduction from 2010 staffing levels of 478,000.<sup>15</sup>

A range of National Audit Office (NAO) and Public Accounts Committee (PAC) reports have raised concerns over a lack of finance, commercial and digital skills within departments.<sup>16</sup> Civil servants' satisfaction with the learning and development opportunities available to them is below 50 per cent. Their overall engagement has remained below 60 per cent since 2010.<sup>17</sup> The civil service also faces a significant demographic and workforce planning challenge: almost 40 per cent of civil servants are over 50 and less than 10 per cent are under 30.<sup>18</sup>

The government's plans for civil service reform include a requirement that "*the civil service will need a much stronger corporate leadership model, and much more sharing of services and expertise*".<sup>19</sup> In this respect the UK is already in the process of moving from a relatively weak functional leadership model compared with other OECD countries to a much stronger one.

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<sup>14</sup> National Audit Office, "Managing debt owed to central government", February 2014.

<sup>15</sup> Gavin Freeguard, Petr Bouchal, Robyn Munro, Caragh Nimmo and Julian McCrae, "The Whitehall Monitor 2014", *Institute for Government*, 2014

<sup>16</sup> The National Audit Office, "Transforming Government's contract management", September 4, 2014

<sup>17</sup> Civil Service People Survey, 2014.

<https://www.gov.uk/government/publications/civil-service-people-survey-2014-results>

<sup>18</sup> Steven Ayres, "Civil Service Statistics", House of Commons Library, November 5, 2014

<sup>19</sup> The Civil Service Reform Plan, HM Government, June 2012



Stronger functional leadership will be critical to capturing savings such as efficiency gains from digitising processes, as well as enhancing organisational health in the form of more attractive careers, enhanced skills and better cross-government working. Stronger functional leadership can deliver benefits in a number of areas, including communications, IT and legal services. Three high-priority areas in which other countries can offer valuable lessons are commercial, shared services and HR.

### 3.3.1 *Commercial and procurement capabilities*

The government spends in excess of £40 billion a year on contracts for goods and services procured directly from the private sector. It has made progress in functional leadership in procurement and commercial areas by creating the role of chief procurement officer or commercial officer, moving to centralise procurement through the Crown Commercial Service and conducting an on-going review of commercial capabilities.

However, while significant savings have been achieved over the past five years, such as a £350 million saving from the renegotiation of the contract for the support of naval bases, challenges remain. The NAO's 2014 report on contract management found widespread problems with the way the government manages its contracts for services. Contracts are insufficiently transparent, preventing departments from challenging the reasonableness of underlying costs. Commercial capabilities in the civil service lag behind those in the private companies with which civil servants are negotiating. Procurement rules limit the methods that can be used to achieve best value, such as post-tender negotiations.

McKinsey's research in the private sector found that organisations that employ leading-edge purchasing practices achieve almost double the margins of companies with below-average purchasing departments (20.2 per cent versus 10.9 per cent, respectively), and that the primary driver of purchasing is the organization's commercial capabilities and culture. These organisations will negotiate with their suppliers for "best value", rather than just "fair value".<sup>20</sup>

### 3.3.2 *Shared services*

The Next Generation Shared Services Strategic Plan of December 2012 targets £400 million to £600 million of savings on a base of £1.5 billion of functional spend for HR, finance and procurement. Private-sector examples suggest that shared services could be relevant for a larger proportion of functional support spending: as much as 70 per cent of the functional cost base in some organisations.

It is clear that the leading private sector organisations are far ahead of the public sector in successfully moving towards shared services. However, the experience of the private sector also raises questions about how best to achieve economies of scale. With total annual operating expenditure (RDEL) in excess of £315 billion and more than 400,000 employees, the UK government is equivalent in size to the world's largest corporations and up to 100 times the size of an average FTSE100 company. Many large FTSE companies have

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<sup>20</sup> Steffen Fuchs, Gillian Pais, and Jeff Shulman, "Building superior capabilities for strategic sourcing", McKinsey Quarterly, May 2013

achieved scale in shared services despite being similar in size to a large government delivery department. Succeeding in shared services will require an understanding not just of where the value lies, but also how to capture this through careful centralisation of relevant services at the right level of aggregation.

Outside of the UK, Shared Services Canada is probably the most ambitious shared services project in the public sector. Begun in 2012, and building on the legacy of the Canadian Government's creation of Public Works and Government Services Canada (PWGSC) in 2006, it aims to consolidate IT functions across 44 agencies and departments, consolidating 300 data centres, 3,000 networks and 100 email systems under the management of Public Works and Government Services Canada. The project, which has attracted some controversy, aims to save C\$100 million to C\$200 million annually. By the end of 2014, 63 legacy email systems had been replaced by a single email system and the first enterprise data centre had been established.

### *3.3.3 Human resources capabilities and functional leadership*

Civil service reform has strengthened the HR profession within the civil service and opened up appointments: for example, by enabling external candidates to apply for most senior civil service roles. However, the planned reduction in the size of the civil service makes the need to improve its HR operating model more urgent. The HR agenda facing the government is broad, spanning accountability, capability, skills, pay, incentives and performance management.

Singapore's civil service, with 139,000 officers across 16 ministries and more than 50 statutory boards, offers a possible model for HR leadership in a smaller civil service. The Public Service Division provides extremely strong functional leadership; for example, it defines pay bands centrally. The compensation of civil servants is pegged to the private sector, and variable pay and progression are tightly linked to performance. The Civil Service College offers a range of professional development courses, and the government scholarship programme acts to attract, develop and retain a cadre of young talent over a period of five years or more.

HR is particularly important because it is functionally responsible for ensuring the right mix of skills and capabilities across the civil service. Solving individual capability gaps in isolation is not sufficient. A civil service that can support delivery requires service designers with digital expertise, service managers who understand citizen needs and customer journeys, commercial skills to negotiate contracts with vendors, and operational delivery capabilities, all supported by a strong shared services backbone.

### *3.4 Optimise the government's structure, scale and operating model*

The UK government, like many around the world, has a complex and at times overlapping structure, with 24 ministerial and 22 non-ministerial departments, 350 executive agencies and other non-departmental public bodies, 12 public corporations, 201 districts, 56 unitary authorities, 43 police forces and 152 local education authorities, among other structures.

In central government, the Cabinet Office and Treasury operate as separate units at the centre. Departments operate relatively autonomously within spending limits and policy guidance agreed with the centre. Since the disbanding of the Prime Minister's Delivery Unit in 2010, the Efficiency and Reform Group in the Cabinet Office has had a mandate focused more on efficiencies than accountability for delivery of outcomes. There are some partnerships between the centre and departments, but a more collaborative approach, robust planning, more transparency into performance and spending, and more rigorous accountability is needed.

Finding the right way to optimise the structure, scale and operating model of government without creating the disruption and uncertainty of constant organisational change is important both in achieving fiscal consolidation and in ensuring the effectiveness of public services. This raises questions about the structure of central government, the operating model between the centre and departments, and how best to eliminate duplication between and within different levels of government.

#### *3.4.1 Re-evaluate the structure of central government*

The consolidation of government departments (or their substantive functions) is one option to help meet the fiscal challenge by reducing the duplication of resources and costly hand-offs between departments, and also to break down some of the silos within government.

The UK has a long history of reorganising central government, from the creation of the Department of National Heritage in 1992, to the transition from the DTI to BIS between 2007 and 2009. However, these reorganisations have tended to reflect changes to the external environment and government priorities, rather than a new approach to the structure of government.

At one end of the spectrum, many governments have consolidated departmental functions; at the other, a few have abolished whole departments. Following the 2007 election, the Scottish government embarked on the partial abolition of its departmental structure, redefined head of department roles around outcomes or functions, reduced the number of non-departmental bodies by a third and reduced the number of director-level civil service posts by 25 per cent, achieving both an overall reduction in cost and an improvement in performance.

#### *3.4.2 Change the government's operating model to align and simplify relationships within and between departments and the centre*

There is no single ideal operating model for central government, but an understanding of different models adopted by various countries can inform the UK debate. In the US, the Office of Management and Budget, which sits within the White House, separate from the Treasury, is responsible for both preparing the budget and measuring and managing departmental performance. In contrast, in Denmark, many of the functions performed by the centre sit under the Ministry of Finance, including the agencies for modernising public administration, digitisation, governmental management and IT services. Translated to the

UK, the Danish Ministry of Finance combines the roles of the Treasury and Cabinet Office into a single central function.

Similarly, there are a range of different models for interaction between the centre and departments. In New Zealand, the centre could be characterised as more of a commissioning body, with departments competing for resources to deliver against agreed targets, driven by the development of an output-based budgeting approach developed during the 1990s. In Denmark, by contrast, the model is one of partnership. The Ministry of Finance runs projects jointly with departments and agencies to help them better understand the efficiency of their spend, identify savings opportunities and agree appropriate budgets.

Most governments undertaking major transformation programmes have also developed bespoke central structures to drive delivery. France created the DGME to drive the modernisation of government from 2007; Malaysia's Government Transformation Programme was co-ordinated by its Performance Management and Delivery Unit (PEMANDU); and Denmark set up Statens IT under the Ministry of Finance to drive the consolidation of government IT.

Such structures do not necessarily have to be permanent, but they do need a mandate from the head of government and the right combination of skills, departmental transparency and the ability to manage the delivery chains that connect the government's overall transformation objectives to activities on the front line.

### 3.4.3 *Eliminate duplication between and within levels of government*

The government is relying on significant savings from local government in order to meet its 2015 spending targets, with a 26 per cent reduction in local authority funding by 2015/16 incorporated into the 2010 Comprehensive Spending Review.

Decisions about the most appropriate unit of government – national, regional, metropolitan or local are ultimately public policy choices and so outside the scope of this paper.<sup>21</sup> However, whatever level of devolution and decentralisation is chosen, the government can act to reduce duplication of budgets, structures and resources between and within levels of government.

One approach to delivering some of the required savings from local authority funding has been the piloting of 'whole community' budgets. These are designed to realise savings through a greater integration of public services by encouraging financial autonomy at the lowest level that delivers scale. These budgets are projected to realise savings of £5 billion to £20 billion over the next five years.

Some regions of the UK have acted to reduce duplication by combining structures of government, for example through the creation of the Greater Manchester Combined Authority (GMCA) in 2011. There is also potential to realise savings by re-using central government resources in local government. GDS' consolidation of central government's web

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<sup>21</sup> The UK has one of the most devolved unitary systems of government in the world. Both Japan and Italy have recently announced plans to devolve more power and budgetary authority to regions and cities.

presence into Gov.UK saved an estimated £60 million in 2013/14. Taking a similar approach in local government, whether in the form of the creation of a single local government domain or simply making GDS' assets such as its the content management system (CMS) to local governments, could yield significant savings.

### 3.5 *Develop the vision, accountability and capabilities needed to drive a large-scale transformation*

In major transformations in both the public and private sector, how you bring about change can be just as important as what you do. McKinsey research has found that up to 70 per cent of change programmes fail to achieve their objectives.<sup>22</sup> To understand why changes programmes fail in the public sector, we reviewed a range of government change programmes, interviewed several heads of government and convened a series of roundtable discussions that brought together 15 current and former prime ministers, heads of civil service and deans of school of government.

We found that the successful government transformations in the survey share a number of features: a clear narrative with widespread popular acceptance or support; senior public-sector officials (politicians and civil servants) who lead delivery and are accountable for it; and a systematic approach to attracting, developing and retaining the talent and capabilities needed throughout the transformation.

#### 3.5.1 *Define a clear narrative and build support for the transformation around it*

The further fiscal consolidation envisaged in the UK will be difficult for both civil servants and the general public. Spending cuts in excess of 30 per cent are unlikely to be achievable without further reductions in civil service numbers and service provision. These changes also come at a time when trust in government is low: just 42 per cent of the public trusted the government in 2014.<sup>23</sup>

A clear vision or overall reform narrative can help reassure the public and internal audiences and help them make better informed choices. Göran Persson, reflecting on his time as Sweden's finance minister and prime minister during its budget crisis in the 1990s, said that communicating a clear story was a personal commitment: “*You cannot count on popular support ... [so] find ways to describe the situation so that people understand why you're taking the steps you're taking.*”<sup>24</sup> Recognising the importance of egalitarian values in Sweden, the government analysed how the burdens of the reform programme would be distributed and explained to the public how they would be shared within each annual budget.

The government's vision needs to be effectively disseminated. During Malaysia's Government Transformation Programme launched in 2010, the government ran a series of open days attended by 8,500 Malaysians. These open days went further than political or policy focus groups by actively incorporating participants' input and perspectives into the design of the programme.

The vision also needs to resonate and work with, not against, the organisation and infrastructure responsible for delivering the programme. In France, Francois-Daniel Migeon, the leader of the body responsible for delivering the RGPP reform programme, credits the

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<sup>22</sup> Scott Keller and Colin Price, *Beyond Performance*, Wiley, 2011

<sup>23</sup> 2014 Edelman Trust Barometer

<sup>24</sup> Göran Persson, “How to tame a budget crisis,” McKinsey, October 2012, at [http://www.mckinsey.com/insights/public\\_sector/how\\_to\\_tame\\_a\\_budget\\_crisis](http://www.mckinsey.com/insights/public_sector/how_to_tame_a_budget_crisis)

success of the transformation in part to “*widespread acceptance from public-sector workers...civil servants understand that in order to truly serve, their duty now is to modernise*”.<sup>25</sup>

### *3.5.2 Ensure that senior politicians and civil servants lead delivery and are jointly accountable for it*

Driving a large-scale government transformation is particularly difficult in the UK context. Turnover among ministers is high, with an average tenure of only 1.3 years. The civil service is naturally, and understandably, risk averse. The complexity of the programmes and the accompanying public scrutiny can mean that the government ends up being reactive rather than proactive. Our examination of successful transformation programmes suggests that they overcome these pressures by having delivery led by the head of government, prioritising rigorously and establishing clear accountability among ministers and senior civil servants.

In all the successful transformations we have reviewed, the head of government has made driving the programme a personal priority. In Sweden, Göran Persson spent up to 30 per cent of his time on this task while serving as finance minister and prime minister. Dedicating so much time given the other responsibilities of government requires rigorous prioritisation and demonstrates personal commitment.

It is difficult to prioritise more than three to five objectives at the same time, yet politicians frequently lay out agendas with ten or more objectives. One former Latin American Finance Minister recommends that during a transformation senior government officials agree their “tuxedo agenda and pyjama agenda”: two to three external objectives for their ministry and two to three objectives for improving its internal workings.

Finally, ministers and senior civil servants need to be placed under an enhanced level of accountability for delivery. During Malaysia’s Government Transformation Programme (GTP), the prime minister signed performance contracts with each minister that laid out key performance indicators to achieve in each of six national key results areas (NKRAs) (such as improving student outcomes). Details of how ministers had performed were subsequently made public. In turn, ministers held their departmental management teams accountable through structured performance dialogues that examined performance against these indicators. In the first year of the GTP, a majority of NKRAs achieved more than 90 per cent of their key performance indicators.

### *3.5.3 Attract, develop and retain the talent and capabilities needed to drive the transformation*

A paradox of major expenditure-reduction programmes is that they require exceptional support and commitment from civil servants at the same time as the size of the civil service is being reduced. In order to succeed, the government must ensure that high performers do

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<sup>25</sup> Karim Tadjeddine, “A duty to modernise: Reforming the French civil service,” McKinsey, April 2011, at [http://www.mckinsey.com/insights/public\\_sector/a\\_duty\\_to\\_modernize\\_reforming\\_the\\_french\\_civil\\_service](http://www.mckinsey.com/insights/public_sector/a_duty_to_modernize_reforming_the_french_civil_service)



not choose to leave as a result of the reforms and that the capabilities required for the transformation are developed or acquired.

Singapore has achieved this within its civil service through rigorous training and development programmes administered by its Public Service Division and Civil Service College, and through relatively free movement of talent between the civil service and industry. Other countries have chosen to use entities outside the civil service to attract and retain talent. For instance, the New York City Economic Development Corporation was set up in the 1990s as a not-for-profit entity to act as the city's primary engine for economic development, operating outside but closely aligned with the structures of the city government.

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This discussion paper outlines five lessons from public- and private-sector transformations around the world. We believe that these lessons, taken together, constitute an agenda for change in an era of austerity. They are not recommendations, and no single country offers a model solution to the challenges facing the UK government. However, the choices taken by other countries and companies indicate that there are significant opportunities to redefine our approach to government in order to deliver more and delivery differently for less.



## 4 Appendix: Case studies

<b>Austria:</b>	Digitising the courts service
<b>Canada:</b>	Centralising government services
<b>Denmark:</b>	Modernising public-sector administration and shared services
<b>Estonia:</b>	Providing e-government and self-service
<b>France:</b>	Delivering a whole-of-government transformation programme Building IT leadership
<b>Germany:</b>	Reforming the Federal Employment Agency
<b>Malaysia:</b>	Delivering the Government Transformation Programme
<b>Scotland:</b>	Integrating government departments to address cross-cutting issues
<b>Singapore:</b>	Attracting and retaining the best talent in the public sector
<b>Sweden:</b>	Managing the budget crisis
<b>United States:</b>	Increasing transparency in government spending Understanding citizens' satisfaction with state services Attracting and developing talent at the NYCEDC
<b>European banks:</b>	Introducing straight-through processing to reduce costs

## Case study – Austria: Digitising the courts service

### Context

Austria has been a leader in the use of IT in justice systems in Europe. Automation began in 1986 with the introduction of a system for the mass processing of small money claims.<sup>26</sup> In 1989 the Federal Ministry of Justice, in collaboration with the Federal Computing Centre, developed a system called Elektronischer Rechtsverkehr (ERV) to allow the exchange of digital data between courts, parties and their representatives.<sup>27</sup> The ministry continued its automation efforts with the digitisation of the land register, attestation register and commercial register, as well as the introduction of e-filing, electronic signatures and videoconferencing.<sup>28</sup>

### Approach

The digitisation of Austria's courts followed a gradual approach and featured “carrot and stick” incentives to push the use of the new system. Key elements of the strategy included the transition to a service-oriented architecture, the implementation of shared services and the standardisation of IT architectures across departments.<sup>29</sup>

A core outcome of the change was the automation of the court procedure system, which maintains a register of over 50 court processes, some of which (summary proceedings) are handled completely automatically. The system allows new court entries to be transmitted electronically and court fees to be collected on a cash-free basis. Representatives can submit cases electronically and courts can respond electronically. Reduced court fees were introduced to encourage the use of digital services. In 1999 a requirement was introduced for all law firms to have the technical facilities needed to support the system, and a year later communication through ERV became compulsory.<sup>30</sup>

In 2013, a new strategic initiative called Justice 3.0 was announced, with the objective of developing a vision for the justice system's whole IT landscape. It will produce a roadmap for digital transformation leading to the goal of an all-digital handling of proceedings.

### Impact

E-filing for claims has seen huge take-up. The Austrian Electronic Legal Communication system has more than 10,000 users, and 95 per cent of civil actions and 69 per cent of civil enforcement cases were filed through electronic applications in 2011, a total of 4 million.

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<sup>26</sup> Marco Fabri and Francesco Contini, editors, *Justice and Technology in Europe: How ICT is changing the judicial business*, Kluwer, 2001

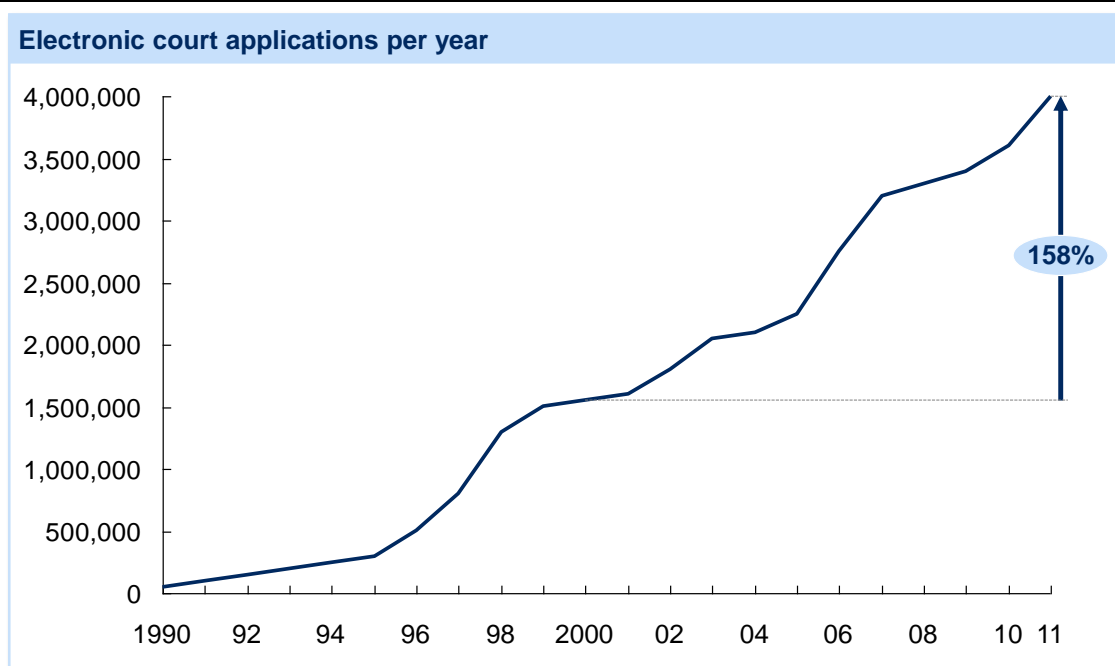
<sup>27</sup> M. Velicogna, “Electronic access to justice: from theory to practice and back,” *Droit et Cultures*, issue 61, 2011

<sup>28</sup> “Use of IT within Austrian Justice,” Federal Ministry of Justice, 2014, at <http://www.justiz.gv.at/web2013/file/8ab4ac8322985dd501229ce3fb1900b4.de.0/itbrosch%C3%BCre-en.pdf>

<sup>29</sup> “Use of IT within Austrian Justice,” Federal Ministry of Justice, 2014, at <http://www.justiz.gv.at/web2013/file/8ab4ac8322985dd501229ce3fb1900b4.de.0/itbrosch%C3%BCre-en.pdf>

<sup>30</sup> M. Velicogna, “Electronic access to justice: from theory to practice and back,” *Droit et Cultures*, issue 61, 2011

Exhibit 1: Austria's digitisation of court applications has expanded rapidly



SOURCE: Austrian Court Automation, 2013

Digitisation has brought considerable monetary benefits. Fees collected from the automated court system account for some 30 per cent of the ministry's income (€240m in 2011). Austrian courts conducted 6.5 million e-deliveries of court documents in 2011. Savings in postal fees were estimated to exceed €10m in 2010. These and other efficiencies have allowed the ministry to cover about 72 per cent of its expenditure by revenue.

The court automation system covers 55 types of proceedings through one application.<sup>31</sup> Austria is one of only four nations in Europe with 100 per cent computerisation in its courts.<sup>32</sup>

<sup>31</sup> "Austrian court automation," Federal Ministry of Justice, 2013, at <http://www.justpal.org/documents/10179/34346/AUSTRIA%20-%20Court%20Automation.pdf> 2013

<sup>32</sup> "European judicial systems: Edition 2014: Efficiency and quality of justice," The European Commission for the Efficiency of Justice, 2013, at [http://www.coe.int/t/dghl/cooperation/cepej/evaluation/2014/Rapport\\_2014\\_en.pdf](http://www.coe.int/t/dghl/cooperation/cepej/evaluation/2014/Rapport_2014_en.pdf)

## Case study – Canada: Centralising government services

### Context

In 1996, the Canadian government set up a new department, Public Works and Government Services Canada (PWGSC), by merging the Department of Supply and Services and the Department of Public Works. PWGSC is responsible for the government's internal servicing and administration and provides a range of centralised services and programmes. It performs a variety of roles such as central purchasing agent, linguistic authority, property manager, treasurer, accountant, integrity adviser, and pay and pension administrator. PWGSC has eleven branches and more than 12,100 employees, and spends around C\$5 billion per year.

The Canadian government created Shared Services Canada in 2011, under the management of PWGSC, in order to “streamline IT, save money, and end waste and duplication.”<sup>33</sup> Prior to this, each government department had been responsible for its own IT infrastructure, leading to duplication and inefficiencies. Centralising the government's entire IT infrastructure through Shared Services Canada was seen as the solution to this problem.

### Approach

PWGSC is regarded as a partner to government, providing departments with core services and expertise and helping to drive efficiencies and savings. To do this, it intends to consolidate and centralise the government's data centres, networks and email systems.

PWGSC's core services include:

- **Buying and selling:** Procuring goods and services at best value on behalf of departments and agencies.
- **Payments and pensions:** Providing compensation services for federal departments, agencies and public-service pensioners.
- **Property and buildings:** Managing government property holdings, offering professional and technical property services and providing safe, healthy and productive working environments.
- **Security, corporate and information services:** Providing access to government information, coordinating advertising and public-opinion research, providing shared corporate administrative systems and services, greening federal government operations and providing security-screening services.
- **Translation, terminology and interpretation:** Offering translation, terminology and interpretation, and linguistic services in over 100 languages.

Shared Services Canada's mandate is to “fundamentally transform how the government manages its information technology (IT) infrastructure” by centralising core IT and data

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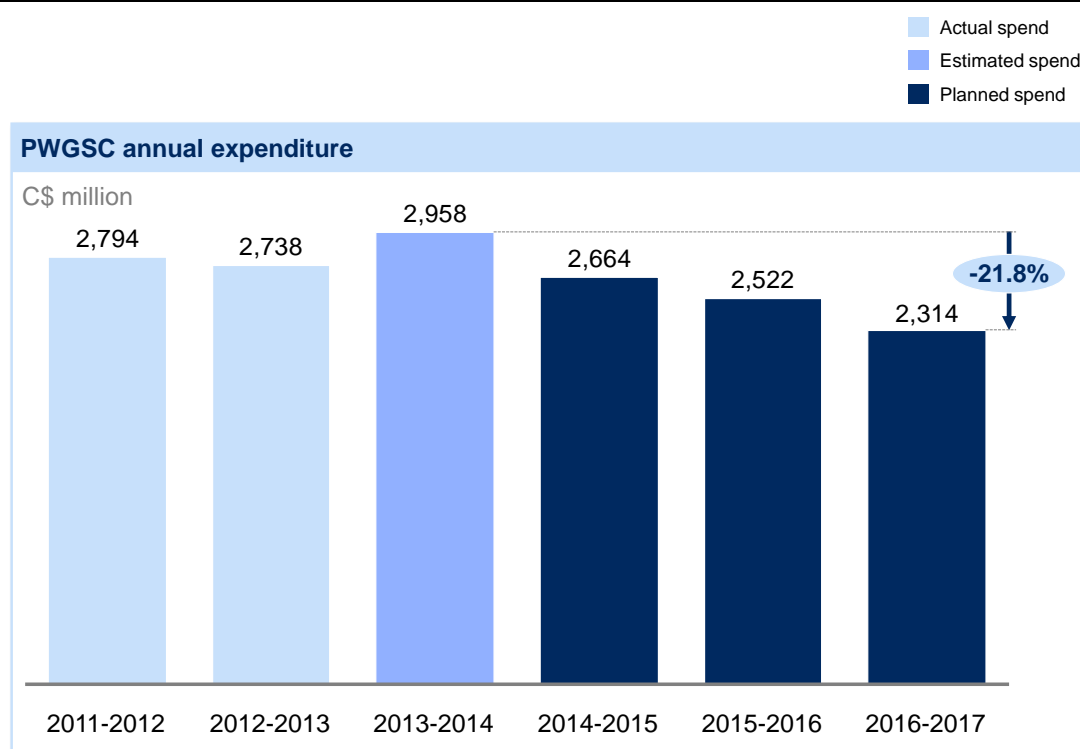
<sup>33</sup> “Government of Canada to reduce information technology costs and save taxpayers' dollars,” Public Works and Government Services Canada, press release, August 4, 2011

services for all government departments.<sup>34</sup> Its stated aims were to reduce more than 100 email systems to a single system and cut the number of data systems from 300 to 20.

## Impact

PWGSC injects more than C\$14 billion into the Canadian economy every year through government procurement for 140 federal departments and agencies. It processes around 50,000 contracts or amendments annually, with 39 per cent of business volume (excluding military procurement) going to Canadian SMEs. At the same time it handles over C\$2.2 trillion in cashflow transactions and manages 27 per cent of the federal property inventory based on total floor area, with a market value of C\$7.3 billion.<sup>35</sup> PWGSC describes itself as a “key enabler of government-wide savings” and expects to reduce expenditure and staffing levels over the next three years.

Exhibit 2: PWGSC expects to reduce its annual expenditure by a fifth over the next three years



SOURCE: PWGSC annual report 2014-2015

Shared Services Canada aims to consolidate IT functions across 44 agencies and departments, consolidating 300 data centres, 3,000 networks and 100 email systems under the management of PWGSC. The project aims to save C\$100 million to C\$200 million annually. By the end of 2014, 63 legacy email systems had been replaced by a single email system and the first enterprise data centre had been established.

<sup>34</sup>“Shared Services Canada: Mandate,” November 8, 2013, at <http://www.ssc-spc.gc.ca/pages/mndt-eng.html>  
11 [www.tpsgc-pwgsc.gc.ca](http://www.tpsgc-pwgsc.gc.ca)

## Case study – Denmark: Modernising public-sector administration and shared services

### Context

The 2008 economic crisis had a deep impact on public administrations all over Europe, prompting reforms to improve financial management and administrative efficiency.<sup>36</sup> In Denmark, the Ministry of Finance set out to modernise the overview and control of public administration costs at all levels, from the state to councils and municipalities.<sup>37</sup>

To streamline processes, improve internal efficiency and ensure the delivery of e-government services, the government established shared service units under the Ministry of Finance in 2010. The Financial Shared Service Centre, was to take responsibility for finance, salary and transport, while the second, Statens IT (SIT), was to provide all IT services for public bodies, centralising IT operations and maintenance in order to increase efficiency, foster economies of scale, drive savings and improve service quality and customer satisfaction. The consolidation of IT infrastructure and applications was expected to yield savings of up to 230 million kroner (about £25 million).<sup>38</sup>

In 2011, the government also established the Agency of the Modernisation of Public Administration, merging functions from across the ministry with the Danish Economic Council and the Central Human Resources Body to form a platform for improving efficiency and financial management across the public sector.<sup>39</sup>

### Approach

SIT was set up in 2010 by means of a top-down approach in which support service personnel were transferred to the shared service centre and ministerial budgets were reduced accordingly. In the first phase, from 2010 to 2012, eight ministries joined SIT and their IT departments were merged. The aim was to merge servers, streamline IT processes and build common platforms over the two years. As of 2015, SIT provides IT services for ten ministries and their 11,000 users. The agency's main goal is to build the foundations for the digitisation of the state, including the development and harmonisation of IT policies and services across public bodies. SIT is responsible for operating an effective IT support service and ensuring a high-quality and consistent IT service throughout the Danish government. It operates under a contract with the Ministry of Finance that sets performance requirements, measures the agency's performance and sets annual goals.<sup>40</sup>

<sup>36</sup> EUPAN 2012 – Danish Presidency 2012 Welcome Letter, Niels Gotfredsen, Director General of the Agency of the Modernisation of Public Administration, at [http://www.eupan.eu/files/repository/20120102153248\\_Welcome\\_letter\\_Danish\\_Presidency.pdf](http://www.eupan.eu/files/repository/20120102153248_Welcome_letter_Danish_Presidency.pdf)

<sup>37</sup> "Kortlægning af økonomi og virksomhedsstyring i udvalgte statslige institutioner," Moderniseringsstyrelsen 2011, at [http://www.modst.dk/God-okonomistyring/~media/Files/God%20%C3%B8konomistyring/Sammenfatningsrapport\\_Deloitte.ashx](http://www.modst.dk/God-okonomistyring/~media/Files/God%20%C3%B8konomistyring/Sammenfatningsrapport_Deloitte.ashx)

<sup>38</sup> "Denmark: Efficient E-government for smarter public service delivery," OECD e-Government Studies, June 3, 2010

<sup>39</sup> Finansministeriet rustet til fremtidens udfordringer, press release, 2011, at <http://www.fm.dk/nyheder/pressemeddelelser/2011/10/20111027-finansministeriet-rustet-til-fremtidens-udfordringer/>

<sup>40</sup> [www.statens-it.dk](http://www.statens-it.dk)

The Agency for the Modernization of Public Administration's main goals were to modernise administration activities, creating transparency and management prioritisation within the public sector; take responsibility for key HR activities including pay and pensions; deliver effective, safe and targeted guidance and system support and bring a new standard of corporate governance to the public sector. To pursue these goals, the agency developed and implemented measures for quality and sound financial management. It followed a top-down approach, setting annual targets for its own tasks as well as for administrative efficiency in the broader public sector in line with its four main goals.<sup>41</sup>

### **Impact**

The integration and consolidation of IT systems in Denmark continues as they are harmonised across divisions. The latest annual report shows that of the government's 25 performance requirements across four areas (strategic goals, central projects, key performance indicators and measures of good financial management) in 2013, 16 were satisfied, six were partly fulfilled, two failed to meet the target and one was discontinued. Between 2011 and 2014, the number of full-time employees rose from 230 to 251 as temporary staff joined to work on consolidation projects. According to SIT, IT operating expenses fell by 32.7 million kroner (£3.4 million) overall between 2012 and 2013. The full financial benefits of the shared service centre will not be known until integration is complete.

By centralising administrative tasks in one unit, the Agency for the Modernization of Public Administration has succeeded in reducing costs and freeing up resources for use elsewhere in the public sector.<sup>42</sup> It also provides clarity on financial management throughout the Danish public sector and acts as a role model for other departments. Speaking in 2011, the Minister of Finance said, "With the new agency, we establish target-focused institutions and create an effective public sector. Considering the past years it is crucial that we maximise each krone in the best possible manner and secure a working welfare system for years to come."

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<sup>41</sup> Mål- og resultatplan 2015, Moderniseringsstyrelsen, at <http://www.modst.dk/ServiceMenu/Om-os/Om-Moderniseringsstyrelsen/~media/Files/Presse/MI%20og%20resultatplan%202015Moderniseringsstyrelsen.pdf>

<sup>42</sup> Årsrapport 2013, Moderniseringsstyrelsen, at [http://www.modst.dk/ServiceMenu/Om-os/~media/Files/ServiceMenu/OM\\_OS/Organisation/Aarsrapport/2013/%C3%85rsrapport\\_Moderniseringsstyrelsen%202013.pdf](http://www.modst.dk/ServiceMenu/Om-os/~media/Files/ServiceMenu/OM_OS/Organisation/Aarsrapport/2013/%C3%85rsrapport_Moderniseringsstyrelsen%202013.pdf)

## Case study – Estonia: Providing e-government and self-service

### Context

Estonia has been described as one of the world's most digital societies. Its government was quick to embrace the digital economy, focusing on building an open e-society in the 1990s and introducing its “tiger leap” project to invest in IT infrastructure in 1996. The push for digitisation continued through the millennium, and digital solutions are now at the heart of every citizen's interactions with the government. Estonians can vote electronically in elections, file their tax returns online and sign legally binding documents over the internet. There are similar benefits for businesses: company registration is done online and property deeds can be accessed digitally. Estonia's e-government has become a model for the rest of the world, giving citizens online access to information and public services and powering paper-free communication in the public sector.

### Approach

Estonia's digital society was created not through a single overarching infrastructure, but through an open decentralised system linking together multiple services and databases. The flexibility this provides has allowed new components to be developed and added over the years. All e-government services for citizens have a common user interface and a standard authentication system. Citizens and businesses conduct all their digital interactions with the government through one website.

Development began with the establishment of a functional architecture that contains the X-road system (a secure data transport system for government databases), the ID card and the public key infrastructure. Once these core services were in place, new elements were progressively added between 2000 and 2010: m-parking (mobile phone payments for parking), the e-tax board (electronic tax filing), digital signatures, an ID bus ticket, an e-government portal, i-voting, m-ID (a system for verifying online identity), e-police (a system providing patrol officers with a positioning system and a mobile workstation), e-health (digital health records) and e-prescription (digital prescriptions).

The uptake of e-government has been aided by the popularity of the internet (used by an estimated 81 per cent of the population in 2014) and widespread support from government officials, businesses and citizens. In future, Estonia plans to integrate its service provision for all levels of government and offer a cross-platform self-service interface.

### Impact

Although there are variations between departments, e-government has significantly increased the efficiency of public services overall. For example, registering a company now takes less than 20 minutes (reducing the time it takes to set up a business from five days to two hours),<sup>43</sup> and more than 92 per cent of tax declarations are made through the e-tax board, saving €7 per declaration.<sup>44</sup>

<sup>43</sup> <https://e-estonia.com/component/e-business-register/>

<sup>44</sup> Tarmo Kalvet, Marek Tiits and Hille Hinsberg, “Measuring the impact of e-services: Case study,” Estonia ICT Export Cluster, March 15, 2013, at <https://e-estonia.com/measuring-impact-e-services-case-study/>



### Exhibit 3: Estonia's eGov portal offers a world-leading array of services

The screenshot displays the Estonian eGov portal (Eesti.ee) with a green header and navigation menu. The main content area is titled 'Services' and is divided into four columns: 'For a citizen', 'For an entrepreneur', 'For an official', and 'Services A-Z'. A blue circle highlights the 'For a citizen' section, which lists services such as 'Entering the State Port Register', 'National examination data and e-certificate', 'Benefits for incapacity for work', and 'Prescriptions'. To the right, a separate window titled 'Services and forms for a citizen' shows a grid of service categories including Housing, Company and activity licence search, Education and Science, Environment, Culture and Leisure Time, and Traffic. A blue callout box on the right side of the screenshot contains the following text:

- Launched in 2003, Estonia's eGov platform was named as having the **best content of the decade** by the UN in 2013
- The eGov portal gives citizens access to more than 200 services

SOURCE: "Innovation in government: India and Estonia," McKinsey Quarterly, June 2012; e-estonia.com; interviews

In addition, the introduction of paper-free communications is generating significant savings across the public sector, with almost €2 million in savings for the Estonian Road Administration in 2011, for instance.

The 2007 cyber-attacks in which hackers compromised a number of government websites and services demonstrate that security still presents risks in Estonia.<sup>45</sup> As more services are digitised and more people come to depend on electronic services (24 per cent of votes in the 2011 parliamentary elections were submitted online compared to 2 per cent in the 2005 municipal elections, for instance), security continues to be a priority.

<sup>45</sup> Stephen Herzog, "Revisiting the Estonian cyber attacks: Digital threats and multinational responses," *Journal of Strategic Security*, Volume 4, Number 2, 2011

## Case study – France: Delivering a whole-of-government transformation programme

### Context

In 2007, France launched a comprehensive modernisation and transformation programme known as RGPP (“révision générale des politiques publiques” or general review of public policies). RGPP was intended to address three needs: improving the quality of public service delivery, cutting public spending by €10–€15 billion by 2013 and continuing to modernise the civil service. The task of coordinating all RGPP initiatives was given to DGME (“direction générale de la modernisation de l’État” or general directorate for the modernisation of the state), an interministerial body established in 2005 by merging a number of existing agencies, which was to serve as the programme’s delivery unit.

### Approach

RGPP’s overall mission was to serve citizens better. After a spending review in each government department identified opportunities to save money and improve efficiency, some 400 initiatives were selected. They included structural reforms (including mergers between France’s tax and collection agencies), changes in governance models (such as the implementation of a performance-based funding system for universities), service enhancements (for example, the acceleration of the naturalisation process), and improvements in support functions such as IT and human resources. To achieve the reform goals, the programme would pull a variety of improvement levers, including lean operational techniques, information technology, and performance management.

The DGME’s role was to ensure that the transformation proved effective and that results were achieved quickly. Though from a range of backgrounds, all its staff had experience of conducting or supporting transformation projects.

RGPP had support from the very top, with President Sarkozy committed to the programme. By securing support from politicians and citizens at an early stage, it also obtained a mandate to deliver. It communicated its ambition and scope clearly to create a sense of purpose to which citizens could relate; equally, civil servants knew that the state had to modernise. There was pressure for an all-encompassing transformation across every administrative area touched by the RGPP so as to create momentum and make the process fairer. Progress towards reforms was communicated openly to the media and public to make the process of transformation highly transparent.

## Exhibit 4: RGPP kept the public informed about the status of reforms

**Example of a quarterly performance indicator**

Axe	Date de décision	Mesure	Avancement
Une définition des priorités stratégiques de la recherche assortie d'une capacité d'orientation des acteurs renforcée	Avril 2008	Simplification du fonctionnement des unités mixtes de recherche, dans le cadre de l'application des recommandations de la commission d'Aubert	●
	Avril 2008	Clairification de l'organisation des acteurs de la recherche et de leur relation pour rendre plus efficaces leurs rôles respectifs	●
	Avril 2008	Augmentation progressive de la part de financement sur projet pour la recherche	●
	Avril 2008	Évolution des modalités de définition des priorités nationales de recherche	●
	Avril 2008	Financement effectif des unités de recherche sur leurs performances, y compris pour le financement récurrent	●
	Juin 2008	Le Haut conseil de la science et la technologie (HCST) sera réformé, dans sa composition et dans son fonctionnement, pour devenir l'organe interministériel de référence dans la définition d'une stratégie de recherche. Cet exercice de définition stratégique des priorités de recherche du Gouvernement sera conduit tous les quatre ou cinq ans, sous le pilotage du ministre de la Recherche, en associant toutes les parties prenantes. Pour ce faire, le HCST sera rattaché au Premier ministre	●
	Juin 2008	Pour simplifier le fonctionnement des unités mixtes de recherche, les tutelles scientifiques seront limitées à deux, un mandat de gestion unique sera mis en place pour l'ensemble de chaque unité, les procédures d'achat et les règles financières, fiscales et comptables seront alignées sur le régime le plus simple et le plus efficace	●
	Avril 2008	Proposition aux régions de leur transférer les dispositifs en faveur de la diffusion technologique (à l'exception des incubateurs des universités et des instituts Carnot)	●

"Two years after its launch, the general review of public policies (RGPP) is having an impact (...). In the regions, the number of government offices has fallen from 20 to eight (...). Services to citizens and businesses are being streamlined"

May 2009

Le Monde

"Of 374 decisions on modernization made since 2007, 95% are being implemented (...). 75% of these measures are reportedly on target, 20% have been delayed, and 5% are at a standstill."

LaTribune.fr May 2009

"A large number of major reforms have produced results (...). Among the 374 measures, three-quarters have been implemented as planned."

May 2009

LesEchos

SOURCE: Press; McKinsey analysis

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## Impact

The reform programme has had enormous reach, involving all 2.5 million civil servants in France. By 2010, more than €7 billion of savings had been realised. Further reforms announced in that year were expected to yield an additional €10 billion by 2013.

By 2011, RGPP had demonstrated tangible efficiency gains. Levels of service had been maintained even with 100,000 fewer full-time posts, and surveys indicated that the complexity of public services as perceived by citizens had fallen by an average of 5 points since 2008.

The work of the DGME has led to a number of lessons for governments undertaking large-scale transformations: secure support from the highest level of government; invite public scrutiny and be completely transparent so that citizens can see how the project is going; obtain tangible results quickly to reassure those involved that you are heading in the right direction; and invest in the skills needed to make the transformation happen.

## Case study – France: Building IT leadership

### Context

In 2007, France launched its RGPP initiative (see previous case study) to address three needs: improving the quality of public service delivery, cutting public spending by €10–€15 billion by 2013, and continuing to modernise the civil service. The government decided to make IT a priority for transformation because it served as a lever for process improvement and innovation, attracted state expenditures of €11 billion a year and faced a number of challenges. These included a lack of transparency on costs, a decision-making process that was not aligned with business needs, poor vendor management, fragmented infrastructure and limited talent management.

The government's transformation delivery unit, DGME, proposed to tackle these challenges through a large-scale interdepartmental IT project beginning in November 2009. In 2010, the government decided to invest €4.5 billion in developing networks, infrastructure and services to support the digital economy.

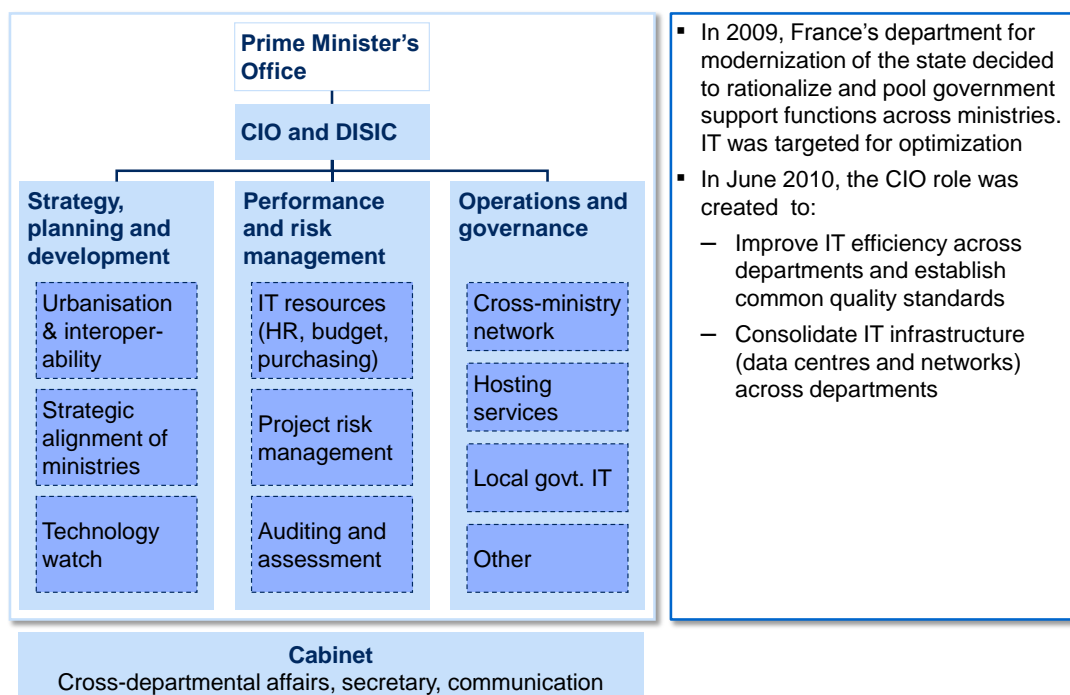
### Approach

In June 2010 France's Public Policy Modernisation Council appointed a chief information officer (CIO) for the government, charged with improving the coherence and interoperability of IT systems, promoting transparency and monitoring IT costs and performance, controlling and mitigating risks in large-scale IT projects, and controlling or supervising cross-departmental projects such as infrastructure consolidation.

In February 2011 the CIO was put in charge of DISIC, a newly created directorate with some 20 staff responsible for centralising the French government's IT services and improving their quality, effectiveness, efficiency and reliability. Its objectives included promoting IT cost controls among ministries, identifying savings in IT procurement, rationalising national data centres by consolidating locations and infrastructures, and approving budgets for large IT projects. DISIC also planned to centralise the rights governing the interoperability, security standards and accessibility of the government's IT systems.

By responding to the needs of government IT services in this way, it was hoped that DISIC would help to promote innovation and competitiveness in the wider public sector.

Exhibit 5: DISIC and the CIO coordinate IT services across France's government ministries



SOURCE: Press

## Impact

By 2017, DISIC is expected to save 10–20 per cent of the French government's annual spending on IT, amounting to €1.1–€2 billion. The savings are expected to come from sharing infrastructure, purchasing and skills; promoting best practices in budgeting; and coordinating human resources management.

In addition, the CIO and DISIC have implemented a number of other initiatives including an IT maturity diagnostic, the establishment of a transparent IT budget for all ministries, a pre-launch project assessment and a local IT organisation.

## Case study – Germany: Reforming the Federal Employment Agency

### Context

In the early 2000s Germany's employment service, the Federal Employment Agency, was facing increasing strain and operational complexity. This was exacerbated by a deterioration in the labour market, with unemployment at 4.4 million in 2003, about 10 per cent of the working-age population.

The transformation of the Federal Employment Agency formed the third part of the Hartz reforms of the German labour market. Hartz I in 2003 had focused on improving services for jobseekers: reorganising local labour agencies, developing jobseeker training and strengthening back-to-work measures. Hartz II, also in 2003, had introduced more flexible contracts (so-called mini-jobs and midi-jobs) and an entrepreneurship grant scheme. Hartz III in 2003–2004 set out to reform the Federal Employment Agency, whose name was changed to Bundesagentur für Arbeit (BA), and to tighten the eligibility criteria for unemployment benefits. Hartz IV in 2005 set out reforms to the benefits system, merging social assistance and unemployment assistance and making eligibility contingent on signing an 'integration contract' with the BA.<sup>46</sup>

The overall objective of the reforms was to integrate unemployed people back into the job market more quickly and in a more targeted way. The BA was charged with acting as a broker between supply and demand. The second wave of its transformation was carried out between 2007 and 2009, and focused on tailoring services more closely to customer needs.

### Approach

The first phase of the transformation started in 2003. The corporate centre was redesigned and staff numbers were reduced by 71 percent, with the remaining 400 employees focusing on advisory services and job placements. New management and budgeting processes were introduced to monitor the labour market, customer impact, in-house workforce potential, and finances.

In the second phase, ten regional headquarters were restructured to improve efficiency and save costs, requiring a reduction in staff numbers of 2,000. In the third phase, local agencies were redesigned by tailoring work flows to customer needs. An initial pilot with 30 agencies was gradually extended to all 180 agencies by 2005. During the pilot, counselling time with clients increased by 100 per cent while average customer waiting time fell by 50 per cent in four weeks.

A new IT tool based on survey data was introduced to target customers' needs more effectively and help them make more informed decisions. It allowed agencies to divide customers into segments and predict the duration of their unemployment, the best strategy to reduce it and the incremental benefits of investments in support. This enabled the agencies to adopt and tailor proven strategies for reintegrating people into the labour market and allocate resources more efficiently and transparently.

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<sup>46</sup> "The German case: The impact of the Hartz reforms on making work pay and activation," Federal Ministry of Labour and Social Affairs, November 8, 2012; "How have the Hartz reforms shaped the German labour market?," Directorate General of the Treasury, March 2013 at <http://www.tresor.economie.gouv.fr/File/386657>

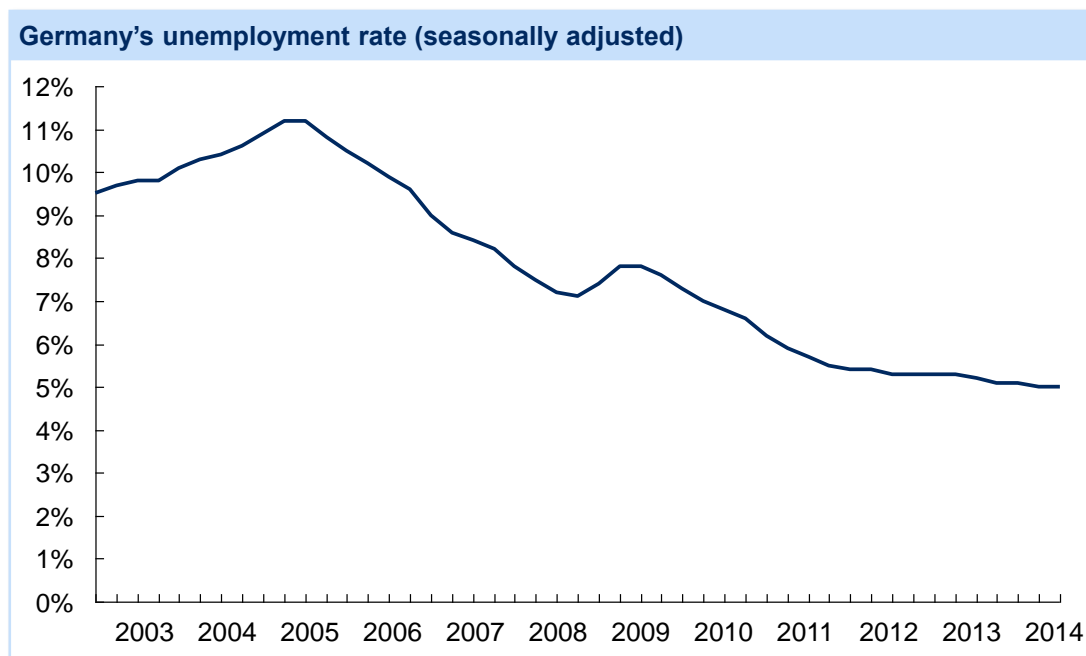
In 2009, a regional employment market monitor was introduced that allows the BA to bring a competitive element to local agencies by mapping heterogeneous labour markets into clusters. It also helps monitor local labour markets and identify opportunities to prevent unemployment and expand local and regional networks and partnerships. At the same time, the BA introduced explicit goals for all managers in line with the principle of target-based management.

### Impact

The initial transformation achieved 20 per cent savings in the German budget for labour market interventions. By the time the global financial crisis hit in 2008, the BA had accumulated reserves of €16.7 billion, despite some deficits in earlier years. This enabled it to make a timely intervention to bolster the labour market in the short term while the second round of reforms were put in place. Even so, the BA was the only branch of the social-security system to achieve a reduction in its labour costs.

By the end of 2011, the BA reforms, in combination with wider labour market reforms and an improving economic climate, had achieved a reduction in overall unemployment from 4.5 million to less than 2.5 million; a reduction in the duration of unemployment from an average of 164 to 136 days; a more than doubling of the number of job placements from 240,000 to 510,000 per year; and an increase in customer satisfaction, with scores of 2.1 among employers and 2.2 among job seekers, on a scale from 1 (best) to 6 (worst).<sup>47</sup>

Exhibit 6: German unemployment has fallen significantly since 2003



SOURCE: Eurostat

<sup>47</sup> Frank-Jürgen Weise, "Behind the German jobs miracle," McKinsey, October 2012, at [http://www.mckinsey.com/insights/public\\_sector/behind\\_the\\_german\\_jobs\\_miracle](http://www.mckinsey.com/insights/public_sector/behind_the_german_jobs_miracle)



## Case study – Malaysia: Delivering the Government Transformation Programme

### Context

In 2010, Malaysia launched its Government Transformation Programme (GTP), which sought to make rapid and substantial improvements in key public services. To design and drive the effort, the government set up the Performance Management and Delivery Unit (PEMANDU), an agency within the Prime Minister's department led by an executive with a background in private-sector transformations and staffed by some 130 newly hired employees, half of them from the private sector.<sup>48</sup>

### Approach

The targets and plans set out in the GTP and ETP roadmaps were developed through a series of “delivery labs” that brought together the best minds from government and the private sector, with 150 representatives of 60 public institutions (ministries, agencies and universities) and 350 executives from 200 private corporations. Each lab lasted from six to eight weeks, with participants doing analysis, solving problems and creating a programme of action. The solutions developed had to be both detailed and easy to implement; one example was the redeployment of police to 11 areas revealed by analysis to be hotspots for crime.

Alongside its delivery labs, PEMANDU introduced steering committees, weekly reports and daily interventions. Its CEO held weekly problem-solving meetings with his team and delivery-management teams from the civil service. The Prime Minister (or deputy) chaired a monthly meeting between the lead ministry and the civil service, and conducted a twice-yearly review of each minister's performance, using key performance indicators defined at the beginning of every year. Engaging senior leadership in this way was another measure designed to yield quick results.

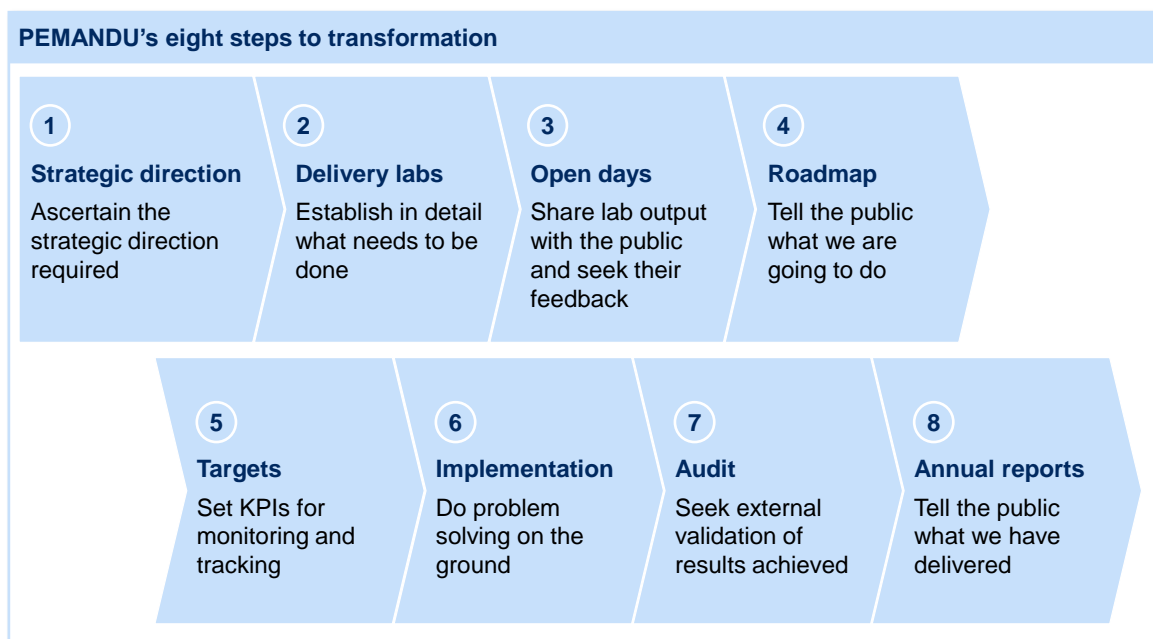
Transparency was a priority throughout the transformation. To open up the programme to full scrutiny, all Malaysian citizens were invited to give their feedback on the proposed solutions via “open days” that attracted 8,500 members of the public. The government published its detailed proposals in a 264-page book, and followed up with an annual report to monitor progress. The results were validated by an external audit company and challenged by an international review group with members drawn from the Australian, Korean and UK governments, the International Monetary Fund and the founders of Transparency International.

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<sup>48</sup> Eoin Daly and Seelan Singham, “Jump-starting Malaysia's growth: An interview with Idris Jala,” McKinsey, October 2011, at [http://www.mckinsey.com/insights/public\\_sector/jump-starting\\_malaysias\\_growth\\_an\\_interview\\_with\\_idris\\_jala](http://www.mckinsey.com/insights/public_sector/jump-starting_malaysias_growth_an_interview_with_idris_jala)



## Exhibit 7: PEMANDU's role is to be a catalyst for change



SOURCE: ETP annual report

### Impact

By the end of the first year, the government had achieved its targets on all its key performance indicators with only 79 per cent of the budget. The way PEMANDU was set up and the use of delivery labs enabled the program to achieve rapid results. For example, crime was reduced by 15 per cent and street crime by 35 percent; 54,000 more children were enrolled in pre-school classes; the use of urban public transport increased from 12 to 15 percent, with 2.4 million more passengers on light-rail transit lines; and basic rural infrastructure was improved through the building of 775 kilometres of roads and the provision of clean water to 35,000 homes, a sixfold increase on the previous year.

## Case study – Scotland: Integrating government departments to address cross-cutting issues

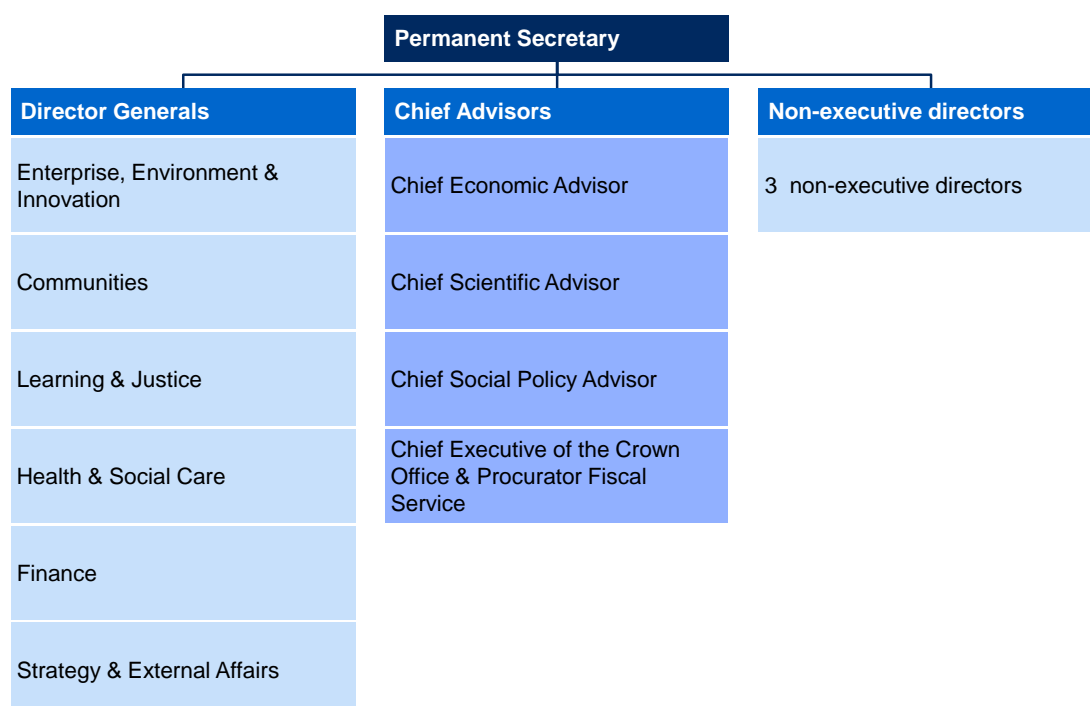
### Context

In May 2007 Scotland elected its first single-party government, which was formed by the Scottish National Party (SNP). In the preceding eight years of coalition governments, individual ministers had sought to maximise their own and their departments' autonomy, leading to the development of entrenched silos.<sup>49</sup> Scotland's new cabinet sought to break down these silos by designing a new model in which the government would function not as a network of departments but as a single organisation working towards a single purpose.

### Approach

As part of the redesign, the government abolished traditional departments and reduced the cabinet from 11 to eight ministers (eventually to become six). At the same time, the civil service structure of nine heads of department was replaced by a Strategic Board with a Permanent Secretary and five (six as of 2015) director generals (DGs). Each DG is responsible for driving one of the government's five strategic objectives: a wealthier and fairer Scotland, a healthier Scotland, a safer and stronger Scotland, a smarter Scotland and a greener Scotland. As of 2015, the strategic board also includes chief advisors and non-executive directors.

Exhibit 8: The Scottish government set up a new Strategic Board to replace departments



SOURCE: Scotland.gov.uk

<sup>49</sup> Jo Adetunji, "Lessons from Scotland on streamlining government," *The Guardian*, September 23, 2011

In the new structure, DGs support and manage work across 38 directorates and are responsible for leading, presenting and developing policy for ministers. In 2010 the roles of DGs and directors were broadened, enabling the number of senior civil service positions to be reduced: for instance, there are 25 per cent fewer director-level posts than in 2010.

A single national framework, Scotland Performs, was adopted for monitoring performance across the whole public sector. It was based on a model used in Virginia, which is consistently ranked among the three top-performing states in the US. The framework measures and reports the government's progress in meeting seven "purpose targets" (targets against economic and social indicators such as productivity, labour market participation and healthy life expectancy), 16 national outcomes, and 50 national indicators covering health, justice, environment, economy and education.<sup>50</sup>

### **Impact**

Measured against the strategic framework, Scotland's overall performance has been successful, and may have contributed to the SNP's re-election in 2011. Money has been saved by the reduction in senior civil service positions and once-siloed government departments have been brought together. The new unified system enabled the government to improve its management of spending cuts in 2009 and 2010.<sup>51</sup>

It is still too soon to draw hard conclusions about the overall impact of the reforms, but progress to date appears broadly positive. Among the national indicators, 18 out of 50 are showing improvements, including a rise in exports, enhancements in digital infrastructure, improvements in children's services, a reduction in deaths on Scottish roads, an increase in renewable electricity production and a reduction in waste. Six indicators have been worsening, including the proportion of individuals living in poverty, marine environment, biodiversity and carbon footprint.<sup>52</sup>

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<sup>50</sup> "Strategic agility in nations: The Scottish example," case study 12/2013-5898, INSEAD, 2013

<sup>51</sup> Sir John Elvidge, "Northern exposure: lessons from the first twelve years of devolved government in Scotland," Institute for Government, September 2011

<sup>52</sup> [www.scotland.gov.uk](http://www.scotland.gov.uk)

## Case study – Singapore: Attracting and retaining the best talent in the public sector

### Context

In the 1990s Singapore recognised that it needed to reform human resources in the public sector for two reasons. First, globalisation and global competition for talent were changing employee demographics and attitudes. Second, there was still a legacy of some practices from colonial times, such as a system of promotion based on seniority. As the largest employer in the country, the government also faced the challenge of coordinating, integrating and managing an increasing number of agencies.

In May 1995, the government launched 'Public service for the 21<sup>st</sup> century', a movement to encourage officials to embrace change in their daily work and a platform for supporting organisational change in the government itself.<sup>53</sup>

### Approach

In 1995, the government devolved HR management from the Public Service Commission (retained to serve only the most senior civil servants) into a system of personnel boards.<sup>54</sup>

The Public Service Division, Singapore's central HR agency for public services, has developed a meritocratic framework to appoint and develop civil servants who are collaborative, service-oriented and strong performers. The government gives high-flying school students full scholarships to attend top universities, in return for which they must work for the government for several years after graduation. Existing members of the civil service can apply for sponsorship for postgraduate study as part of their career development.

Singapore's civil service also has a strong focus on training, with officers receiving 100 hours per year. A dedicated training college, Singapore Civil Service College, offers more than 150 courses.

To ensure that the public sector retains a fair share of the nation's talent, civil service pay is also at the market rate, with salaries comparable to those of private-sector employees with similar abilities and responsibilities. Pay is also linked to performance, with bonuses to reward high achievement. The system is being adjusted so that pay progression is based not on fixed annual increments but on potential and performance assessments. Periodic salary reviews are held to maintain market competitiveness with the private sector: for example, there was a 5 per cent pay increase across the board in August 2014.<sup>55</sup>

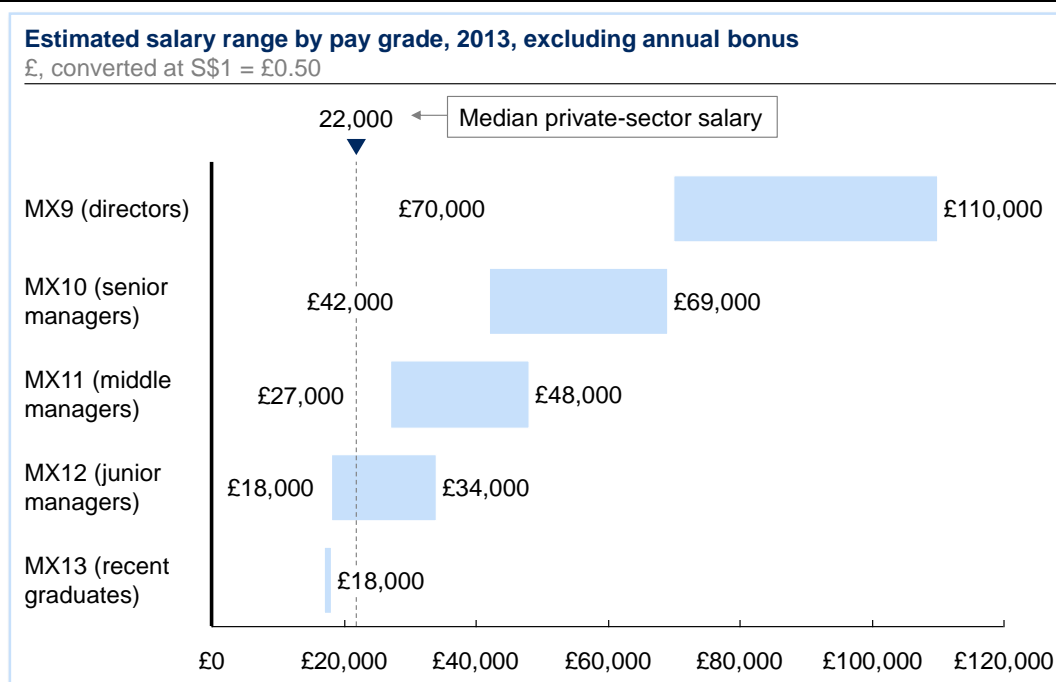
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<sup>53</sup> "Public service for the 21<sup>st</sup> century," National Goals Global Perspectives, Public Service Division, at [www.gov.sg](http://www.gov.sg)

<sup>54</sup> "Human capital development in the Singapore civil service," Public Service Division, August 2006, at <http://unpan1.un.org/intrdoc/groups/public/documents/APCITY/UNPAN028179.pdf>

<sup>55</sup> Charissa Yong, "Thousands of civil servants receive 5 per cent pay increment to keep salaries competitive," *Straits Times*, August 29, 2014, at <http://www.straitstimes.com/news/singapore/more-singapore-stories/story/thousands-civil-servants-receive-5-cent-pay-increment-ke>

Exhibit 9: Singapore's civil servants can expect strong salary progression, with salaries benchmarked to private-sector pay



SOURCE: SalarySingapore.com; McKinsey analysis

### Impact

In terms of its success at retaining and cultivating talent, Singapore's civil service has been hailed as a model for the rest of the world in terms of meeting citizen's needs, despite spending levels as low as 19 per cent of GDP<sup>56</sup>. In a recent study, 56 per cent of respondents expressed satisfaction with Singapore's public services, compared to a global average of 36 percent.<sup>57</sup> Measured by the World Bank's Worldwide Governance Indicators, Singapore ranks almost best-in-class among countries for effectiveness, regulatory quality, rule of law and corruption control.<sup>58</sup>

<sup>56</sup> "Go East, young bureaucrat," *The Economist*, March 17, 2011

<sup>57</sup> "Delivering public service for the future: Singapore government profile," Accenture, 2012 at <http://www.accenture.com/SiteCollectionDocuments/PDF/Accenture-Public-Service-for-the-Future-Singapore-Government-Profile.pdf>

<sup>58</sup> "Worldwide Governance Indicators," World Bank Group, 2014, at <http://info.worldbank.org/governance/wgi/index.aspx#home>

## Case study – Sweden: Managing the budget crisis

### Context

In the early 1990s the bursting of a real estate and financial bubble tipped Sweden into a deep recession. Between 1991 and 1994 national debt doubled and unemployment soared from 2 per cent to almost 10 percent.<sup>59</sup> The recession combined with a weak market for state bonds to push up interest rates sharply, driving up the cost of debt maintenance.

As a result, Sweden's budget deficit grew rapidly, reaching 10 per cent of GDP, the largest of any OECD nation, by 1993. When a new Social Democratic government came to office in October 1994, it launched a programme intended to stabilise national debt as a share of GDP by 1996; reduce the public finance deficit to a maximum 3 per cent of GDP in 1997; balance public finances in 1998; and achieve a public finance surplus thereafter.<sup>60</sup>

### Approach

The devaluation of the krone by 20 per cent in 1992 had already helped in the management of the budget crisis by boosting growth and kick-starting the economy. The budgetary reforms were designed to strengthen public finances by increasing government receipts and reducing expenditure. Between 1995 and 1998, the government implemented a series of tax rises and spending cuts affecting almost every area of the economy.

In total, half of total savings came from tax and fee rises, and half from expenditure cuts. To increase its income, the government raised taxes on capital and capital gains, general employment, state income, and share dividends, as well as raising employers' health insurance fees and reducing deductibility on pensions.

To cut expenditure, the government reduced housing subsidies, child allowance, childcare subsidies and compensation levels in social and labour market insurance. In addition, most government agencies were required to make one-off savings of around 10 per cent of expenditure. The government then introduced a forcing mechanism for productivity in which each government agency received by default the same budget in nominal terms every year, requiring it to make savings of 2 to 3 per cent per year to counter salary inflation. This policy helped to improve efficiency and innovation in service delivery.

The reform had five cornerstones: to obtain a reality check through a thorough analysis supported by transparent and public discussion; to construct a programme that both offered a solution to the crisis and included safeguards to prevent any recurrence; to obtain a mandate by involving parliament, trades unions, employers' federations, the media and specific individuals and organisations; to ensure that the administration was motivated and had clear targets and freedom to act but was accountable for its actions; and to shift to a new agenda by planning more positive reforms once the austerity measures had achieved results.<sup>61</sup>

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<sup>59</sup> <http://www.tradingeconomics.com/sweden/unemployment-rate>

<sup>60</sup> "The Swedish experience in reducing budget deficits," McKinsey, 2010

<sup>61</sup> Göran Persson, "How to tame a budget crisis," McKinsey, October 2012 at [http://www.mckinsey.com/insights/public\\_sector/how\\_to\\_tame\\_a\\_budget\\_crisis](http://www.mckinsey.com/insights/public_sector/how_to_tame_a_budget_crisis)

Another important goal was to maintain a sense of social justice in who bore the effects of cuts and service reforms. For example, the highest tax bracket was temporarily raised from 53 to 58 percent.

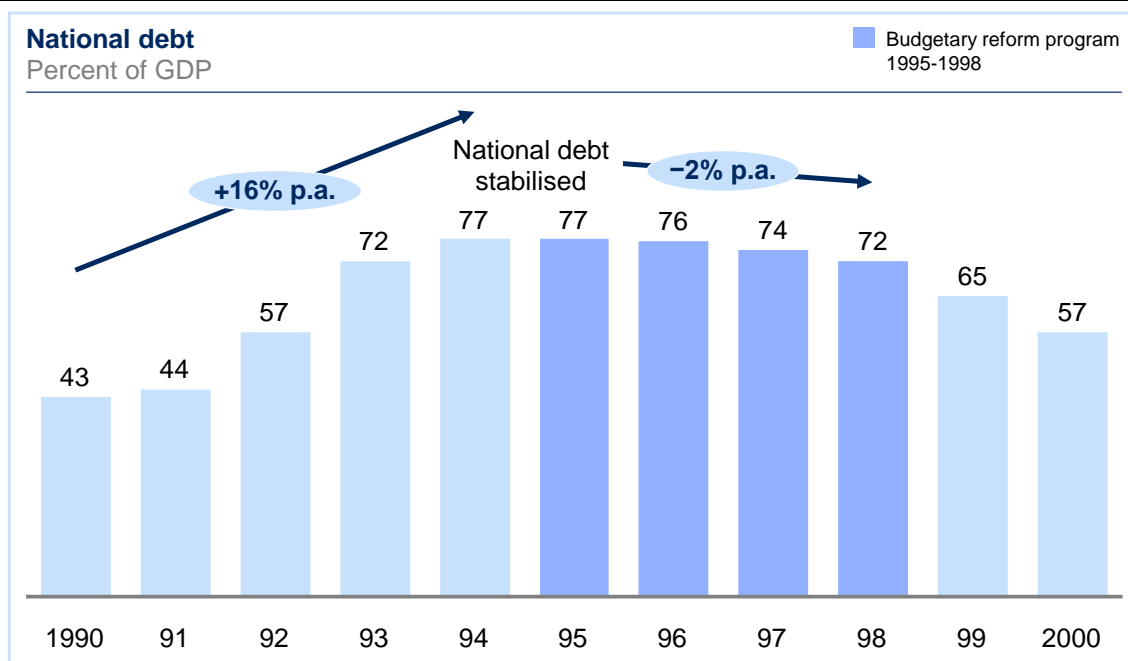
### Impact

The programme achieved the government's goals: national debt as a percentage of GDP was stabilised (and subsequently fell from 77 to 72 per cent of GDP); the deficit was reduced to 3 per cent by 1997; and public finances were balanced, with a surplus of 1.2 per cent of GDP in 1998 and 1999.

Disposable household incomes initially fell between 1994 and 1997, but picked up again in 1998 with 2 per cent growth.

Other structural reforms aimed at liberalising the country followed the programme or ran in parallel. Healthcare systems and schooling were opened up to competition, and retail, transport and banking were revamped through regulatory changes designed to raise productivity and boost demand.

Exhibit 10: Sweden's budgetary reforms stabilised national debt on target



SOURCE: National Institute of Economic Research

## Case study – United States: Increasing transparency in government spending

### Context

In 2010, US debt reached \$13.7 trillion, with an increasing debt-to-GDP ratio of 90 percent. Persistent rises in the debt ratio and debt ceiling had been causing concern for years. There was no sign of a reversal nor any clear plan in sight. In 2011, the International Monetary Fund noted that “The US lacks a ‘credible strategy’ to stabilise its mounting public debt, posing a small but significant risk of a new global economic crisis.”<sup>62</sup>

### Approach

Over the last 5 years, the US Federal Government has launched a series of initiatives to reduce spending and increase transparency in government expenditure, including:

- **Do Not Pay Business Center.** Established in April 2011, this provides a web portal and other automated tools to help federal agencies reduce the number of improper payments made through programmes funded by the federal government.<sup>63</sup> To detect fraud and error, it compares payment details across different departmental datasets and applies the kind of advanced analytical techniques used by insurance companies and other financial institutions.
- **Centralised Receivables Service (CRS).** This pilot service began in December 2012 and is designed to provide federal agencies with a service to increase collections on current receivables and thereby help bring down delinquent debt.<sup>64</sup> CRS focuses on managing debt at the pre-delinquent and early delinquency stages before it is eligible for referral to Debt Management Services.
- **Office of the Inspector General.** Each government department or agency has appointed an inspector general whose job is to identify, audit and investigate fraud, waste and abuse within that division.
- **Federal Logistics Information System (FLIS).** This service increases the transparency of the US Ministry of Defense’s procurement process by providing cost and other information about items procured.
- **USASpending.gov.** Launched in 2007, this website is intended to provide accessible information about federal spending, thus increasing transparency and accountability with a view to reducing wasteful spending.

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<sup>62</sup> Chris Giles and James Politi, “US lacks credibility on debt, says IMF,” *Financial Times*, April 13, 2011

<sup>63</sup> “About Do Not Pay: Improper payment initiative,” Do Not Pay, at <http://donotpay.treas.gov/about.htm>

<sup>64</sup> Bureau of the Fiscal Service at [http://www.fiscal.treasury.gov/fservices/gov/debtColl/dms/crs/debt\\_crs.htm](http://www.fiscal.treasury.gov/fservices/gov/debtColl/dms/crs/debt_crs.htm)



## Exhibit 11: USAspending.gov provides transparency on government spending

The screenshot shows the USAspending.gov website interface. At the top, there is a navigation menu with links like Home, News, Summaries, Trends, Data Feeds, Opportunities, Sub-award Documents, and FAQs. The main header features the USAspending.gov logo and the tagline 'Government spending at your fingertips'. A search bar is prominently displayed, with 'MINISTRY OF DEFENSE' entered and circled in blue. Below the search bar, there are options for 'Prime Award Advanced Search' and 'Sub-award Advanced Search'. A note below the search bar reads: 'NOTE: You must click here for ver'. The search results page is shown in a smaller window, displaying a bar chart of spending from 2001 to 2015. The chart shows a significant increase in spending starting around 2010. To the right of the chart, there are several filters and summary statistics, including 'By Type of Spending', 'By Agency', 'By Extent Completed', and 'By Recipient'. The 'By Agency' section lists the Department of Defense with 4,319 transactions. The 'By Extent Completed' section shows 2,681 full and open competitions. The 'By Recipient' section lists the Federal Ministry of Defense with 1,656 transactions. At the bottom of the results page, there is a summary of the search results: 'Total Dollars: \$1,745,618,341' and 'Transactions: 1 to 25 of 4421'. A specific transaction is highlighted, showing details for a contract awarded to DYNACORP INTERNATIONAL LLC.

- Portal allows users to search by department, agency or vendor
- Results are presented graphically as well as itemising full details of each transaction

SOURCE: USAspending.gov

## Impact

USAspending.gov has provided some transparency on spending, but challenges with data accuracy have required multiple changes to the website and reporting practices, and its high-level presentation has limited its usefulness in detecting fraud and changes in spending patterns.<sup>65</sup> At least \$1.55 trillion in spending was misreported in 2011.<sup>66</sup> Some 70 per cent of information on USAspending.gov is inconsistent with numbers in program-level reporting, and half of the agencies with inconsistent data are not reporting at all.

The Do Not Pay Business Center and surrounding initiatives have been more successful, reducing the proportion of improper payments from 5.4 per cent in 2009 to 4.4 per cent in 2013. Between 2010 and 2013, the federal government avoided more than \$47 billion in improper payments.<sup>67</sup>

<sup>65</sup> Gavin Baker, "New steps may increase transparency of federal contracts and grants," Center for Effective Government, July 2, 2013, at <http://www.foreffectivegov.org/new-steps-may-increase-transparency-of-federal-contracts-and-grants>

<sup>66</sup> "US government misreported \$1.55 trillion in grants in 2011," Sunlight Foundation, February 4, 2013, at <http://sunlightfoundation.com/press/releases/2013/02/04/us-government-misreported-155-trillion-grants-2011/>

<sup>67</sup> "How federal agencies track down improper payments with smart data management," FedTech, August 6, 2013, at <http://www.fedtechmagazine.com/article/2013/08/how-federal-agencies-track-down-improper-payments-smart-data-management>

As the CRS is still at the pilot stage its impact cannot be quantified. It is hoped it will help federal agencies make savings from the estimated \$380 million they currently spend on collecting outstanding debt.<sup>68</sup>

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<sup>68</sup> [http://www.fiscal.treasury.gov/fsservices/gov/fit/fit\\_crs.htm](http://www.fiscal.treasury.gov/fsservices/gov/fit/fit_crs.htm)

## Case study – United States: Understanding citizens' satisfaction with state services

### Context

As technological advances open new frontiers of convenience, speed and transparency for private-sector customers, expectations for customer service are rising in the public sector too. In 2014, McKinsey conducted research into the quality of public services provided by US states to explore how to achieve high levels of customer satisfaction at a time when public budgets were getting tighter. The study aimed to identify what contributes to a positive experience for citizens and how improvements could be designed to meet their needs. McKinsey surveyed 17,000 citizens in 15 states across 19 public services, including education, professional licensing, poverty assistance, healthcare and transportation.

### Approach

By measuring satisfaction across a variety of US state services, the survey sought to establish a consistent and broadly accepted metric for evaluating citizens' experience. Conducted online, it included more than 100 questions covering a range of activities, including state services overall, specific attributes of service delivery (such as speed), and specific types of services (such as public transport). Participants were asked to rate their satisfaction with these services and also with a selection of private-sector services.

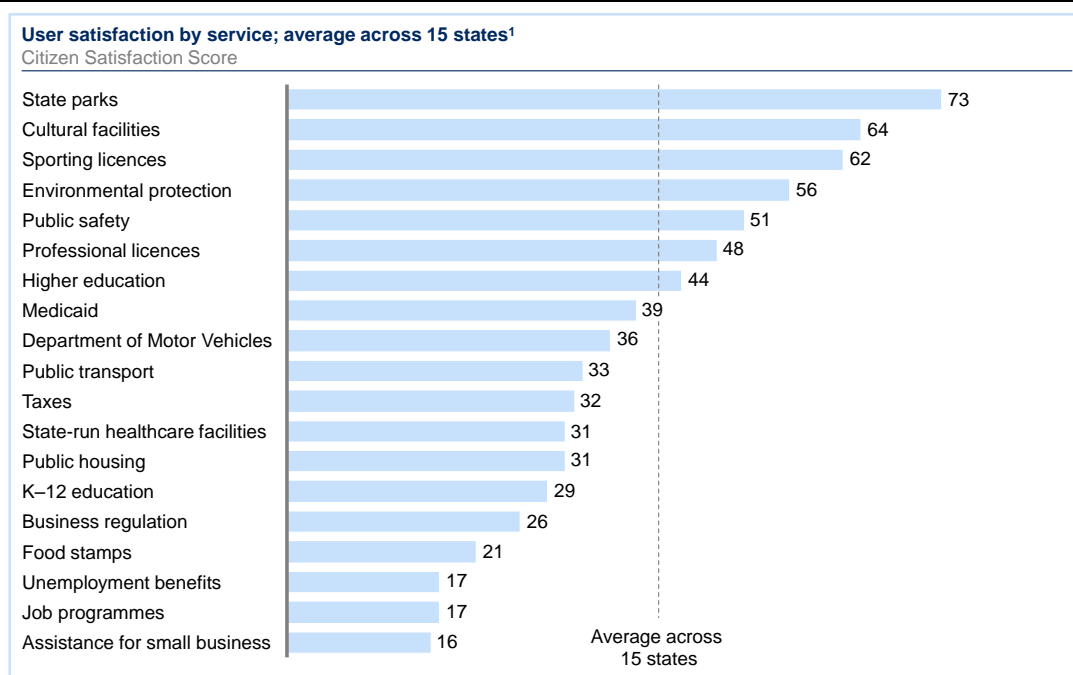
To analyse the results and draw out insights, a Citizen Satisfaction Score (CSS) was created to indicate the net satisfaction level among those surveyed. This score was calculated by subtracting the percentage of citizens who were dissatisfied (a rating of four or lower on a scale of one to ten) from those who were highly satisfied (a rating of eight or higher). Ratings of five, six or seven were considered neutral and excluded from the CSS calculation.

To ensure the accuracy of the results, researchers tested the questions with focus groups to verify their clarity and weighted individual survey responses according to demographic factors such as age, gender, income and ethnicity so that the weighted sample matched the profile of the state concerned.

### Impact

The results of the study varied widely by state. Citizens in the top-performing state recorded a rating of +22 on the CSS scale, while the bottom-performing state recorded a rating of -36. Results also varied widely by service. Overall, 2.5 times more users were dissatisfied with state services than with private-sector services.

## Exhibit 12: User satisfaction varied widely by public service



<sup>1</sup> Scores only the responses of citizens who identified themselves as having used a given service in the past year

SOURCE: *Putting Citizens First*, McKinsey Center for Government, November 2014

Among the study's main findings, speed, simplicity and efficiency make citizens happier; satisfaction is often lower for more essential services; people who do not use a service are often more sceptical about its quality; most citizens prefer to interact with government online.

The study suggested four steps that state government leaders could take to raise the customer experience to private-sector levels:

- **Put services for citizens on the leadership agenda.** Leaders should personally invest in the effort, set high aspirations, establish a process for reviewing progress, hold the relevant team accountable for results, and share and replicate best practices.
- **Set priorities for innovation.** Leaders should identify opportunities to improve citizens' satisfaction through innovation, by combining data-driven analyses with top-down, judgment-driven evaluations about where to focus.
- **Focus transformation programs on the service elements that citizens care most about.** Leaders should put themselves in the shoes of a citizen going through a particular process and seek to optimise the experience from beginning to end. As well as applying insights from surveys, interviews and feedback, they should work with citizens and agency staff to prototype and pressure-test potential solutions.
- **Measure citizen satisfaction regularly to set priorities and refresh or adapt efforts as needs change.** Leading organisations track citizen satisfaction in almost real time to observe changes, identify pain points and gather reactions to proposed incremental improvements.



## Case study – United States: Attracting and developing talent at the NYCEDC

### Context

New York City has long benefited from the operations of not-for-profit corporations focused on city-wide economic development. In 1966, the New York Public Development Corporation was established to retain and create jobs by facilitating the sale and lease of city property. Its scope grew over time as it managed a wide range of development projects.

Its current incarnation, the New York City Economic Development Corporation (NYCEDC), is a not-for-profit organisation whose mission is to encourage economic growth in the five boroughs of New York City by strengthening its competitive position and facilitating investments that build capacity, create jobs, generate economic opportunity and improve quality of life.<sup>69</sup> NYCEDC operates and manages projects in conjunction with the City of New York but is not a city agency; instead it has quasi-non-governmental status, with seven members of its board of directors selected by the mayor of New York.

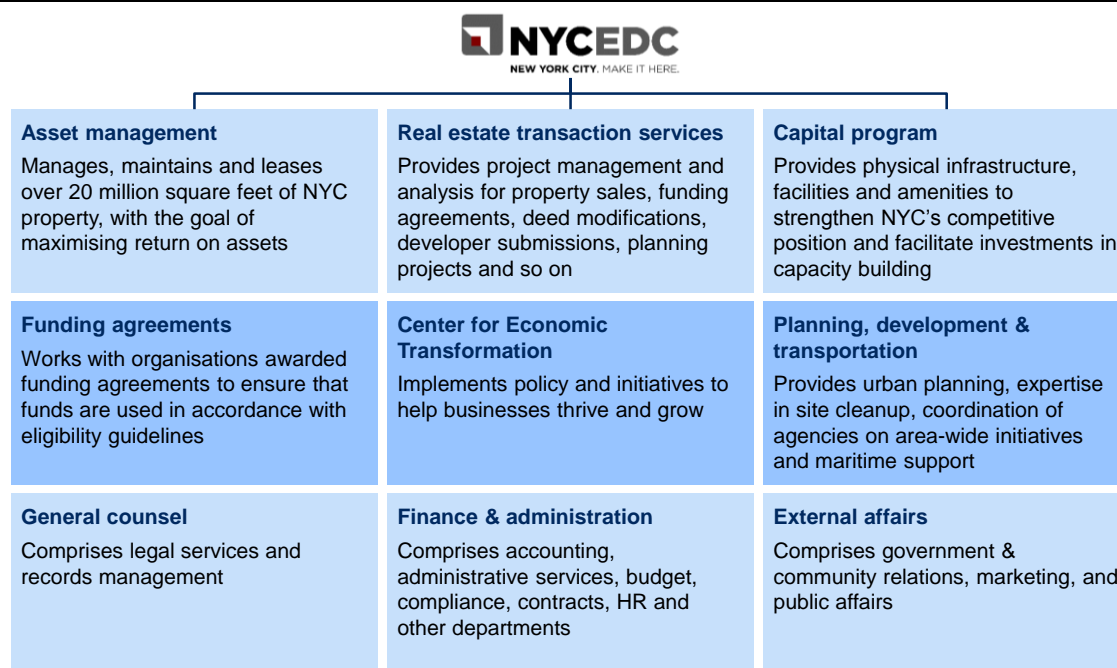
NYCEDC manages city properties and assets such as manufacturing and distribution hubs, transportation and other infrastructure; provides funding for public and private projects; and provides expert business and policy advice to the public and private sector. It runs most of its projects in cooperation with the business community, allowing it to draw on talent with expertise in particular industries and maintain operational flexibility. As a result, it describes itself a public-sector organisation with a private-sector culture.

### Approach

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46 NYCEDC website at <http://www.nycedc.com/>

### Exhibit 13: NYCEDC operates through a divisional structure



SOURCE: <http://www.nycedc.com/about-nycedc/divisions>

The culture of NYCEDC is reflected in the composition of its management team, whose key members are recruited from leadership positions in the private sector. Its current president, for instance, is a former vice president at Goldman, Sachs.

NYCEDC also provides its staff of over 330 employees with multiple learning opportunities to enhance their business knowledge and soft skills, including onsite technical and job-specific training courses, a mentoring programme, and daily interaction with the private sector to gain exposure to valuable skills. Entry-level positions include a substantial project management element which helps attract high-performing graduates. NYCEDC also supports an internship programme for undergraduate and MPP (master of public policy) students.

Many of the initiatives run by the NYCEDC in collaboration with local businesses and educational institutions share this focus on attracting top talent. Some identify outstanding individuals from around the world and connect them to prospective employers. Competitions and fellowship programmes encourage entrepreneurs to start and grow their business in the city. One such project, NYC Next Idea, attracted more than 240 applicants from 51 countries in 2014. Another recent pilot scheme connected underemployed skilled immigrants to high-growth sectors. By offering networking and mentorship opportunities, training and funding these schemes harness the potential of both local and international talent.

### Impact

The NYCEDC has succeeded in building a private sector-oriented institution that attracts business leaders to join its management team. Employees' career paths offer exposure to skills that are highly valued in both the public and the private sector. In addition, the

NYCEDC works to attract top international talent that meets the needs of local growth industries. By attracting and nurturing talent in this way, it maintains a prominent role in the development of New York City.



## Case study – European banks: Introducing straight-through processing to reduce costs

### Context

Analysis shows that applying digital tools and methods to change the way banks process and service customers can reduce their cost base by 20 to 25 percent. Much of this potential saving comes from the automation of manual tasks and the introduction of straight-through processing (STP), which eliminates lengthy and complex manual processes. Through the deployment of workflow tools and self-service capabilities for customers and staff, STP has the potential to reduce the costs of a range of internal processes by 40 to 90 percent.<sup>70</sup>

### Approach

The financial services industry is a leading practitioner of the STP approach and is undergoing digitisation at a rapid rate, although most banks face considerable obstacles, including a highly complex business context, a legacy of IT architecture and outdated IT development capabilities. To achieve STP in a business process, banks need to follow four steps: prevent paper input by the customer; digitise the flow of work to enable automation; support the decision-making process through the use of software and analytics tools; and improve the productivity of residual work such as front-end operations.

Banks typically begin by reinventing a given process from scratch, rapidly creating a “minimum viable product” and developing the process iteratively with continuous customer testing. By combining this rapid end-to-end digitisation with lean and agile development methods, banks can digitise a process in 16 weeks.

Banks that have been successful in automating their operations share three factors in common:

- **Working with the business to simplify the existing process.** This requires a cross-functional team of operations, IT and business experts with strong project governance and top management support.
- **Using multiple integration technologies and approaches.** Banks can automate most manual interventions without having to rewrite or change their existing IT architecture, but by using the right mix of integration solutions instead.
- **Prepare the IT shop for agile development methods.** To build business enablement skills, banks should hire people with expertise in applying the right solutions or provide appropriate training.<sup>71</sup>

### Impact

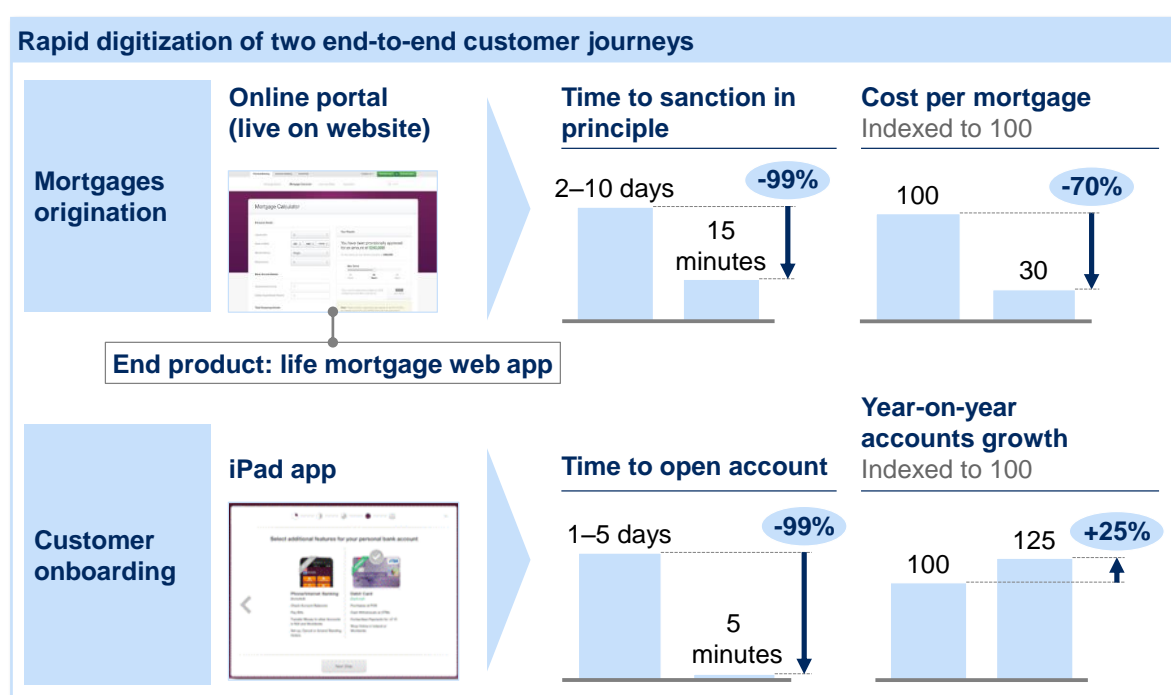
<sup>70</sup> Tunde Olanrewaju, “The rise of the digital bank,” *McKinsey on Business Technology*, Number 33, Spring 2014

<sup>71</sup> “Achieving the STP dream: Rapid, large-scale process automation,” *IT in Digital Banking*, McKinsey, 2012

Straight-through processing has delivered cost and time savings in many different banking functions. One European bank automated its account-switching process and achieved a return on investment of 75 per cent after just 15 months. Back-office staff handled account changeovers far more quickly, saving 70 per cent of the processing time, while the time it took customers to switch was reduced by more than 25 per cent.

Another European bank wanted to shrink its cost base and boost its competitiveness by offering a superior customer experience. Its automation programme focused on 10 major processes including retail account opening and wholesale customer service. The programme became self-funding in the second year of implementation and the bank gained a number of business and operational benefits.<sup>72</sup>

Exhibit 14: Introducing straight-through processing has saved banks time and money



<sup>72</sup> "Achieving the STP dream: Rapid, large-scale process automation," *IT in Digital Banking*, McKinsey, 2012

