



National Audit Office

REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL

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The Cabinet Office

The impact of government's ICT savings initiatives

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National Audit Office

The Cabinet Office

The impact of government's ICT savings initiatives

Report by the Comptroller and Auditor General

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Amyas Morse
Comptroller and Auditor General
National Audit Office

18 January 2013

The government recently set out the need for civil service reform to ‘embrace the digital age’. Information, Communications and Technology (ICT) are essential to efficient government and for government to keep pace with citizens’ desire to engage with public services online.

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This report can be found on the National Audit Office website at www.nao.org.uk/ict-savings-2013

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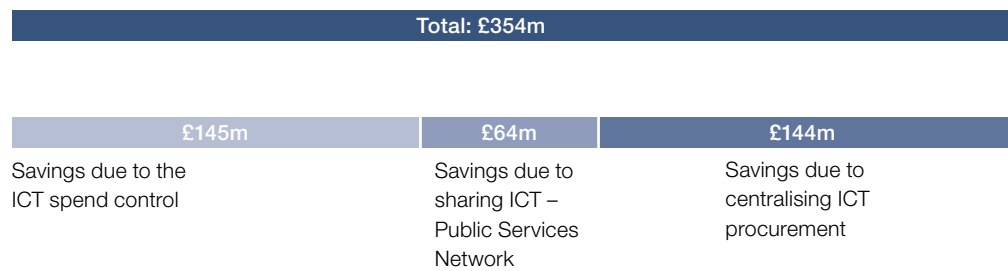
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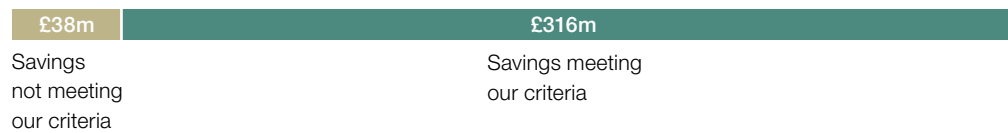
Key facts

5	110	£6.9bn
key initiatives were created to save on ICT and reform broader public services	staff from central government are working to implement the five initiatives	ICT spend in 2011-12; NAO estimate based on an analysis of resource accounts

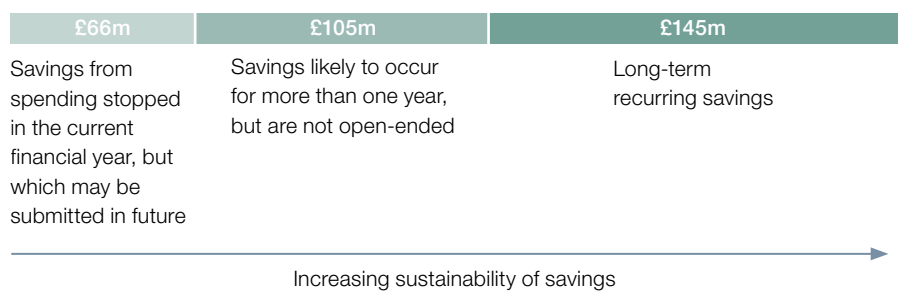
Savings reported by Cabinet Office as a result of ICT strategy



Against our criteria for assessing savings we found:



Sustainability of savings meeting our criteria



Summary

1 In 2009, Francis Maude MP said: *"the history of UK government ICT projects is littered with budget overruns, delays and functional failures."* Since May 2010, the Cabinet Office has launched several Information, Communications and Technology (ICT) and procurement initiatives to tackle these problems. The government recently set out the need for civil service reform to 'embrace the digital age'. ICT is essential to efficient government and for government to keep pace with citizens' desire to engage with public services online.

2 The Committee of Public Accounts has highlighted government's poor record in giving value for money from ICT. In June 2011, the Committee welcomed the direction and principles of the government's new ICT strategy, published in March 2011, but described it as 'very ambitious'. Consequently, we are monitoring the government's progress in reforming ICT and in December 2011 reported that government had made a positive and productive start.

3 This report examines the impact of five reform initiatives. Three are designed to reduce ICT spend under the ICT strategy.

- **ICT spend control.** The IT Reform Group in the Cabinet Office reviews all ICT business cases from central government that exceed £5 million. The minister for the Cabinet Office has final approval of these business cases.
- **Shared ICT infrastructure programme.** Led by the Chief Information Officer (CIO) Delivery Board, this programme aims to reduce the over-provision of ICT by ensuring departments adopt common technical standards and share ICT assets wherever possible. The focus so far has been establishing and sharing communication networks through a programme known as the Public Services Network.
- **Centralised ICT procurement.** The Government Procurement Service, a trading fund of the Cabinet Office, negotiates procurement frameworks with suppliers, enabling departments to buy ICT at the best price.

- 4 Two further initiatives aim to restructure government's relationship with its suppliers.
- **Managing suppliers as a single customer.** Under the leadership of the Government Chief Procurement Officer, Crown Commercial Representatives are renegotiating government's relationships with major suppliers to make savings and improve performance.
 - The Cabinet Office has introduced measures to shorten and simplify contract opportunities, move to cloud services, apply open standards to increase competition and **make government contracts more accessible to small- and medium-sized businesses.**

This report examines only the ICT element of these last two initiatives. We expect to report separately on non-ICT government procurement savings and reform.

5 For the ICT savings we examined, we assessed whether the amount reported by the Cabinet Office:

- matched underlying documentation;
- was attributed to the correct year;
- was net of all implementation costs;
- was measured against the cost of a reasonable alternative; and
- was attributable, at least in part, to action by the Cabinet Office.

Key findings

Data on ICT expenditure

6 **Since December 2011, the Government Procurement Service has been developing a new source of ICT spend data that has the potential to provide government with more accurate ICT data than in the past.** Previously, we have reported that government has found it difficult to establish robust information about ICT spend. The Government Procurement Service now has comparable ICT spend data for part of central government, 17 departments and 69 arm's-length bodies (paragraphs 2.2 to 2.4).

Impact on ICT savings

7 The three initiatives to reduce ICT spend are working. In 2011-12, central government spent an estimated £316 million less than it would otherwise have done. We analysed a sample of savings from ICT spend control, the shared ICT infrastructure programme and centralised ICT procurement for 2011-12, and extrapolated our results. We found that 89 per cent (£316 million) of the £354 million of savings reported by the Cabinet Office met our savings criteria. The main reason for savings not meeting our criteria was a lack of clear evidence (paragraphs 2.7 to 2.8).

8 The Cabinet Office's reported savings resulted from longer-term reform as well as short-term efficiencies. We categorised the £316 million of ICT savings that met our savings criteria into three levels of sustainability. We found that:

- 46 per cent were long-term savings that are likely to occur every year for the foreseeable future;
- 33 per cent were savings that are likely to occur for more than one year but are not open-ended; and
- 21 per cent were savings from spending that had been stopped by government in the current financial year but may be submitted for approval in future years (paragraphs 2.10 to 2.13).

9 The appointment by the Cabinet Office of commercial experts, to negotiate with the largest ICT suppliers as a single customer, is helping departments reform their supplier relationships, but the measurement of reported savings needs to be built on firmer evidence. This has helped departments to claw money back, renegotiate contracts before they expire and, overall, spend less than they otherwise would have done on ICT. The Cabinet Office has reported savings of £348 million from this initiative in 2011-12. We were unable to validate these savings as their data was insufficient to apply our criteria. The Cabinet Office's processes were not fully mature in 2011-12 but it has since taken steps designed to improve the accuracy of savings from 2012-13 onwards (paragraphs 2.14 to 2.17).

10 On performance to October 2012, government is likely to meet, if not exceed, the targets for ICT savings that it set itself in October 2011. In October 2011, the government announced a target of £440 million for 2012-13 from the ICT spend control and shared ICT infrastructure programme. In October 2012, the government announced that, subject to audit, it had already saved £410 million from these initiatives in the first six months of 2012-13 and expected to save a further £200 million by the end of March 2013 (paragraphs 2.18 to 2.20).

The wider impact of ICT costs savings

11 To date, the Cabinet Office has focused on measuring costs savings. It is the responsibility of departments to manage the consequences of these savings and ensure they do not affect the performance and quality of public services. However, as part of the approval process for substantial items of ICT spending, the Cabinet Office does consider the risk of individual ICT spend proposals submitted by departments (paragraphs 3.3 to 3.4).

12 From November 2012, the Cabinet Office started to evolve its initiatives and began considering risk and performance on a more holistic basis. In November 2012, the Cabinet Office published a strategic supplier risk management policy which sets out how government intends to assess serious or persistent underperformance by strategic suppliers. The Commercial Relationships Board is starting to apply this policy to a risk assessment for key suppliers for the first time. The IT Reform Group has a deepening knowledge of departmental capability and how departments are delivering digital services. These developments should provide the Cabinet Office and departments with the information they need to understand and report on the wider impact of the ICT initiatives (paragraphs 3.5, 3.17 and 3.18).

13 The impact of initiatives to reduce the dominance of large ICT suppliers and increase the involvement of small- and medium-sized businesses remains unknown at this stage. It is difficult for government to make changes with ICT suppliers when major contracts are not expiring for a few years. However, work is under way to reduce its dependency on single large-scale contracts. Until the Government Procurement Service data on ICT spend is complete, accurate baselines for a comparative analysis of spend across all ICT suppliers is not available (paragraphs 3.6 to 3.12).

14 Views on the impact of reform on government's relationship with ICT suppliers are mixed. We found that suppliers we spoke to in 2012 were less positive about their relationship with government than those we spoke to in 2011. They were frustrated at the slow pace of change and the focus on cost-cutting, rather than on exploring innovative opportunities to redesign digital public services. Some Crown Commercial Representatives and CIO Delivery Board members identified positive changes in suppliers' attitudes but others commented on resistance by suppliers to change. However, the Cabinet Office's publication of a strategic supplier risk management policy shows how government is becoming more robust and transparent in its handling of suppliers' performance across government (paragraphs 3.14 to 3.17).

The main enablers of progress and the challenges of delivering further savings and reform

15 Leadership from the Cabinet Office along with cross-government and cross-profession collaboration, have been important for delivering ICT savings that exceed targets so far. Responsibility for delivering the five initiatives is shared among senior civil servants from the ICT, commercial and procurement professions in departments and the Cabinet Office (paragraph 4.2).

16 The introduction of ICT spend controls by the Cabinet Office has been a powerful lever in driving departments to make ICT savings and to comply with the ICT strategy. Despite tensions, this new process is encouraging departments to become more disciplined in planning future ICT spend and preparing more feasible proposals for scrutiny (paragraph 4.3).

17 Government has made a good start on reducing ICT spend and reforming supplier relationships. The Cabinet Office is now facing the challenge of moving its initiatives from saving money in buying ICT, to ICT solutions that reform public services and the way that government works. We have identified two ways in which the Cabinet Office is facing this challenge:

- Until recently, there has been insufficient resource for the ICT spend control process leading to delays. The IT Reform Group is now at its full complement and is able to increase the expert assistance it gives to departments, allowing them to save money and making deeper ICT reforms that put users at the heart of public services (paragraphs 4.9 and 4.10).
- Complex governance arrangements have existed for the five initiatives. The Cabinet Office is currently considering how to reform these arrangements so as to streamline governance and clarify roles and responsibilities (paragraphs 4.11 to 4.12).

18 Relevant skills remain a challenge across government. There is progress in developing the ICT, digital and commercial professions in government. For example, the Cabinet Office is increasing the number of Crown Commercial Representatives and strengthening the seniority of the team that supports them. However, the pace, breadth and depth of the change required by the Cabinet Office's ICT reform initiatives is opening up capacity and capability gaps across central government (paragraphs 4.13 to 4.14).

Conclusion on value for money

19 As a result of the ICT strategy, we estimate that government has spent £316 million less in 2011-12 than it otherwise would have done. Just under half of this is the result of sustainable long-term savings. Furthermore, government is likely to meet, if not exceed, its targets for savings in 2012-13 from the ICT spend control initiative and the Public Services Network. We conclude these initiatives being led by the Cabinet Office, but involving change in all departments, are starting to have a positive impact on value for money in an area of spend that has previously proved intractable.

20 Other initiatives to manage large ICT suppliers as a single customer and assist small- and medium-sized businesses to compete successfully will take longer to demonstrate value for money. There are early positive qualitative signs. However, demonstrating quantitative impacts from these initiatives in the future will require the Cabinet Office to have a significantly better common understanding of spend and savings data with suppliers and departments. It will also take time to demonstrate the impacts of restructured relationships with the ICT industry on the digital transformation of the civil service and the quality of future digital services.

Recommendations

- a** **The Government Procurement Service, working with all parts of central government, should complete its collection of ICT spend data on central government.** This data set has multiple applications. It will strengthen negotiations with ICT suppliers, enable the Cabinet Office both to challenge and assist departments with their proposals for ICT solutions, and help the government to demonstrate the quantitative impact of its ICT and procurement initiatives to Parliament.
- b** **The Cabinet Office should review targets for ICT savings across government to ensure they remain sufficiently stretching.** Savings delivered so far have exceeded their targets. Lessons learned, combined with a more accurate estimate of future ICT spend, provide a stronger basis now than there was one year ago for setting stretching targets.
- c** **The Cabinet Office should use the new digital strategy and the civil service reform plan to develop how it and departments evaluate and report the impact of ICT initiatives beyond just ICT savings.** In December 2011, we highlighted that the only measurable benefit defined within the government's ICT strategy (2011) was savings. Since then the digital strategy and reform plan have set broader transformation objectives to measure progress against. This will enable the Cabinet Office and departments to develop a more holistic view of the impact of their initiatives on suppliers (large and small), spending less and reforming public services through digital by default.

- d** **As the Cabinet Office continues to develop its ICT initiatives, management information and governance, it needs to ensure changes are systematically implemented and clearly communicated to departments and suppliers.** The Cabinet Office has demonstrated its willingness to apply continuous improvement as it learns about the impact of its initiatives. For example, there are improvements under way in the Cabinet Office guidance for suppliers and departments on the data it requires to track savings and other impacts. However, the Cabinet Office should reinforce the level of challenge and scrutiny it applies to savings and determine whether more assurance can be obtained from its internal audit function. The pace of change and changes in Cabinet Office staff will act as barriers to continued improvement unless departments and suppliers are clear about roles and responsibilities.
- e** **The Cabinet Office and departments should consider how to optimise the deployment of ICT and commercial skills across central government.** The Public Services Network team has assembled 39 full-time equivalents from across government, to both manage contracts with industry and also to assist government organisations with planning their network requirements and tracking their benefits. This expert assistance has been successful and a similar model could be applied to share government's specialist ICT and commercial expertise to stimulate the most reform.
- f** **The CIO Delivery Board members and CIOs across government need to show strong leadership in civil service reform beyond the ICT profession.** Accounting officers, finance directors and other senior civil servants are interested in overall value for money and managing the risk of change, rather than ICT details. They are not all convinced of the benefits of sharing ICT infrastructure and other business services. Not all understand the impact of putting the citizen and UK business at the heart of digital public services or what constitutes acceptable information security risk. Not all see how transformative new approaches to ICT could be in changing how their departments work and collaborate with others. Having now established a track record in making savings, the CIO Delivery Board members have to lead the debate away from the specifics of convergence, hosting services in the cloud, security accreditation and virtualisation, to drive a convincing and informed debate about ICT-led reform across the civil service.

Part One

Introduction

1.1 Information, Communications and Technology (ICT) are essential assets of government which frontline workers and civil servants rely on. The government recently set out the need for civil service reform to 'embrace the digital age'. ICT enables government to operate efficiently and keep pace with citizens' desire to engage with government and access public services online. As well as improving efficiency, transforming services in this way will help government to meet its transparency objectives. However, government will need to focus on protecting its information and systems.

1.2 The Committee of Public Accounts and the Public Administration Select Committee have raised concerns on the government's performance on ICT. These have focused on:

- a lack of accurate ICT spend data;
- the dominance of large ICT suppliers;
- high procurement costs and delays in delivery;
- fragmented and duplicated procurement and supplier management;
- difficulty in integrating systems so they can communicate with each other;
- high numbers of bespoke and legacy systems and poor use of innovative ICT solutions; and
- poor ICT project management leading to projects that were too complex and risky for the civil service to manage.

1.3 The Cabinet Office accepts that in the past, government ICT projects have tended to be too large, risky, complex and expensive. It accepts that departments have worked independently of each other to procure and run their own systems, rarely reusing systems available elsewhere in government. Since May 2010, the Cabinet Office has been introducing a series of ICT and procurement reforms to tackle these problems (**Figure 1** overleaf).

1.4 In May 2010, the ICT moratorium meant no central government department was permitted to sign any new ICT contract, extension or modification without specific agreement from the Minister for the Cabinet Office. The Cabinet Office then began a mandatory review of all central government's ICT projects, stopping or changing those deemed to be wasteful. In September 2010, the Cabinet Office led discussions with key government ICT suppliers to agree to reduce prices. It launched initiatives to open up opportunities for small- and medium-sized businesses and introduced a new mechanism of ICT spend controls to ensure departments complied with the new reforms. The government published a new ICT strategy in March 2011.¹ This set out a strategic intent to reduce waste and failure from ICT projects, create a common ICT infrastructure and use ICT in a better way, to transform public services. In June 2011, the Committee of Public Accounts welcomed the direction and principles of government's new strategic approach on ICT but described it as 'very ambitious'.² Figure 1 shows the rapid sequence of reforms, led by the Cabinet Office.

1.5 The NAO is monitoring the government's progress in increasing value for money from ICT. In December 2011 we reported on government's early progress in implementing its new ICT strategy. We found that the Cabinet Office had made a positive and productive start by bringing a broader set of skills and delivery experience together, adopting a more collaborative approach to governance and applying new mechanisms to make sure departments complied with the strategy.

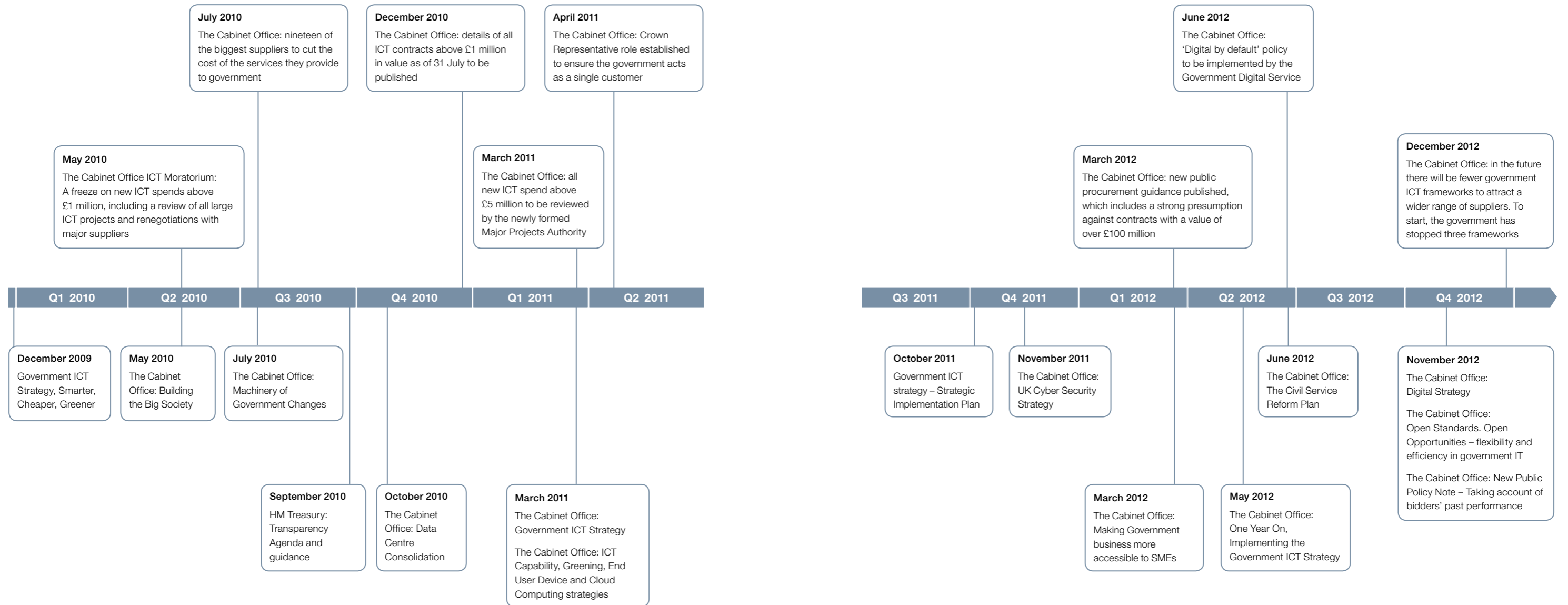
¹ Cabinet Office, *Government ICT Strategy*, March 2011.

² HC Committee of Public Accounts, *Information and Communications Technology in government*, Fortieth Report of Session 2010–12, HC 1050, June 2011.

Figure 1
ICT and procurement reforms, relevant NAO and other reports

Since May 2010, government has introduced a series of ICT and procurement reforms which we are monitoring

Government announcements

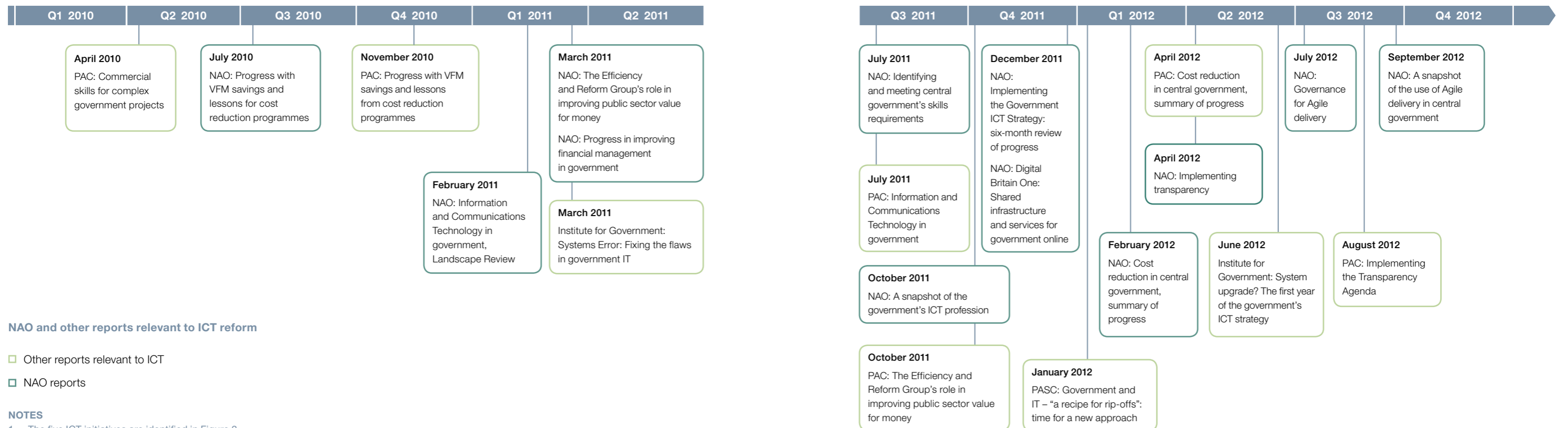
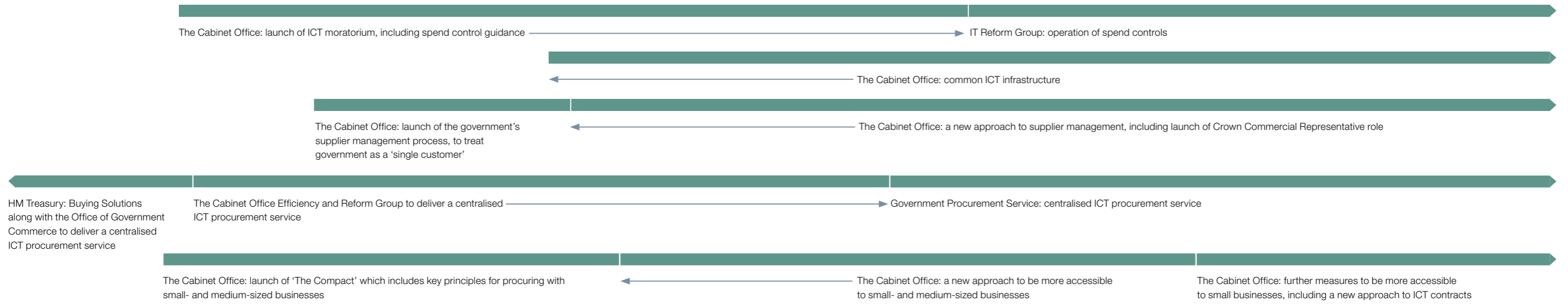


Government documents

continued overleaf

Figure 1 continued
ICT and procurement reforms, relevant NAO and other reports

ICT initiatives



NAO and other reports relevant to ICT reform

- Other reports relevant to ICT
- NAO reports

NOTES

- 1 The five ICT initiatives are identified in Figure 2.
- 2 The following Committee of Public Accounts reports do not appear in the above timeline, but do consider ICT reform: *HM Revenue & Customs ASPIRE, the re-competition of outsourced IT services* (June 2007); *Assessing the value for money of OGCBuying.solutions* (June 2007).
- 3 References to reports can be found in Appendix Five.

Scope of this report

1.6 In this report we examine the impact five key initiatives (**Figure 2**) have had on ICT spend and government's relationship with ICT suppliers. Although it is early days, the Cabinet Office has emphasised the need for pace and this report examines savings and other measurable progress so far.

Figure 2

Summary of the five initiatives examined in this report

The first three initiatives were designed specifically to achieve savings in ICT; the other two were designed to restructure government's relationships with suppliers (including ICT suppliers)

Initiative	Lead	Period of operation	Staff (full-time equivalent)
ICT spend controls	IT Reform Group within Cabinet Office	IT Reform Group took over responsibility from the Major Projects Authority in September 2011	5
Shared ICT infrastructure	CIO Delivery Board	Since March 2011, although some preparatory work started in 2008 and 2009	39 (Public Services Network only)
Centralised ICT procurement	Government Procurement Service, a trading fund of the Cabinet Office	Since March 2011 GPS replaced Buying Solutions in October 2011	45 (plus 8 vacancies)
Managing ICT suppliers as a single customer	Government Chief Procurement Officer	Since July 2010	14
Making government contracts more accessible to small- and medium-sized ICT businesses	Government Chief Procurement Officer	Since February 2011	7

NOTES

- 1 Depending on the total cost and nature of the business case the IT Reform Group may call on experts from the Cabinet Office's Major Projects Authority, the Commercial Relationships team, the Government Digital Service or the Public Services Network team.
- 2 These figures only include staff within the Cabinet Office. For example, we have not included the departmental small- and medium-sized businesses champions or staff in the Government Procurement Service working on the Public Services Network.
- 3 Staff data is correct as at September 2012.

Source: National Audit Office

1.7 Three of these initiatives form part of the government's ICT strategy. The government's Chief Information Officer (CIO) Delivery Board has been responsible for this strategy. This board is chaired by the government's CIO and attended by CIOs from five government departments as well as senior procurement, commercial, ICT and digital experts from the Cabinet Office. The initiatives are:

- **ICT spend controls.** The IT Reform Group in the Cabinet Office reviews all departmental ICT business cases in excess of £5 million. This ensures that:
 - plans comply with the government's ICT strategy and represent best commercial and technical practice;
 - departments are reusing and sharing existing assets and not buying new ICT unnecessarily; and
 - costs and technical solutions are challenged and compared between departments.
- **Shared ICT infrastructure.** This aims to prevent each department developing its own bespoke infrastructure. There are four elements to the initiative, each has had its own senior responsible officer, programme board and team:
 - data and telecommunication networks (the Public Services Network);
 - data centres;
 - end user devices (such as laptops and desktop computers); and
 - business software applications made available through the CloudStore.
- **Centralised ICT procurement.** The government aims to benefit from economies of scale by negotiating lower prices for high-volume goods and services, such as software licences or desktop computers. This is operated by the Government Procurement Service, a trading fund of the Cabinet Office.

1.8 The other two initiatives were designed to restructure the relationship with government suppliers (Figure 2). As ICT is a significant part of government procurement (some 17 per cent in 2011-12), these initiatives also impact on ICT spend.

- **Managing ICT suppliers as a single customer.** To secure better deals from its contracts, the Cabinet Office appointed a number of senior commercial experts from central government departments and the private sector to become Crown Commercial Representatives in April 2011. Their role is to negotiate with the largest suppliers as a single government customer, to reduce prices and coordinate engagement on key commercial and pan-departmental issues and opportunities. They work under the leadership of the Government Chief Procurement Officer in the Cabinet Office.

- **Making government more accessible to small- and medium-sized businesses.** The government has a target to increase the value of contracts going to small- and medium-sized businesses to 25 per cent.³ To achieve this, it has introduced a package of procurement measures, including reducing procurement timescales and advertising forthcoming work. There is a dedicated Crown Commercial Representative, who is supported by the Small and Medium-sized Enterprises team in the Cabinet Office.

1.9 This report examines only the ICT elements of these two initiatives. We expect to report separately on other government procurement savings.

Our approach

1.10 This report examines whether:

- the Cabinet Office is improving its data on ICT spend, has delivered sustainable savings and has realistic targets for future savings (Part Two);
- the ICT and procurement initiatives are delivering wider impacts beyond cost savings (Part Three); and
- the Cabinet Office is driving change and addressing challenges to further savings and reform (Part Four).

1.11 We focused our review on central government. We analysed data, interviewed key staff across government and spoke with ICT suppliers. A full description of our methods is in Appendices One and Two.

1.12 This report is one of a series of NAO publications examining how government is managing ICT-enabled change in reforming public services (Appendix Four). During early 2013, we expect to report separately on the government's:

- progress in delivering public digital services that are more responsive to the needs of the citizen and UK business;
- strategy for cyber security; and
- progress in maintaining public services which are underpinned by legacy ICT systems.

³ The Cabinet Office uses the European Union legal definition of a small- and medium-sized business being one with less than 250 employees, income of less than £41.4 million and net assets of less than £35.4 million.

Part Two

Analysis of ICT costs and savings

2.1 In this part of the report we examine:

- the government's data on its ICT spend;
- the savings government has made following its revised approach to ICT procurement; and
- the potential for savings from ICT between 2012-13 and 2014-15.

ICT spend

2.2 Government has previously relied on industry analysts to estimate its spending on ICT.⁴ In February 2012, we analysed departmental resource accounts to audit cost savings reported by central government.⁵ We updated this analysis using the 2011-12 resource accounts and estimate that the government spent £6.9 billion on ICT, including capital expenditure. However, this excludes some ICT spend in the NHS and, because HM Treasury does not require departments to identify ICT spending in resource accounts, there is variation in what departments have identified as ICT.

2.3 In December 2011, the Government Procurement Service introduced a new system to analyse government procurement spend. Departments and their arm's-length bodies provide the Government Procurement Service with data on all supplier invoices. We found the Service is applying a more rigorous definition to spending categories and this new data source has the potential to provide government with more accurate ICT spend data than in the past.

2.4 The Government Procurement Service is increasing its coverage of spending by government's arm's-length bodies. Comparable data is currently available for 17 government departments and 69 arm's-length bodies, although the NHS is not yet included. This shows the cost breakdown for £6.2 billion spend on ICT in 2011-12. Further work is needed, though, to complete the coverage of this work and ensure it reconciles to resource accounts, other published data on spending, and claimed levels of savings.

4 For example in HM Government, *Government ICT strategy – strategic implementation plan: Moving from the 'what' to the 'how'*, October 2011, paragraph 26.

5 Comptroller and Auditor General, *Cost reduction in central government: summary of progress*, Session 2010–2012, HC 1788, National Audit Office, February 2012.

Savings analysis

2.5 We examined the £702 million of ICT savings reported by the Cabinet Office for 2011-12. This includes:

- £354 million savings attributed to the ICT strategy as follows:⁶
 - £145 million from applying ICT spend controls;
 - £144 million from centralising ICT procurement; and
 - £64 million from the move to the shared Public Service Network within the shared ICT infrastructure initiative.
- £348 million savings from negotiations with ICT suppliers as part of the 'managing suppliers as a single customer' initiative.⁷

2.6 Different teams within the Cabinet Office had calculated these savings, based on data from departments and suppliers. The Cabinet Office sought assurance on the accuracy of the savings from its Internal Audit service in July 2012. Internal Audit found variability in the methods applied by different teams, with insufficient central control. Internal Audit recommended improvements to the savings reporting process, including stronger quality control by individual teams and the overall coordinating team within the Cabinet Office, use of common methods between teams, and a more critical review of departmental data provided to the Cabinet Office.

Savings attributed to the ICT strategy

2.7 We examined a sample of the £354 million savings attributed to the ICT strategy. This sample totalled £314 million and was a mixture of high-value items and a simple random sample from the remaining population. We assessed the sample to determine whether the reported amount:

- matched underlying documentation;
- was attributed to the correct year;
- was net of all implementation costs;
- was measured against a reasonable alternative spending amount; and
- was attributable, at least in part, to action by the Cabinet Office.

6 The Cabinet Office in its One year on: implementing the Government ICT strategy, May 2012, attributed £364 million of savings to the ICT strategy. This was subsequently revised to £354 million following Internal Audit review. This revised number is included in the total of over £5.5 billion for ICT and non-ICT savings published in Press Release CAB 076-12, Cabinet Office, August 2012.

7 The £348 million is part of the £437 million of supplier negotiation savings reported in Press Release CAB 076-12, Cabinet Office, August 2012.

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- was measured against a reasonable alternative spending amount; and
- was attributable, at least in part, to action by the Cabinet Office.

6 The Cabinet Office in its One year on: implementing the Government ICT strategy, May 2012, attributed £364 million of savings to the ICT strategy. This was subsequently revised to £354 million following Internal Audit review. This revised number is included in the total of over £5.5 billion for ICT and non-ICT savings published in Press Release CAB 076-12, Cabinet Office, August 2012.

7 The £348 million is part of the £437 million of supplier negotiation savings reported in Press Release CAB 076-12, Cabinet Office, August 2012.

2.8 We found that £293 million of the £314 million we examined met these savings criteria. We were unable to conclude whether the remaining £21 million met the criteria, due mainly to a lack of clear evidence. By extrapolating this sample to the full population, we estimate that £316 million of the £354 million savings attributed to the ICT strategy meet our criteria. The nature of the extrapolation means that it is subject to a degree of uncertainty. However, we are 95 per cent certain that the actual amount of savings that met our criteria is in the range £300 million to £332 million.

2.9 The Cabinet Office's Internal Audit service found that a sound evidence base existed for savings attributed to centralised ICT procurement and the move to the shared Public Services Network. It gave the ICT spend control initiative a moderate rating, meaning that there were minor weaknesses in the evidence base.

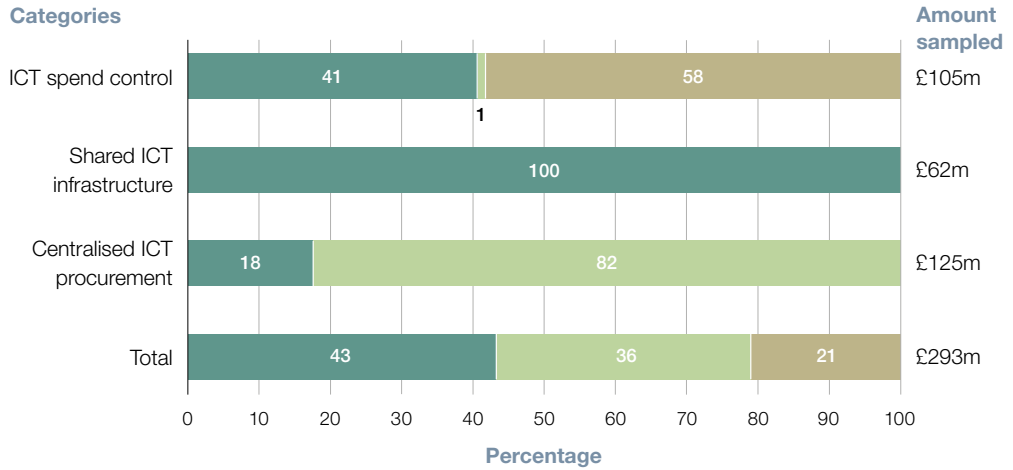
2.10 We further analysed the £293 million of savings which met our savings criteria, to assess their sustainability, as follows:

- **Long-term savings that are likely to recur for the foreseeable future.** These may result from a supplier agreeing to provide goods at a lower price, purchasing a cheaper ICT solution without affecting business requirements or changing the business model, for example reducing staff numbers, with the result that less of a commodity is required. We consider these to be the most sustainable type of saving.
- **Savings that will last for more than one year but are not open-ended.** These may result from suppliers agreeing to give a short-term, or one-off, benefit to government, or where ICT requirements are reduced by extending the use of an existing ICT asset.
- **Savings from spending that has been stopped in the current year but may be submitted for approval in future years.** Examples of this include removing contingency provision from a project, approving contract extensions for 6 rather than 12 months, or deferring a decision on a project to allow for more work on the business case. This is the least sustainable type of saving.

2.11 We found that £127 million of the £293 million of savings (43 per cent) were long-term recurring savings (**Figure 3** overleaf). All savings from the shared ICT infrastructure initiative were long-term savings but other initiatives had a mixture of short- and long-term savings.

Figure 3
Analysis of savings into sustainability categories

Of the £293 million of savings that met our savings criteria, £127 million (43 per cent) were long-term recurring savings



- Long-term recurring savings
- Savings that will last for more than one year
- Savings in current year only

NOTES

- 1 Our sample on the shared ICT infrastructure initiative is more than the total reported savings as non-sampled items are actually costs rather than savings.
- 2 Totals may not sum due to rounding.

Source: National Audit Office

2.12 By extrapolating this sample to the full population, we estimate that:

- £145 million of the £316 million of savings that met our criteria (46 per cent) were long-term savings that are likely to occur every year for the foreseeable future;
- £105 million (33 per cent) are savings that are likely to occur for more than one year but are not open-ended; and
- £66 million (21 per cent) are savings from spending that had been stopped in the current financial year but may be submitted for approval in future years.

2.13 As with our extrapolated estimate of total savings, these estimates are also subject to a degree of uncertainty. The 95 per cent confidence intervals for these are given in full in Appendix Two.

Savings from negotiations with ICT suppliers

2.14 The Cabinet Office has reported £348 million savings in 2011-12 from negotiations with major ICT suppliers. We discussed a number of these savings with the Cabinet Office and found evidence of how relationships with large ICT suppliers were being reformed to the benefit of departments and government as a whole. For example, the Cabinet Office sat alongside a major department and helped them recover significant sums following a failure of the supplier to develop software that met departmental requirements. It also helped another department get engagement from a major supplier so that a contract with many years left to run could be renegotiated. There are also a number of instances where pan-government frameworks have been put in place as a result of the action of the Crown Commercial Representatives and the team that supports them within the Cabinet Office. Lastly, the Cabinet Office has introduced a new supplier risk management policy which sets out how government will assess serious or persistent underperformance by strategic suppliers.

2.15 In 2011-12, there was a high level of turnover within the Cabinet Office team that supports the Crown Commercial Representatives. This included a change in the head of team and a four-month vacancy in the Government Chief Procurement Officer post. This meant that the same level of review was not applied to savings data collected in 2011-12 as had been applied previously. A new Chief Procurement Officer was appointed in July 2012. He has integrated the commercial and procurement teams and strengthened governance by recruiting more commercial directors onto the Commercial Relationships Board.

2.16 The high turnover in 2011-12 further weakened processes that had only been introduced in 2010-11 and had not fully matured. As a result, the Cabinet Office had insufficient data for us to validate that reported savings met our criteria. In particular, we had concerns that individual items were not always measured against a reasonable alternative spending amount, that there was some double counting with other initiatives and that some claimed savings may not have resulted from actions by the Cabinet Office.

2.17 The Cabinet Office is taking steps to improve its processes and the robustness of data collected for 2012-13. These steps include having a clearer definition of what constitutes a saving from this initiative and injecting more senior commercial expertise.

Potential for future savings

2.18 In October 2011, the Cabinet Office announced targets for savings from the ICT spend control and shared ICT infrastructure initiatives of £1.3 billion between 2012-13 and 2014-15 (**Figure 4**).⁸ These targets were approved by the CIO Delivery Board. The Cabinet Office has not published savings targets for the other initiatives.

2.19 Fifty-nine per cent of the CIO Delivery Board's targeted savings are expected to come from the shared ICT infrastructure initiative. Our analysis in Figure 3 suggests this initiative has led to more sustainable savings than the other initiatives.

2.20 On performance to October 2012, the board is likely to meet, if not exceed, the targets it has set. The Cabinet Office announced in October 2012 that, subject to audit, it has saved £410 million in the first six months of 2012-13 from these initiatives and expects to save a further £200 million by the end of March 2013.⁹ Further, data we have seen shows that, due to decisions made so far and contracts signed to date, the government is very likely to exceed the targets it has set for 2013-14. As a result, we would expect the board to review its targets soon to ensure that they remain sufficiently stretching.

Figure 4 Target savings

The Cabinet Office has announced a target of £1.3 billion of savings between 2012-13 and 2014-15 from the ICT spend control and shared ICT infrastructure initiatives

	2012-13 (£m)	2013-14 (£m)	2014-15 (£m)	Total (£m)
ICT spend controls	290	130	100	520
Shared ICT infrastructure				
Public Services Network	100	130	130	360
CloudStore	20	40	120	180
Data hosting	20	60	80	160
End user devices	10	20	30	60
	440	380	460	1,280

Source: HM Government, Government ICT strategy – strategic implementation plan: Moving from the 'what' to the 'how', October 2011

⁸ HM Government, *Government ICT strategy – strategic implementation plan: Moving from the 'what' to the 'how'*, October 2011.

⁹ The £410 million is part of the £3.1 billion published in Press Release, Government on track to save £8 billion this year, Cabinet Office, 29 October 2012.

Part Three

Wider impacts

3.1 In this part we assess how the Cabinet Office is monitoring the wider impact of its ICT initiatives. We examine the impact on the performance and quality of public services and the risk to future delivery and reform of these services. In addition, we consider the composition of the government's ICT supply chain and government's strategic relationship with ICT suppliers.

3.2 Given the fundamental nature of some of the commercial changes being worked on in departments, we did not expect to find evidence of large-scale impacts so far. We did, however, expect to see that the Cabinet Office was establishing baselines or starting to monitor the success of its initiatives beyond ICT savings.

Impact on performance of public services and risk

3.3 Indiscriminate cost-cutting of ICT risks leaving public services exposed or unprepared for the future. In December 2011, we expressed concern that the only measurable benefit defined for the ICT strategy was savings and that the Cabinet Office had not yet developed a system to measure business outcomes arising from the ICT strategy.¹⁰ In June 2012, the Institute for Government also concluded that government did not yet have appropriate ways to measure success, potentially putting cost savings over quality.¹¹

3.4 The Cabinet Office does take risk and potential impact on public service delivery into account when considering individual ICT spend proposals submitted by departments. However, departments are responsible for managing the consequences of ICT savings on the performance and quality of their public services. The CIO Delivery Board told us they have not received feedback on the strategic outcome of the IT Reform Group spending controls. Our review of CIO Delivery Board minutes found no evidence that performance or risk implications of the measures being taken had been discussed. Nor did we find any evidence that the board had discussed the impact of ICT and procurement initiatives on the government's preparedness to move to digital by default; to be transparent and to assure the security of public information and services.

¹⁰ Comptroller and Auditor General, *Implementing the Government ICT Strategy: six-month review of progress*, Session 2010–2012, HC 1594, National Audit Office, December 2011.

¹¹ Institute for Government, *System upgrade? The first year of the Government's ICT strategy*, June 2012.

3.5 We did find, however, that the Cabinet Office has committed to apply its deepening knowledge of departments' business operations, approach to ICT solutions and its forward pipeline of contracts to develop a more strategic view of risks and impacts of its ICT spend controls at a departmental level. The recent announcement that the IT Reform Group will become part of the Government Digital Service also indicates a strengthening relationship between the ICT spend control process and delivering government's digital strategy.¹²

Changing composition of government ICT supply chain

3.6 Historically, government has outsourced the majority of its systems development and operations to large single suppliers, known as system integrators. The aim was to transfer risk to large suppliers who manage subcontractors to deliver an integrated service. Under this regime, the role of small- and medium-sized suppliers has been largely limited to that of subcontractor. The Committee of Public Accounts has reported many times on departments failing to deliver value for money from long-term, often complex contracts with large suppliers.

3.7 Since May 2010, the government has sought to reduce the dominance of large suppliers and increase the number of contracts directly with small- and medium-sized businesses. The government's aspiration is for 25 per cent of all procurement, by value, to go to small- and medium-sized businesses. In 2011, the Committee of Public Accounts recommended that the Cabinet Office should encourage more small- and medium-sized businesses to become government suppliers and to set out how it would measure success in this area.¹³

Measures to reduce dominance of large ICT suppliers

3.8 To break up large contracts with system integrators, the government is introducing a new commercial model. This model increases the number of contracts that a department must manage. Rather than a single contract with a system integrator, the new model splits different types of work (for example software applications development, networks, data centres and hosting) into specific contracts which are known as 'towers'. The department also has a separate contract, known as a service integrator and management contract, which assists the government in the integration and operation of its services. Suppliers compete separately for the towers and service integrator and management contracts. As many existing contracts with large suppliers still have some years to run, the transition from system integration to service integration and management will take some time to complete.

¹² Press Release, *Liam Maxwell named as Government Chief Technology Officer*, Cabinet Office, December 2012.

¹³ HC Committee of Public Accounts, *Information and Communications Technology in government*, Fortieth Report of Session 2010–12, HC 1050, 5 July 2011.

Measures to increase prominence of small- and medium-sized suppliers

3.9 The dedicated Crown Commercial Representative for small- and medium-sized suppliers has identified ICT as offering good opportunities for these suppliers. The government has introduced a number of changes to increase the value of government contracts awarded directly to them, for example, Contracts Finder and the CloudStore.

- Contracts Finder, www.gov.uk/contracts-finder is an online information service for industry containing current and future government contracts valued at more than £10,000. Between February 2011 and August 2012, around 40 per cent of the 1,100 contracts published were flagged as being more suitable for small- and medium-sized suppliers. However, according to the Federation of Small Businesses, only 17 per cent of its members in England are aware of the Contracts Finder.¹⁴
- CloudStore, gcloud.civilservice.gov.uk/cloudstore is an online catalogue of ICT services for the UK public sector. The government expects that CloudStore will help small- and medium-sized businesses to contract directly with the public sector, as it has simplified the requirements for joining this framework. Of the 250 suppliers on the first CloudStore framework, which went live in February 2012, around 75 per cent are small- and medium-sized businesses. In August 2012, the Cabinet Office reported that 75 per cent of contracts let between April and July 2012, had gone to small- and medium-sized businesses. In its first six months of operation, government spent £2 million in the CloudStore with 27 suppliers. The second CloudStore framework went live in October 2012, with 458 suppliers, including 201 of the original suppliers from the first framework.

3.10 In December 2012, the Cabinet Office announced that in future there would be fewer large ICT frameworks, including three frameworks it was stopping immediately.¹⁵ These steps are designed to improve the competition on individual procurements and make government more accessible to small- and medium-sized businesses. The announcement followed a review commissioned in October 2012.

Impact on supply chain

3.11 Although the government is seeking to change the composition of the ICT supply chain, it does not have a reliable analysis of what it spends or with whom. Therefore, the CIO Delivery Board cannot monitor how the proportion of ICT spend is changing in respect of different sized suppliers. In May 2011, the Cabinet Office collected departmental data for 2009-10 to provide a baseline for the government's total direct spend with small- and medium-sized businesses. This was measured at 6.5 per cent or £3.1 billion. At the end of 2011-12, this figure had increased to 10 per cent or £4.4 billion. In 2012, to estimate spend with small- and medium-sized businesses who are subcontractors, known as indirect spend, the Cabinet Office asked 50 of the largest suppliers to government about their subcontract spend. Neither this indirect nor the direct spend is broken down by category, so there is no baseline for spending on ICT.

¹⁴ Federation of Small Businesses, *Local Procurement, Making the most of small businesses*, July 2012.

¹⁵ Press Notice, *Fewer government ICT frameworks to attract wider range of suppliers*, 20 December 2012.

3.12 The Government Procurement Service is in the process of classifying its departmental spend data to identify what proportion of government business goes to small- and medium-sized businesses. When complete, it will be possible to identify direct spend with ICT small- and medium-sized businesses.

Impact on strategic relationships with ICT suppliers

3.13 The reforms to the ICT supply chain are designed to impact on suppliers of all sizes, from the smallest, for example through Contracts Finder and CloudStore, to the largest, through shorter more focused contracts, lower pricing and better relationships. We held discussions with ICT suppliers, Intellect (the ICT Industry trade body) and the Federation of Small Businesses to get the suppliers' perspective on the impact of the reforms on them. We also interviewed three Crown Commercial Representatives who have responsibility for ICT suppliers, the Crown Commercial Representative for small- and medium-sized businesses and five CIOs to gain the government perspective on those relationships.

3.14 Historically, suppliers have contracted separately with each department, often charging different prices for the same goods and services. To address this costly practice, each of the 17 largest ICT suppliers is now assigned to a Crown Commercial Representative who acts as a single customer for government, negotiating the best price and terms. As well as negotiating the best prices with suppliers, the Crown Commercial Representatives manage the performance of key suppliers. The CIOs we interviewed in August 2012 had had varying degrees of involvement in the negotiations between Crown Commercial Representatives and large ICT suppliers. This ranged from CIOs having no role and not inputting information about supplier performance, to CIOs actively assisting and being part of the negotiations.

3.15 In August 2012, we held discussions with 15 ICT suppliers of different sizes to explore the impact of government reforms on supplier relationships. We compared their views with those gathered a year previously when we consulted a similar group about the ICT strategy.¹⁶ We found that on balance, participants were less positive about the new approach than those we spoke to in 2011. The suppliers we spoke to in 2012 felt frustrated by the slow pace of change and the lack of innovation being shown by departments. They felt that departments were focusing on cost-cutting rather than exploring opportunities for redesigning services; for example by putting services online as part of the digital by default agenda. All suppliers agreed that the relationship between government and industry needed to be improved and that the civil service needs to contract directly with small- and medium-sized businesses rather than through larger suppliers.

¹⁶ *Industry perspective on the government ICT Strategy*, available at: www.nao.org.uk/publications/1012/government_ict_strategy.aspx

3.16 Some suppliers considered that the balance of risk and reward for contracts in the public sector was still attractive. Others, however, identified onerous procurement practices and failure to win contracts as reasons for deciding to either pull out of the public sector market altogether, or to focus on local government. These sentiments were echoed by suppliers interviewed by the ICT analysts, OVUM, for the NAO.

“Supplying to public sector demands a great deal of adherence to stringent contractual terms and conditions, with much more emphasis on box ticking and financial credibility/stability – often requiring three years or more proof of supplying similar products and services. This is not so prevalent outside of the public sector.”

Response from an SME in OVUM research on the UK ICT industry.

3.17 Members of the CIO Delivery Board and Crown Commercial Representatives had differing views on the impact of costs savings initiatives on government's relationship with suppliers. Some reported a better service from suppliers, at least in terms of senior level supplier engagement, which they attributed to an understanding of what was required by dealing with government as a single customer. Others expressed concern that larger suppliers were resisting change, in the hope that reforms would falter.

3.18 The Cabinet Office continues to develop its approach to strategic supplier relationships. In November 2012, the Cabinet Office published a strategic supplier risk management policy which sets out how government intends to assess serious or persistent underperformance by strategic suppliers.¹⁷ Starting in December 2012, the Commercial Relationships Board is developing a risk rating for all major suppliers and intends to challenge departments to address performance concerns with those suppliers. Sharing this information means that departments can take all performance issues with government into account when considering suppliers for future contracts.

¹⁷ Available at: www.cabinetoffice.gov.uk/sites/default/files/resources/20121108_Strategic_Supplier_Risk_Management_Policy.pdf

Part Four

Drivers of change

4.1 In this part we describe the four main factors helping government to make savings in ICT and change its relationship with ICT suppliers. We also identify three challenges to delivering more savings and accelerating wider reform from the initiatives under way.

Enablers

Leadership and collaboration across government

4.2 Visible leadership has been a major enabler of the ICT savings delivered. Since May 2010, the Prime Minister, Minister for the Cabinet Office and other senior ministers have regularly given speeches to government and ICT suppliers on the need to make savings. Under the CIO Delivery, Procurement Reform and Commercial Relationships boards, leadership has been shared among senior civil servants from across the ICT, commercial and procurement professions in departments and the Cabinet Office. All three boards report to the Minister for the Cabinet Office and the government's ICT savings are due in part to greater sharing and collaboration between departments.

Critical challenge

4.3 The introduction of ICT spending controls have led to a level of commercial and technical critical challenge not previously applied to ICT across government. CIOs told us that this process had given them greater visibility of projects involving ICT across their departments and arm's-length bodies and had encouraged greater self-discipline in planning and preparing business cases. Between September 2011 and September 2012, the IT Reform Group made decisions on around 180 business cases, with a whole life cost of around £5 billion.

Building capability for reform

4.4 The Cabinet Office has succeeded in getting these initiatives under way by using the delivery expertise of departments and broadening the responsibility for change. The Cabinet Office has also recruited from outside government and raised the technical and commercial experience within its own teams.

4.5 The Public Services Network programme has direct funding through a levy on government organisations. This allows for a dedicated team of 39 to help procurement staff in departments to understand the new technological content, plan their network procurements effectively, engage the supplier market and assure the security of operational delivery.

Better information being applied

4.6 New data is helping government save money. The ICT spend data being assembled by the Government Procurement Service is being used to find spend not currently covered by a centralised framework contract. The Contracts Finder (see paragraph 3.9) and announcements which give an indication of potential ICT opportunities in the next few years, known as the Crown Pipeline, allow departments, the Government Procurement Service and the IT Reform Group to see departmental spending plans and consider any overlaps.

4.7 In addition, the IT Reform Group has a register of business cases for which departments may need spending approval in the foreseeable future. It is working to improve the quality and accuracy of this register to assist them with increasing the timeliness of departmental spending approvals. At the end of July 2012 this showed a possible 244 business cases for approval.

Challenges to further ICT savings and reform

4.8 Our analysis and interviews have identified three challenges which have emerged as the initiatives have developed. The Cabinet Office should address these as it develops its initiatives from new ways of working into business as usual.

Introducing delays and lack of systematic follow-up

4.9 The process of spending control has added another layer of review and decision-making to government approvals. We analysed data on 31 completed business cases and estimated that it took an average of 40 days from date of first submission until the IT Reform Group sought ministerial approval. In a quarter of cases we analysed, the IT Reform Group took over 90 days. Delays result from needing additional information from departments or limited capacity in the IT Reform Group. Some departments have incurred delays and costs as a result. To date, there has been little follow-up after ministerial approval. The IT Reform Group told us that while the majority of government organisations are abiding by decisions made through this control mechanism, some are not. Budgets for running ICT services and buying new technology are set at the start of the financial year. Money 'saved' as a result of input from the ICT spend controls process is not taken away from government organisations. These organisations may not monitor ICT expenditure as closely when this budget is redistributed to fund other in-house activities, services or goods.

4.10 To address these challenges, the Cabinet Office began developing a new case management system for all of its approvals processes. Once finished this may allow for better management of requests once received and earlier warning of cases likely to be received in the near future. In November 2012, the IT Reform Group reached its full complement of staff for the first time. It is working increasingly with the Government Procurement Service and other experts in networks and security, to increase the assistance to departments and their arm's-length bodies on ICT solutions which help reform of their digital services and put users at the heart.

Inconsistent messages

4.11 Figure 5 shows that the teams working on these initiatives are spread across the Cabinet Office and other government departments. This approach has harnessed broader commitment and capability to deliver the initiatives. However, it has also made it harder to ensure consistency of message and clear lines of responsibility. There is some crossover in the governance arrangements for the ICT-specific and wider procurement initiatives, and the Government Chief Procurement Officer and Government CIO sit on both the CIO Delivery Board and the Procurement Reform Board to manage this. However, some departmental CIOs have identified the risk that without better information and communication across government, managing suppliers as a single customer may damage long-established supplier relationships or public service delivery in each department. Inconsistent messages to industry and departments or an unclear government stance on specific projects or procurements could undermine credibility and progress.

4.12 At the time of our audit, the Cabinet Office was developing plans to reform its organisation, streamline governance and clarify roles and responsibilities. For example, in December 2012 the Cabinet Office assumed direct responsibility for leading the implementation of the shared ICT infrastructure initiative. It also merged the IT Reform Group into the Government Digital Service to create a single team focused on using technology to deliver transformative change.

Figure 5

Governance for the initiatives to reduce ICT supplier costs

Initiatives are supported by teams from the Cabinet Office and government departments

Commercial initiative	Lead	Departmental staff	Governance group
ICT initiatives			
ICT spend control	IT Reform Group	Procurement teams ICT project teams	CIO Delivery Board
Shared ICT infrastructure	Senior responsible owners for data centres, cloud, Public Service Network and end user devices	Programme team supporting each senior responsible owner	CIO Delivery Board Programme boards for each element
Procurement initiatives			
Centralised ICT procurement	Government Procurement Service	Procurement teams	Procurement Reform Board Extended procurement board Government Procurement Service board Procurement investment fund board
Managing ICT suppliers as a single customer	Commercial relationships team and Crown Commercial Representatives, Cabinet Office	CIOs and commercial directors	Procurement Reform Board Commercial relationships board Commercial steering group
Making government contracts more accessible to small ICT businesses	Crown Commercial Representative and small- and medium-sized businesses team, Cabinet Office	Small- and medium-sized businesses champion in each department	Procurement Reform Board

Source: National Audit Office interviews, June to September 2012

Capability and capacity gaps

4.13 Within the Cabinet Office teams that are leading the ICT reform initiatives, there are important gaps in capability and capacity that are still being addressed.

- In the shared ICT infrastructure initiative, the consolidation of data centres and business software applications have only had dedicated resources since 2012 despite being government strategy since October 2009.
- In the centralised ICT procurement initiative, the Government Procurement Service has eight unfilled ICT posts out of a complement of 53.
- In the 'managing suppliers as a single customer' initiative, six new Crown Commercial Representatives are currently being recruited with plans for a further six to be recruited soon. The Cabinet Office is also increasing the number and seniority of staff in the team that supports the Crown Commercial Representatives.

4.14 Across departments, we were also told of gaps in the capability and capacity to respond to the Cabinet Office initiatives to reform ICT. Restrictions on the use of contractors and salary caps were identified as barriers to recruiting enough staff of the right calibre. The Civil Service Reform Plan, published in 2012, sets out plans to address these skill gaps by creating a Commissioning Academy in 2013 to provide skills in managing markets, negotiating and agreeing contracts and contract management for the whole civil service.

Appendix One

Our audit approach

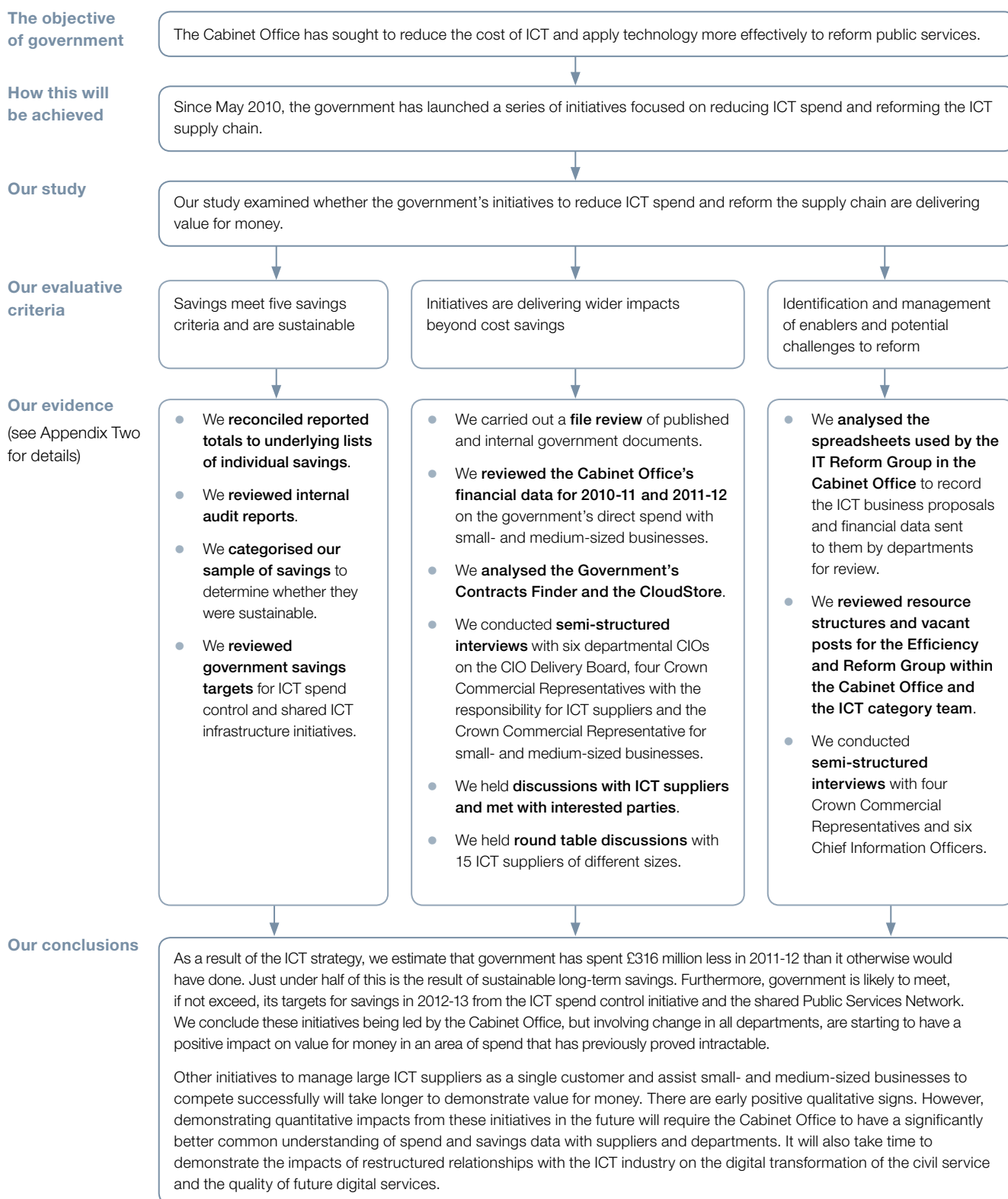
1 This study examined the measurable impact of five government initiatives on ICT spend. Two initiatives were designed specifically to make savings on ICT and the other three were formulated to make savings from government procurement as a whole, of which ICT is a significant part. We also examined the government's relationship with ICT suppliers.

2 We established how much government is improving its data on ICT spend, making the expected savings and its potential to achieve savings targets. We examined the wider impacts on service delivery, including changes to the profile of the ICT supply chain across different-sized suppliers and to government's relationship with ICT suppliers. We also identified which factors have helped government reduce its ICT costs and consider the challenges to delivering future savings and speedy reform.

3 Our audit approach is summarised in **Figure 6**. Our evidence base is described in Appendix Two.

Figure 6

Our audit approach



Appendix Two

Our evidence base

- 1 Our independent conclusion on whether five government initiatives being led by the Cabinet Office are achieving value for money was reached following our analysis of evidence collected between June and October 2012.
- 2 Our audit approach is outlined in Appendix One.
- 3 **We assessed whether savings meet five savings criteria and are sustainable.**
 - We made **a sample of £314 million of the savings from the ICT strategy and £344 million of the reported £348 million of savings due to the supplier renegotiation.** The sample was a mix of high-value items and a simple random sample from the remaining population. We analysed this sample to identify items that met our criteria, namely that the saving:
 - matched underlying documentation;
 - was attributed to the correct year;
 - was net of all implementation costs;
 - was measured against a reasonable alternative spending amount; and
 - was attributable, at least in part, to action by the Cabinet Office.
 - For the ICT strategy savings, we extrapolated the results. We did this by adding together the known amount of savings from all high-value items, and the estimated amount from lower-value items. We extrapolated from lower-value amounts by multiplying together the sample percentage of reported savings that met our criteria and the total amount of reported savings for all lower-value items.
 - All sample estimates are subject to a certain level of uncertainty. The degree of uncertainty is indicated by the approximate 95 per cent confidence interval; broadly speaking, we are 95 per cent certain that the actual amount of savings that met our criteria is in the range £300 million to £332 million. The confidence intervals (and the variance of the sample estimates on which they are based) are approximated. We have used a standard approximation which may understate the true width of the interval. No sampling of lower-value items was carried out for the shared ICT infrastructure initiative, so it is not possible to compute a confidence interval. Instead we have used the minimum and maximum estimates possible for the amount of savings from this initiative.

- We also reviewed **Internal Audit reports** by the Cabinet Office and the Government Procurement Service. We gathered evidence on the centralised ICT procurement through our **semi-structured interviews** with members of staff at the Government Procurement Service. We also gathered evidence on ICT spend controls, shared ICT infrastructure and 'managing ICT suppliers as a single customer' through meetings with senior members of staff at the Cabinet Office, including the Cabinet Office Internal Audit.
- **We further analysed those savings which met our criteria** using the following criteria to describe their sustainability:
 - **Long-term savings that are likely to recur for the foreseeable future.** These may result from a supplier agreeing to provide goods at a lower price, purchasing a cheaper ICT solution without affecting business requirements or changing the business model, for example reducing staff numbers with the result that less of a commodity is required. We consider these to be the most sustainable type of saving.
 - **Savings that will last for more than one year but are not open-ended.** These may result from suppliers agreeing to give a short-term, or one-off, benefit to government, or where ICT requirements are reduced by extending the use of an existing ICT asset.
 - **Savings from spending that has been stopped in the current year but may be submitted for approval in future years.** Examples of this include removing contingency provision from a project, approving contract extensions for 6 rather than 12 months, or deferring a decision on a project to allow for more work on the business case. This is the least sustainable type of saving.
- **We also extrapolated our analysis of the sustainability of savings.** This extrapolation was done using the same methodology as for the overall level of savings that met our criteria. It is subject to the same limitations already described. The 95 per cent confidence intervals for this extrapolation are:

	£ million		
	Estimated level	Lower bound	Upper bound
Long-term recurring savings	145	130	161
Savings that will last for more than one year	105	105	105
Savings in current year only	66	58	75

- We reviewed government savings targets for ICT spend control and shared ICT infrastructure initiatives; we did not review evidence for the other two ICT savings initiatives as this was not available.

4 We assessed the wider impacts of the five initiatives beyond cost savings.

- We carried out a **file review of published and internal documents** on the current governance arrangements for implementing the commercial initiatives to reduce the costs from ICT suppliers. This was to establish whether there was sufficient monitoring of the risks, performance and impact of the supplier reforms as a whole.
- We **reviewed the Cabinet Office's financial data** for 2010-11 and 2011-12 on the government's direct spend with small businesses.
- We undertook **analysis of the government's Contracts Finder and the CloudStore** to assess progress in opening up opportunities for small- and medium-sized companies. We then compared this data to the Federation of Small Businesses' survey of small- and medium-sized companies to establish how aware these companies are of the government's Contracts Finder.
- We conducted **semi-structured interviews** with five departmental CIOs on the CIO Delivery Board, four Crown Commercial Representatives with responsibility for ICT suppliers and the Crown Commercial Representative for small- and medium-sized businesses. This was to establish how much the Cabinet Office had an overall understanding of the impact of the £1.15 billion reduction in ICT contracts on the performance of, and risks to, key public services, on the security of public information and on large ICT suppliers. We also discussed the opportunities there are for smaller ICT businesses and how the government is increasing the value of government business awarded to smaller ICT suppliers.
- We held **discussions with ICT suppliers** and met with interested parties including Intellect (the ICT Industry trade body), the Federation of Small Businesses and the Institute for Government to collect the suppliers' perspective on what impact the reforms were having on their relationships with government.
- In August 2012, we held **round table discussions** with 15 ICT suppliers of different sizes about the government's initiatives to reform the supply chain, and compared the views expressed with those given a year ago when we consulted them about the ICT strategy.¹⁸

¹⁸ *Industry perspective on the government ICT Strategy*, available at: www.nao.org.uk/publications/1012/government_ict_strategy.aspx

5 We examined the government's identification and management of enablers and potential risks to reform.

- We analysed the spreadsheets used by the IT Reform Group in the Cabinet Office to record the ICT **business proposals** and **financial data** departments sent to them for review, to obtain figures on workflow, including volume and value of proposals considered, and duration of casework.
- We reviewed **resource structures** and vacant posts for the Efficiency and Reform Group within the Cabinet Office and the ICT category team in the Government Procurement Service, to identify capacity constraints. We also examined governance arrangements and accountability for the five initiatives.
- We conducted **semi-structured interviews** with three Crown Commercial Representatives with responsibility for ICT suppliers and the Crown Commercial Representative for small- and medium-sized businesses, and five departmental CIOs on the CIO Delivery Board to obtain qualitative evidence on enablers and risks for the five initiatives.

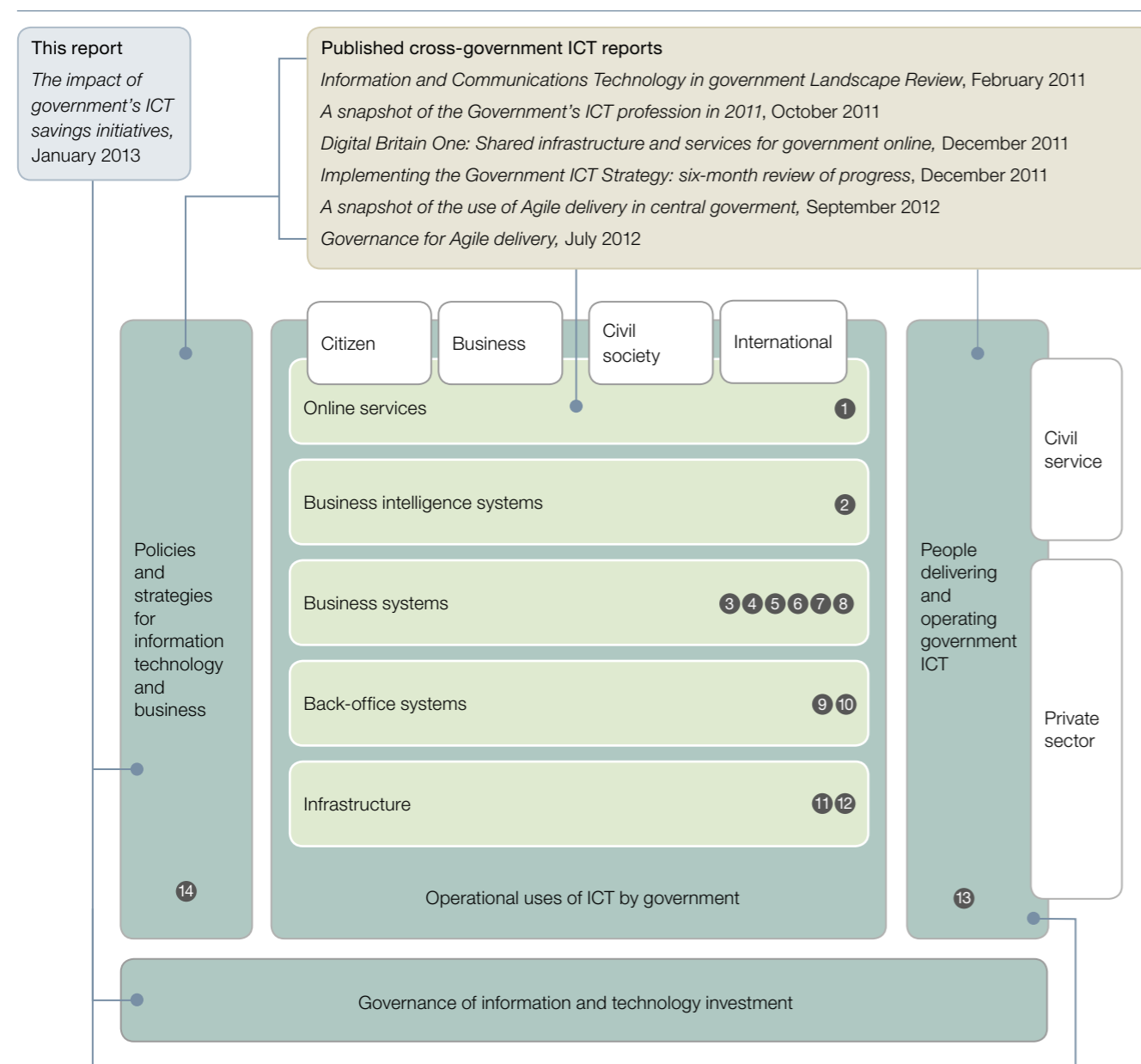
Appendix Three

Parliamentary interest in the management of ICT supply chain

Report title	HM Revenue & Customs – ASPIRE; the re-competition of outsourced IT services	Assessing the value for money of OGCBuying.solutions	Commercial skills for complex Government projects	Progress with VFM savings and lessons for cost reduction programmes	Government and IT – “a recipe for rip-offs”: time for a new approach	Information and Communications Technology in Government
Author/Date	Committee of Public Accounts, Twenty-eighth Report, June 2007	Committee of Public Accounts, Thirty-third Report, June 2007	Committee of Public Accounts, Thirty-third Report, April 2010	Committee of Public Accounts, Fourth Report, November 2010	Public Administration Select Committee, Twelfth Report, July 2011	Committee of Public Accounts, Fortieth Report, July 2011
Theme of recommendation						
Evaluating supplier performance	Departments should evaluate the performance of consultants and the lessons learned from their use, not only for their own benefit, but for that of other departments.	OGCBuying.solutions needs to improve its supplier performance monitoring system so that it gathers comprehensive customer feedback on supplier performance and relays this to suppliers to enable them to improve performance and better meet customer requirements.			Government should publish in full all contracts to enable effective benchmarking and allow external experts to suggest different and more economical ways of running its systems.	
Making cost-effective and risk-based decisions	Where departments pay bid and transition costs, they should expect to show that there was no other cost-effective way of securing competition.			Departments should include contingencies sufficient to allow for the risks that, inevitably, some individual efficiency projects will be delayed or will fail to produce the intended benefits.	Government must stop departments specifying IT solutions and ensure they specify what outcomes they wish to achieve, within the broad technical parameters to ensure interoperability.	
Reporting on the benefits of investments	The department will need to demonstrate that the benefits of its investments are achieved in practice by establishing reliable baselines and tracking the costs, service improvements and efficiency savings actually achieved.	The Office of Government Commerce and OGCBuying.solutions need to provide public sector organisations with accurate and comprehensive information on the costs of letting and managing contracts and clear price benchmarking data so that, under the principle of ‘comply or explain’, the Office of Government Commerce has reliable grounds to challenge departments where they decide to depart from ‘best deals’.		Departments should report on the financial impact of cost reduction on services, and where departments do cut service lines altogether, this should be based on a full understanding of the value that is no longer produced, in particular so that a cut in one area does not lead to additional expenditure elsewhere.		
Improving commercial skills through training and recruitment		OGCBuying.solutions should develop an action plan for training and recruitment so that it has the capabilities to convince its customers that the deals it negotiates with suppliers offer the best prices and quality of service.	Government has yet to develop an optimal strategy for building, retaining and effectively deploying commercial expertise or raising commercial awareness. The Office of Government Commerce and departments should evaluate and revise their current commercial skills strategy by October 2010.			
Opening up the ICT supplier base					When contracts and pre-qualifying questions are drawn up, government should consider what impact it could have on the eligibility and ability of small- and medium-sized businesses to apply for work, and whether separate provision should be made for small- and medium-sized businesses.	The Efficiency and Reform Group should set out what needs to be done to encourage more involvement by small- and medium-sized businesses, and how it will measure success.

Appendix Four

National Audit Office reports on government ICT



NOTE
1 For published client reports focused on ICT see opposite page for a full list.

Published client reports, focused on ICT

Online services

- 1 HM Revenue & Customs: The expansion of online filing of tax returns, November 2011

Business intelligence systems

- 2 Ministry of Defence: The use of information to manage the logistics supply chain, March 2011

Business systems

- 3 Department of Health: The National Programme for IT in the NHS: an update on the delivery of detailed care records systems, May 2011
- 4 Department for Communities and Local Government: The failure of the FiReControl project, July 2011
- 5 The Crown Prosecution Service: The introduction of the Streamlined Process, November 2011
- 6 Department for Work and Pensions: The introduction of the Work Programme, January 2012
- 7 Department for Work and Pensions: Child Maintenance and Enforcement Commission: Cost Reduction, February 2012
- 8 HM Revenue & Customs: The Compliance and Enforcement Programme, March 2012

Back-office systems

- 9 Department for Business, Innovation and Skills: Shared services in the Research Councils, October 2011
- 10 Efficiency and reform in government corporate functions through shared service centres, March 2012

Infrastructure

- 11 Department for Environment, Food and Rural Affairs: Geographic information strategy, July 2011
- 12 Home Office and National Policing Improvement Agency: Mobile Technology in Policing, January 2012

People delivering and operating government ICT

- 13 Department for Business, Innovation and Skills, Skills Funding Agency and National Apprenticeship Service: Adult Apprenticeships, February 2012

Policies and strategies for information and technology and business

- 14 Department for Environment, Food and Rural Affairs and the Animal Health and Veterinary Laboratories Agency: Improving the delivery of animal health and welfare services through the Business Reforms Programme, July 2012

Appendix Five

References for Figure 1

Reports by the Committee of Public Accounts and Public Administration Select Committee

HC Committee of Public Accounts, *The Office of Government Commerce: Commercial skills for complex Government projects*, Thirty-third Report of Session 2009-10, HC 520, 6 April 2010

HC Committee of Public Accounts, *HM Treasury: Progress with VFM savings and lessons for cost reduction programmes*, Fourth Report of Session 2010-11, HC 440, 4 November 2010

HC Committee of Public Accounts, *The Cabinet Office: Information and Communications Technology in government*, Fortieth Report of Session 2010-12, HC 1050, 5 July 2011

HC Committee of Public Accounts, *The Cabinet Office: The Efficiency and Reform Group's role in improving public sector value for money*, Forty-ninth Report of Session 2010-12, HC 1352, 11 October 2011

HC Public Administration Select Committee, *Government and IT – 'a recipe for rip-offs': time for a new approach*, Twentieth Report of Session 2010-12, HC 1724, 26 January 2012

HC Committee of Public Accounts, *The Cabinet Office and HM Treasury: Cost reduction in central government: summary of progress*, Eightieth Report of Session 2010-12, HC 1845, 27 April 2012

HC Committee of Public Accounts, *The Cabinet Office: Implementing the transparency agenda*, Tenth Report of Session 2012-13, HC 102, 1 August 2012

Reports by the Comptroller and Audit General

Comptroller and Auditor General, *HM Treasury: Progress with VFM savings and lessons for cost reduction programmes*, Session 2010-11, HC 291, 20 July 2010

Comptroller and Auditor General, *Cross-government: Information and Communications Technology in government Landscape Review*, Session 2010-11, HC 757, 17 February 2011

Comptroller and Auditor General, *HM Treasury: Progress in improving financial management in government*, Session 2010-11, HC 487, 3 March 2011

Comptroller and Auditor General, *The Cabinet Office: The Efficiency and Reform Group's role in improving public sector value for money*, Session 2010-11, HC 887, 25 March 2011

Comptroller and Auditor General, *Cross-government: Identifying and meeting central government's skills requirements*, Session 2010-12, HC 1276, 13 July 2011

Comptroller and Auditor General, *Cross-government: A snapshot of the Government's ICT profession in 2011*, 25 October 2011

Comptroller and Auditor General, *Cross-government: Digital Britain One: Shared infrastructure and services for government online*, Session 2010-12, HC 1589, 9 December 2011

Comptroller and Auditor General, *The Cabinet Office: Implementing the Government ICT Strategy: six-month review of progress*, Session 2010-12, HC 1594, 21 December 2011

Comptroller and Auditor General, *The Cabinet Office and HM Treasury: Cost reduction on central government: summary of progress*, Session 2010-12, HC 1788, 2 February 2012

Comptroller and Auditor General, *Cross-government: Implementing transparency*, Session 2010-12, HC 1833, 18 April 2012

Comptroller and Auditor General, *Cross-government: Governance for Agile delivery*, 25 July 2012

Comptroller and Auditor General, *Cross-government: A snapshot of the use of Agile delivery in central government*, 25 September 2012

Other inquiries

Cabinet Office, *Government ICT Strategy, smarter, cheaper, greener*, December 2009

The Cabinet Office, *Building the Big Society*, May 2010

The Cabinet Office, *Machinery of government changes and best practice guidance*, July 2010

HM Treasury, *Transparency agenda and guidance*, September 2010

The Cabinet Office, *Data centre consolidation*, October 2010

The Cabinet Office, *Government ICT Strategy*, March 2011

The Cabinet Office, *Government ICT Capability Strategy*, March 2011

The Cabinet Office, *Government Greening Strategy*, March 2011

The Cabinet Office, *Government End User Device Strategy*, March 2011

The Cabinet Office, *Cloud Computing Strategy*, March 2011

The Institute for Government, *Fixing the flaws in government IT*, March 2011

The Cabinet Office, *Government ICT Strategy – Strategic Implementation Plan*, October 2011

The Cabinet Office, *UK Cyber Security Strategy*, November 2011

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The Cabinet Office, *One Year On, Implementing the Government ICT Strategy*, May 2012

The Cabinet Office, *The Civil Service Reform Plan*, June 2012

The Institute for Government, *System Upgrade: the first year of the Government's ICT strategy*, June 2012

The Cabinet Office, *Digital Strategy*, November 2012

The Cabinet Office, *Open Standards Open Opportunities – flexibility and efficiency in government IT*, November 2012

The Cabinet Office, *New Public Policy Note – taking account of bidders' past performance*, November 2012

The impact of government's ICT savings initiatives

HC 887 Session 2012-13

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CORRECTION

Footnote 6 (page 22) of the report requires further clarification.

The report is unclear in stating that the revised figure of £354 million attributed to the ICT strategy was published in Press Release CAB 076-12, Cabinet Office, August 2012. The £354 million is included in larger amounts published in this press notice.

Please see the corrected footnote below:

- 6 The Cabinet Office in its One year on: implementing the Government ICT strategy, May 2012, attributed £364 million of savings to the ICT strategy. This was subsequently revised to £354 million following Internal Audit review. This revised number is included in the total of over £5.5 billion for ICT and non-ICT savings published in Press Release CAB 076-12, Cabinet Office, August 2012.

Footnote 7 (page 22) of the report was produced in error.

The report incorrectly states that the £348 million is part of the £417 million of supplier negotiation savings reported in Press Release CAB 076-12, Cabinet Office, August 2012. The correct value is £437 million.

Please see the corrected footnote below:

- 7 The £348 million is part of the £437 million of supplier negotiation savings reported in Press Release CAB 076-12, Cabinet Office, August 2012.

[BACK](#)

Footnote 9 (page 26) of the report requires further clarification.

The report is unclear in stating that the £410 million was published in the Cabinet Office's press release in October 2012. The £410 million is included in larger amounts published in this press notice.

Please see the corrected footnote below:

- 9 The £410 million is part of the £3.1 billion published in Press Release, Government on track to save £8 billion this year, Cabinet Office, 29 October 2012.

[BACK](#)



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