



National Audit Office

# Progress in improving government efficiency: lessons from case studies of efficiency initiatives

REPORT BY THE COMPTROLLER AND AUDITOR GENERAL | HC 802-II Session 2005-2006 | 17 February 2006

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# Progress in improving government efficiency: lessons from case studies of efficiency initiatives

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**13 February 2006**

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## INTRODUCTION



**1** This volume of the report contains case studies of good practice drawn from both public and private sector organisations. The good practices that are identified in the case studies cover a number of approaches but they have all had an impact on enabling the organisations involved to improve their business efficiency and the quality of services they deliver to end users.

**2** While the examples we give are specific, they draw on principles and practices that can be applied across the public sector. By successfully implementing these principles and practices, organisations in the public sector will be in a stronger position to improve the efficiency with which they operate their businesses and the quality of the services they deliver.



## CASE STUDY 1

# The Canadian Government's Expenditure Review

*In 2004, the Canadian Government undertook a detailed review of federal spending across government-wide activities and by individual departments. The review resulted in a package of measures designed to transform the way the Canadian public services operate and achieve over £5 billion of efficiency savings. It provides an international comparator that, in some ways, is analogous to the Efficiency Programme.*

### Key Lessons

An expenditure review exercise such as that undertaken in Canada is an extremely complex undertaking, requiring many conditions to be met. Our analysis and discussions with the Canadians suggest the following lessons from their experience so far:

- at the outset, public bodies should be encouraged to **eliminate or reduce activities** that are no longer needed or have become lower priority;
- the target for savings must be **seen as credible** by the public and expert commentators, set in the context of a credible delivery plan, fully supported by the Government and headed by senior public servants;
- any package of proposals for savings has to be **communicated effectively** within Government and to the public. In Canada, for instance, full details of what the savings consist of (including descriptions and targets for individual projects within each department) have been published;
- successful implementation over a number of years depends on the **right incentives** being in place from the beginning. Departments themselves were required to formulate proposals to reduce inputs by at least 5 per cent. Although there were no exceptions to this requirement, proposals were considered by the Expenditure Review Committee in the light of clear public policy criteria and, once the level of savings had been agreed, budgets were reduced accordingly;
- the **mandatory aggregation of government demand for goods and services** through a central agency (the Department of Public Works and Government Services) and other reforms spearheaded by the agency are expected to contribute nearly a quarter of the expected savings to 2009-10, demonstrating the huge scope for increased efficiency in procurement;
- **investment costs** needed to achieve the efficiency savings should be netted from the overall savings target;
- **appropriate data and information on inputs and outputs** are the backbone of an expenditure review. Without adequate systems to monitor changes in the levels of inputs and changes in the quantity and quality of outputs, it will be difficult to determine whether efficiency gains have been achieved.



**Key Statistics**

Population	32 million
Public expenditure	£102 billion
Federal Government employees	280,000
Inflation	2.6 per cent
Unemployment	6.4 per cent

**1** The Expenditure Review Committee identified net cumulative savings totalling £5.1 billion<sup>1</sup> over the five years to 2010. Just over 89 per cent of these savings (£4.6 billion) are expected to come from ongoing efficiency improvements which will release resources equivalent to around 5 per cent of annual expenditure for use in other public services. Canadian Government expenditure in 2005-06 is budgeted to be £102 billion. The review aims to:

- consolidate and streamline the purchasing of goods and services;
- modernise the management of government property assets;
- improve the delivery of federal services and programmes with “one-stop shopping” for users of public services through a “Service Canada” initiative;
- deliver changes to federal departments’ spending programmes to maximise efficiency, consistent with the delivery of improved quantity or quality of service.

**2** There are two key components to the expenditure review: government-wide efficiencies and individual departmental initiatives. **Figure 1** provides a summary of each component.

## Service Canada: improving customer services

**3** Service Canada will be one of the biggest single reforms. When completed, over a three-year period to 2008, it will:

- Bring together the services offered to the public by creating a common, integrated service delivery capability.
- Deliver a service that is easy to access and use. Canadians will be able to apply for benefit payments or other services without completing a multitude of forms and resolve any problems during a single contact with the service provider.
- Enhance the integrity of programmes by ensuring that the right client receives the right service or benefit at the right time and for the intended purpose.

### **1** Total planned net cumulative savings to 2009-10

£ million (rounded)	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Government-wide						
Service Canada	100	170	330	330	340	<b>1270</b>
Procurement	20	90	290	410	440	<b>1250</b>
Property management	60	70	80	120	130	<b>460</b>
Departments						
Administrative	50	110	170	190	200	<b>720</b>
Programme	60	100	160	170	190	<b>680</b>
Elimination/reduction of unnecessary activities	50	100	130	140	140	<b>560</b>
Other	10	30	30	40	50	<b>160</b>
<b>Total</b>	<b>350</b>	<b>670</b>	<b>1190</b>	<b>1400</b>	<b>1490</b>	<b>5100</b>

<sup>1</sup> All figures have been converted from Canadian dollars to Sterling at a rate of C\$2 to £1 (market exchange rate at 31 October 2005).

4 Operational savings of £750 million will come from technology-related investments, such as automating extensive paper processing and improving the efficiency of call centres. A further £770 million in programme savings will result from reducing overpayments. Due to the level of investment required in consolidating offices with other federal departments and other levels of government under the Service Canada “brand,” net savings will total £1.27 billion over the five years (Figure 2).

## Government-wide Procurement

5 To assess the extent to which savings could be realised, a separate government-wide review of procurement was undertaken. An inter-departmental task force interviewed major suppliers and reviewed good practice across Canada and in other countries. The Committee accepted the recommendations made by the task force, and they were incorporated in the savings proposals. Procurement costs are planned to be reduced by:

- consolidating management of procurement government-wide and leveraging buying power to obtain the best prices;
- using a single buyer to negotiate the best possible price;
- reducing administrative, compliance and reporting costs through more effective use of technology.

6 Moving towards more coordinated procurement will reduce flexibility but it does allow considerable savings to be achieved, as shown in Figure 3 overleaf.

### EXAMPLE 1

#### Persons with disabilities

A person with a disability is offered separate services by multiple federal departments, other levels of government and private organisations. Some 44 separate government programmes for persons with disabilities can be found on the Canada Benefits site.

Many of the programmes for disabled people have their own channels for delivering service, with a multitude of offices, phone numbers and Internet sites. They do not share information easily or quickly, even when they have similar information requirements. In addition, if applicants find they are not eligible for a programme, they are not always directed to other services that might be available. Service Canada will provide a “one-stop” for the delivery of services and benefits for disabled people. Citizens will be able to go to one place and get the complete set of services and benefits they need. They will only have to provide information once. They will have the choice of how they get service: in person, by phone, over the Internet or by mail.

- 7 The expected savings will be realised by:
- making it mandatory for departments to use “standing offers” negotiated by a central agency (Public Works and Government Services Canada), with any exceptions managed centrally;
  - the central agency will have the authority to negotiate for purchases on behalf of the whole of government;
  - dynamic pricing, so a contract can be reopened if prices decline in the marketplace; and
  - lower prices guaranteed by the supplier when a competitor is offering a lower price.

## 2 Forecast savings from Service Canada

£ million (rounded)	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Reductions in overpayments through improved processing	50	100	200	210	210	770
Operating costs	80	110	190	180	190	750
<b>Total savings</b>	130	210	390	390	400	1520
Investment required	(30)	(30)	(60)	(70)	(60)	(250)
<b>Net savings</b>	<b>100</b>	<b>180</b>	<b>330</b>	<b>320</b>	<b>340</b>	<b>1270</b>

### 3 Potential savings on selected goods and services

Goods and services	Potential savings (per cent)
Office supplies	34
Maintenance, repair and renovation	24
Furniture	20
Commercial software	15
IT services, overnight parcel delivery, audiovisual equipment	14
Printing, office equipment	12

8 The impacts on small and medium-sized enterprises and regions will be monitored. An office of small and medium-sized enterprises has been created within Public Works and Government Services Canada to assist such firms to access government contracts. In addition, a sustainable procurement policy will also be developed by 2006 to ensure that the federal government uses environmentally friendly goods and services wherever practical.

9 Savings through improved procurement practices will reach a cumulative net total of some £1.25 billion over five years (Figure 4). Investments will be required to fund the Government of Canada Marketplace (the tool for electronic procurement), an enhanced procurement tracking system, the establishment of commodity management teams, and the set-up of a Core Implementation Group.

## Government-wide Property Management

10 The Government employs some 280,000 public servants accommodated in 5.7 million square metres of space and is the largest single user of office space in Canada. Analysis undertaken by PWGSC has shown that the cost of managing federal property can be reduced through more efficient use of space and by more efficient management. The action plan for savings on property management includes the following:

- **Accommodation standards.** The current average level of space utilisation (over 21 square metres per employee) will be reduced to 18 square metres per employee, a level consistent with private sector benchmarks. Fit-out standards for construction, cabling etc. will also be adjusted from the current average of £200 per square metre to a Government-wide standard of £156 per square metre.
- **Inventory management.** Improved leasing strategies will make more use of lower-cost accommodation outside of major city centres and the more timely negotiation of leases at better rates from landlords.
- **Outsourcing.** Private sector expertise will be used where significantly lower fees for project costs and management can be achieved.

### 4 Forecast savings from better procurement

£ million (rounded)	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Greater use of standing offers	20	60	130	150	170	530
Negotiation of better prices	0	20	120	180	180	500
Modernisation of travel arrangements	0	30	40	50	70	190
Administrative savings	0	0	10	20	50	80
<b>Total savings</b>	<b>20</b>	<b>110</b>	<b>300</b>	<b>400</b>	<b>470</b>	<b>1300</b>
Investment required	(10)	(10)	(20)	(10)	0	(50)
<b>Net savings</b>	<b>10</b>	<b>100</b>	<b>280</b>	<b>390</b>	<b>470</b>	<b>1250</b>

**11** Net savings from improved property management will total £460 million over five years (Figure 5). Investments will be required to develop new information management systems to optimize space use and minimise cost, to provide skills development and training to perform new tasks.

## Departmental Savings

**12** The Committee reviewed departmental programmes to identify three sources of savings:

- reductions in the cost of delivering programmes (programme efficiencies);
- reductions in the overhead cost of running the department (administrative efficiencies); and
- the elimination or scaling back of programmes that have become less relevant.

**13** Departments were asked to review spending and make proposals for expenditure reductions of at least 5 per cent of their non-statutory, direct programme spending base, covering operations and transfer payments. In aggregate, this spending base was estimated to total some £21 billion. Certain types of spending were excluded from the baseline to ensure that the proposed savings were realistic and realisable. The focus was on the discretionary portion of departments' and agencies' resources voted by the Canadian Parliament. Progress in reducing budgets is being monitored by the Treasury Board, along with changes in the quality and quantity of outputs from expenditure programmes.

### EXAMPLE 2

#### Programme Efficiency Savings

**The Canada Revenue Agency** enters data manually for the processing and reassessment of personal and business tax forms. This is costly, time-consuming and prone to errors. The Agency will install a new system of coding for electronically prepared tax returns to improve service to Canadians, reduce errors and cut costs.

**The Department of Fisheries and Oceans** uses armed fisheries officers to enforce fish habitats. This is costly, often unnecessary, and viewed as excessive in some situations. The Department is modernising its approach, including greater reliance on education programmes and significantly reducing low-risk referrals. This will achieve programme objectives at reduced costs.

#### Administrative Efficiency Savings

**Natural Resources Canada** will cut costs by eliminating overlap and duplication through consolidation of its corporate services involved in information management and technology, finance, communications, administrative support and human resources.

**The Canadian Food Inspection Agency** will reduce its operating costs by accelerating the use of teleconferencing where appropriate, modernising its pay services and changing how it manages the use of its vehicles.

#### Programme Reduction Savings

**Agriculture and Agri-Food Canada** provides financial support for the promotion of Canadian products for export. It does so by supporting the sector associations and by financial assistance directly to large multinational companies. In the future, support will only be provided through the sector associations.

**The Canadian International Development Agency** provides assistance to many countries. However, some of these nations have made significant progress, to the point where they do not need further support. The Agency is proposing to reduce its assistance in such cases. In other countries, due to a variety of factors, the effectiveness of Canadian assistance may be limited, despite the Agency's best efforts. In such circumstances, it is better to channel assistance to countries with the greatest need and where support can have the greatest impact.

## 5 Forecast savings from improved property management

£ million (rounded)	2005-06	2006-07	2007-08	2008-09	2009-10	Total
Accommodation standards	20	40	50	60	80	250
Inventory management	20	20	30	40	40	150
Outsourcing	0	10	10	30	40	90
Deferred capital expenditure	20					20
<b>Total savings</b>	<b>60</b>	<b>70</b>	<b>90</b>	<b>130</b>	<b>160</b>	<b>510</b>
Investment required	(10)	(10)	(10)	(10)	(10)	(50)
<b>Net savings</b>	<b>50</b>	<b>60</b>	<b>80</b>	<b>120</b>	<b>150</b>	<b>460</b>

14 The package does not represent standard across-the-board cuts. In making its decisions, the Committee applied a number of criteria, for instance, regional and gender impacts. The Committee also took care to assure itself that the package as a whole did not have negative effects in important areas of public policy (for example, science, environment and official languages).

15 The final departmental savings package totals nearly £2 billion over five years, with the vast majority of savings resulting from around 80 individual projects to improve programme and administrative efficiencies. A summary list of savings by the main areas of expenditure is at **Figure 6**.

16 The Expenditure review savings are to be reinvested in new federal programmes and priorities. This implies that the overall size of government remains stable and should not lead to significant reductions in total federal employment. To the extent that there is a mismatch between the skill requirements for old and new programmes, there are likely to be some impacts. In preparing its proposed savings package, the Committee undertook an extensive analysis of the consequences for federal employment. Taking into account attrition rates, opportunities for retraining, and replacing term workers with full-time employees declared surplus, the net jobs impact over five years was estimated to be about 3,000 posts or one per cent of the current level of employment.

## 6 Major departmental savings by area of expenditure

	£ million
Defence	320
International development	230
Revenue collection	220
Agriculture	200
Health	140
Other	860

17 Following a two-year study led by the Canadian Treasury Board, proposals are being considered for Government departments and agencies to share corporate services (such as human resources, financial services, computer support and managing office supplies) to a much greater extent than had been the case before. The extent to which further efficiency savings and headcount reductions will be targeted has yet to be estimated.

## CASE STUDY 2

### General Electric’s in-house shared services function

*Like the UK public sector, GE had developed separate support functions across its diverse activities. Against a background of advances in communications technology in the late 1990s, the development of shared corporate services across subsidiary companies within GE made economic sense. Having concluded there was no credible third party to provide such services, GE developed an in-house capability through a new subsidiary, General Electric Capital International Services, rebranded as Genpact in September 2005. The restructuring has enabled GE to claim running cost savings of more than £175 million a year. At the same time, GE businesses and other organisations are benefiting from shared services offering more accurate, timely and consistent support.*

#### Key Lessons

For each of the stages in switching to shared corporate services, we have drawn out three lessons based on the GE experience:

##### Establishing a master plan

- Focus the project on what customers want.
- Identify a clear vision of success.
- Establish a robust performance measurement system.
- Consider using techniques such as Six Sigma to quantify output standards.

##### Making the transition

- Achieving buy-in from staff is critical.
- Big changes need realistic timetables.
- Progress should be closely monitored.

#### Driving improvement

- Analyse performance continuously.
- Create centres of excellence.
- Introduce good practice networks.

#### Key Statistics

- Founded by Thomas Edison in 1878.
- Multiple diverse businesses, from power stations to credit cards.
- Operates in more than 100 countries.
- More than 300,000 employees.
- £90 billion turnover (2004).
- Market capitalization of £218 billion (December 2005).

## The challenge: improve quality and secure cost savings

1 Like the UK public sector, GE had developed separate support functions across its diverse activities. Against a background of advances in communications technology in the late 1990s, the development of shared corporate services across subsidiary companies within GE made economic sense. But the company did not see the exercise as being simply about reducing costs. GE was determined to combine significant cost reduction with radical improvements in quality.

## The solution: General Electric Capital International Services

2 Having concluded there was no credible third party to provide shared corporate services, GE developed an in-house capability through a new subsidiary, General Electric Capital International Services ('GECIS') rebranded Genpact in September 2005. GE aimed to move away from regarding staff in support functions as an overhead to them having roles at the front line of their own businesses.

3 Today, Genpact provides a global network of support centres providing all of GE's businesses with corporate services including:

- Finance and accounting.
- Customer service.
- Supply chain management.
- Sales and marketing analytics.
- IT services.
- Document management.

4 The restructuring has enabled GE to claim running cost savings of more than £175 million a year. At the same time, GE businesses are benefiting from shared services offering more accurate, timely and consistent support.

5 Benefits delivered through process improvements are measured by financial savings and improvements in service quality. Examples of benefits GE believes Genpact to have secured include:

- Fewer bad debt write-offs saving more than £200 million within 6 months.
- Client settlement process simplified from 46 to just 7 steps.

- Billing cycle reduced by 50 per cent boosting cash flow by more than £100 million.
- Created a purchase likelihood model for predicting customer behaviour which increased annual revenue by £15 million.

## How did GE go about it?

6 GE's roadmap to achieving its objectives consisted of three stages:

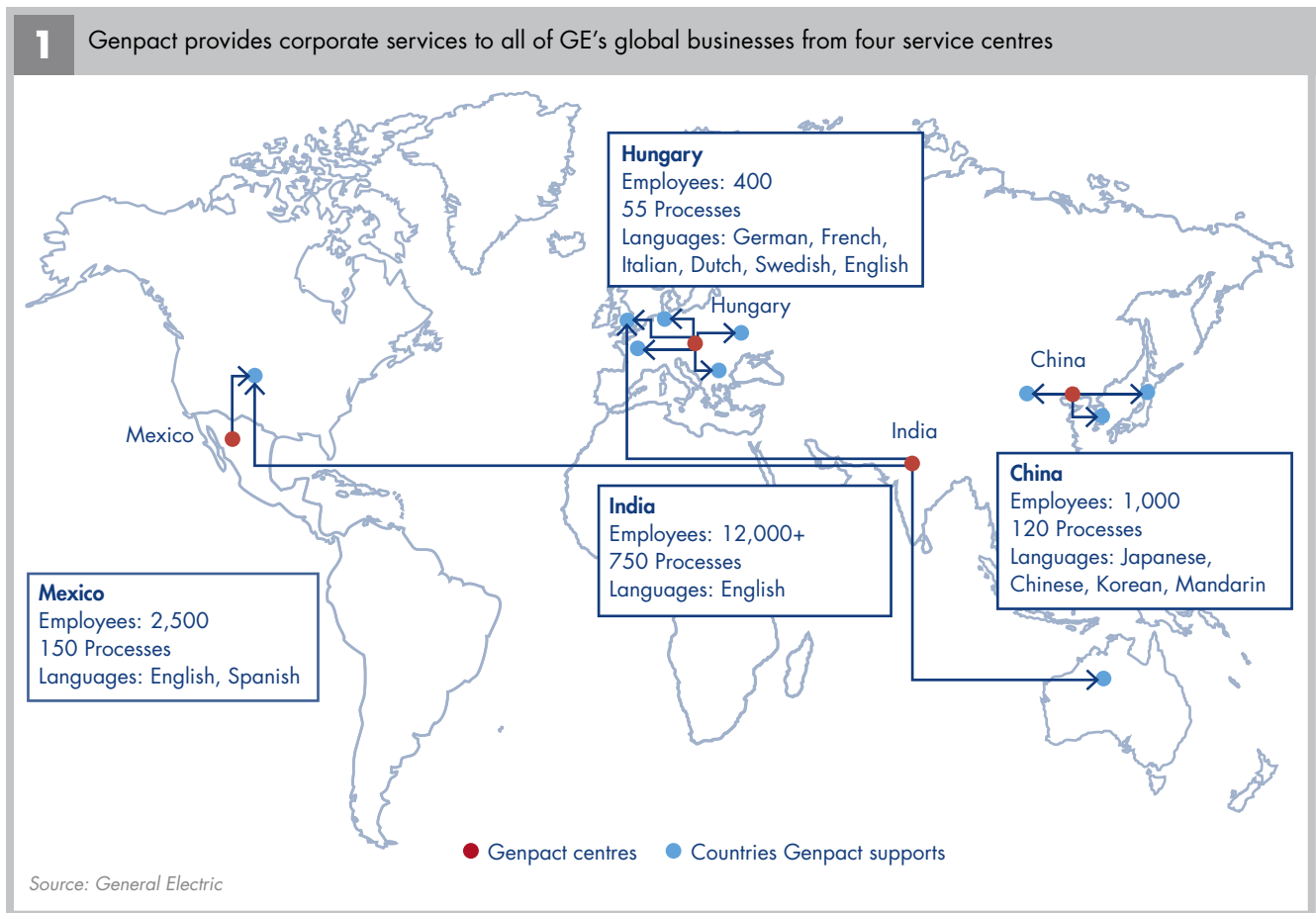
- Establishing a masterplan.
- Making the transition.
- Driving improvement.

### Establishing a Master Plan

7 Given the risks involved to GE in reforming its corporate services, the company had to be sure it could control the speed and direction of change before embarking on the programme of reform. To do this the company created its Master Plan designed to:

- **Focus the project on what customers wanted** – By examining what mattered to customers of support functions, GE was able to identify the full potential for reform. The company used Six Sigma techniques (see Figure 2) to go beyond simply reducing duplicated activities. New services would be simpler and more reliable, delivered to satisfy what matters most to the customer.
- **Identify a clear vision of success** – The Master Plan had a clear vision for the company's future for which the chairman demonstrated complete support. While being careful to ensure employees felt they could still contribute to the direction of the programme, it was compulsory from the start that all GE businesses would use the consolidated support functions. Having an unambiguous strategy from top-level management meant the project was more likely to lead to irreversible change.
- **Establish a robust performance measurement system** – Genpact had a well-developed performance measurement system from the outset with clearly defined baselines against which progress could be measured. GE felt it was essential that reliable and timely data on inputs and outputs should be available from the start of the project.





### Making the transition

**8** Once GE had decided what it wanted to achieve, the company began the transition phase. Its approach was underpinned by three guiding principles; achieve staff buy-in, be realistic about the timetable for change and track performance.

**9** Achieving buy-in from staff is critical – GE recognized that the effectiveness of a change programme depends on whether employees accept the reforms. GE captured this in a simple formula:

$$\text{Quality of solution} \times \text{Acceptance} = \text{Effectiveness}$$

**10** The initial communication about the changes must be honest and consistent. From experience GE believes a person's first question is not "why is this change happening?" but rather "what is going to happen to me?" By communicating openly GE aimed to minimise the impact on those who would lose their jobs and reassure those who would be retained.

**11** As changes occurred GE was careful to manage staff morale. To do this the company adopted a range of initiatives including:

- Large-scale 'round table' events which encouraged open dialogue to understand the emotional needs of retained staff.
- Showcasing early achievements from the project.
- Ensuring divisional budgets included extra funding from the centre of the GE group to help make the changes required.

**12** Big changes need realistic timetables. Such was the scale of the changes involved in the project, GE had to make sure that transition plans were realistic and avoided any aggressive "ramp-up" of the programme, which could put successful implementation at risk. Instead, the company carried out a programme of phased migration which included early wins for relatively easy and scalable processes. In a company as complex as GE, any attempt to bring about radical changes over a very short time period would struggle, given the need to work with rather than against organisational culture.

**13** Progress should be closely monitored – senior managers within GE had access to robust performance reports on the project’s progress. This allowed them to understand where the project had reached, address areas of concern and raise morale by highlighting success. The transition stage was broken up by three ‘Tollgate’ reviews. These Tollgates act as ‘circuit breakers’ and are designed to give complete visibility and control of the project to the customer. Without the customer’s formal sign-off, the project could not proceed to the next stage.

## Driving improvement

**14** Within Genpact its steady-state is one of continuous self-analysis and improvement:

- **Analysis of performance.** Genpact remains committed to measuring its performance using Six Sigma techniques. There is a dedicated analytics team which focuses on improving the quality of services provided by Genpact, thereby improving the operational Sigma scores.
- **Centres of excellence.** The overall size of Genpact has enabled it to establish centres of excellence providing services which were not possible when support functions were devolved to the divisional level. The specialist accounting function, for example, provides GE businesses with analytical services to a degree of sophistication previously unavailable.
- **Good practice networks.** Genpact shares good practice on a regular basis. The existence of reliable and timely performance information allows the company to do this with confidence and while the good practice can still have an impact.

### GE has sold 60 per cent of Genpact to two private equity firms

GE has sold 60 per cent of its stake in Genpact to two private equity firms. While retaining 40 per cent of the shares in Genpact, GE remains represented on its board and has recently signed an 8-year contract with Genpact to continue to supply corporate services to GE businesses. However, Genpact now offers its services to companies outside of GE.

## 2 Six Sigma methodology

Six Sigma is a data-driven approach to managing variations in performance that cause an organisation not to meet the needs of its clients.

Six Sigma can be used in the design of new processes or as a way of improving existing processes that are underperforming.

For existing processes Six Sigma recommends the following steps:

- **Define** goals that are consistent with customer demands.
- **Measure** current performance of the process.
- **Analyse** the gap between current and desired performance.
- **Improve** the process based on the analysis performed.
- **Control** the improved process, ensuring variances are corrected before they result in defects.

A process is regarded as ‘Six Sigma’ if it produces less than 3.4 defects per million opportunities where defects are defined as unacceptable deviations in a product or service.

## CASE STUDY 3

# Reform of the German Federal Employment Agency

*With unemployment close to 5 million, developing an effective employment agency is a critical issue for the German economy. Since 2003, the country's Federal Employment Agency has been meeting this challenge by transforming its services to increase efficiency and better meet the needs of the people it serves. The results so far have been impressive for both those looking for jobs and employers wanting to fill vacancies.*

### Key Lessons

- Invest in understanding what is going wrong, and find out what is working well in similar organisations.
- Create a clear vision of success to which everyone recognises they have a contribution to make.
- Lead by example – headcount at head office was reduced from 1,200 to 400.
- Where possible, devolve responsibility for change to those delivering the services.
- Make it difficult for change to be reversed by redesigning roles and physical environments.
- Develop transparent performance management systems and regular benchmarking to incentivise continuous improvement.

### Key Statistics

- Administers unemployment benefit and matches unemployed people to employers' vacancies.
- Employs more than 90,000 staff across 600 locations.
- Annual budget of £35 billion.
- 178 local agencies.

## The reforms have led to drastic improvement in performance in even the toughest labour market conditions

**1** Unemployment has been especially high in eastern parts of Germany since the early 1990s. The experience of the city of Halle in Saxony-Anhalt is typical of many eastern towns and cities. Having seen its chemicals industry collapse following Germany's reunification, the city has endured unemployment persistently above 20 per cent.

**2** With 54,000 people registered as seeking work and often only 1,000 vacancies in the immediate area, even the most efficient of job centres would never be able to solve unemployment without an upturn in the local economy. However, having been selected as one of ten pilots for the reforms across the Federal Employment Agency, the city's employment agency demonstrated how reforming working practices can deliver significantly better services without additional funding. Six weeks after the beginning of reforms:

- average waiting times for customers had fallen by approximately 40 per cent.
- every new client was able to book an appointment within 10 days.
- 80 per cent of jobseekers felt that after their first consultation they had a clear understanding of what they needed to do to get back into employment.

**3** The impact is reflective of the reforms across the whole of the Agency. Today, all of the 180 local agencies across Germany have been through the process of change in order to improve the quality of their services. Crucially, improved performance has been accompanied by a reduction in the Agency's budget for active labour market interventions; the budget fell from £14.7 billion in 2003 to £13.2 billion in 2004.

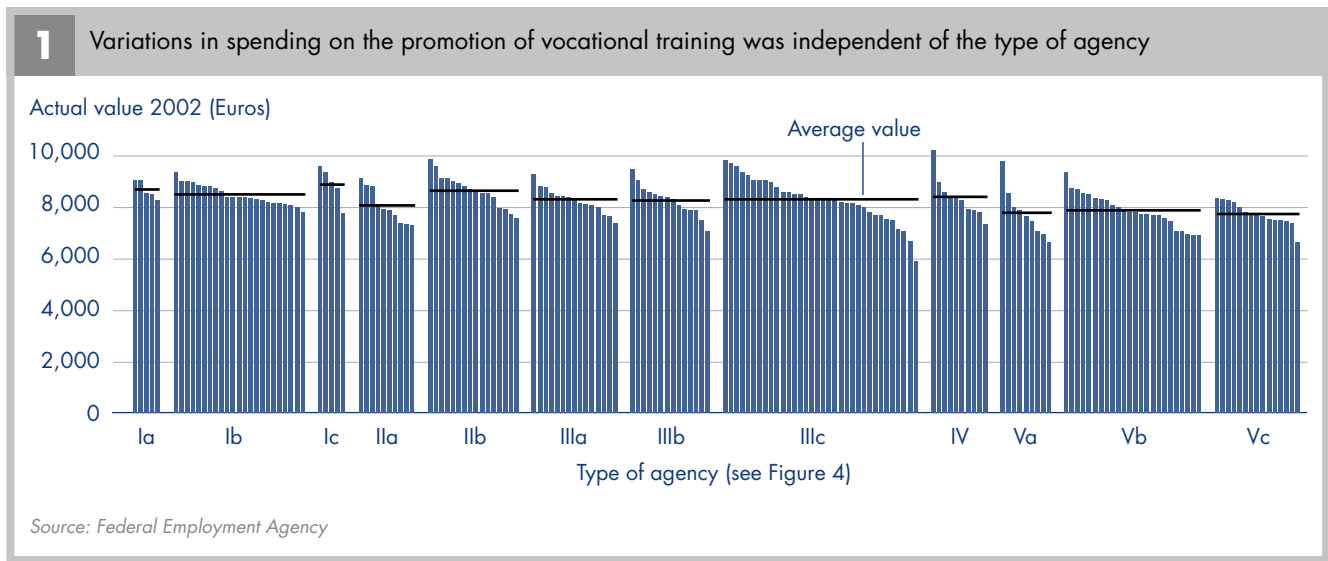
## The Agency invested considerable time and resources in gathering information on how the organisation was working

**4** Although there was clear dissatisfaction among staff, jobseekers, employers and the general public with the performance of the agency, the Agency was not sure what needed to be changed. According to Frank-Jürgen Weise, Chairman of the Agency's Board:

*"We had an organisation through which EUR 50 billion passed, but had little clarity about the use of funds or results of our efforts".*

**5** The Agency established The Academy, consisting of external advisers and experienced employees from all operational roles. Housed in its own complex for six months, its initial goal was to establish what was going wrong. Its findings were unforgiving:

- **The Agency was not focused on needs of customers**
  - Jobseekers were being served by an inadequate proportion of the Agency's resources; the proportion of the Agency's workforce consulting with jobseekers and matching them to vacancies was too low.
  - Employers were served little better. The quality and quantity of CVs put forward by local agencies varied arbitrarily and the process took too long. Instead, they wanted a quick, reliable service which provided them with a manageable number of possible candidates for vacant positions.
- **Costs for employment and training measures varied significantly across local agencies.** Even when labour market conditions were taken into account, local agency spending varied significantly. **Figure 1** demonstrates the variations in expenses relating to the promotion of vocational training and retraining. By collecting this information, poor performing offices could understand the potential for reform.
- **The layouts of local agency offices were not fit for purpose.** The local agencies' buildings were neither welcoming to customers nor functional for staff.



**6** As well as looking internally to establish what needed to be changed, the Academy benefited from looking to other European employment agencies to learn what aspects of proven good practice could be adopted in Germany. The redesign of roles performed by staff in local agencies was inspired by the reforms undertaken by the Job Centre Plus model in the UK. The financial control policies introduced arose from the experiences of the Austrian employment agency.

- prioritising communication with employees on issues surrounding the reforms e.g. through the Agency’s intranet and each local agency’s Change Ambassador; and
- demonstrating the reforms were to affect the whole of the organisation not just those at the front line. Leading by example, the head office in Nuremberg was reduced from 1,200 people to 400.

## Senior management made sure all 90,000 employees understood the importance of the reforms

**7** The Agency needed to demonstrate the importance of the reforms to the future of the organisation. Only with everyone’s engagement and belief in the potential for change, could the Agency capitalise on the opportunities the diagnostic exercises had revealed. The management team did this by:

- having a clear timetable for change which showed the ambition of the reforms and made it apparent everyone would be affected;
- encouraging a change in how the Agency perceived the people served by the organisation catered for. The unemployed became ‘customers’ and the Agency regarded as a ‘service’ rather than an ‘institution’;

## Responsibility for delivering the reforms was devolved to local agency managers

**8** The Agency believes giving local management full entrepreneurial responsibility for change accelerated the pace of reform. As **Figure 2** explains, rather than imposing one-size-fits-all solutions on agencies, head and regional offices worked to support local agencies through establishing the strategic goals of the organisation and developing guidance for particular scenarios. For example, consultants at a regional level could guide a local agency through a process called ‘integrated choreography’. This involved initial visions for reform being established at a management level within a local agency before being tested in workshops of job agents and support staff. The workshops would ensure employees at all levels felt ownership of the changes and that policies for change were based on the particular circumstances of a given local agency.

## 2 The different tiers have clear responsibilities for driving change across the Agency

### Head Office focuses on strategy

- Sets the business strategy rather than prescriptive instructions
- Develops guidance for key roles at regional and local levels
- Regulates performance within the limits of budgets and regional contexts

### Regional offices challenge performance and offer support

- Provide guidance on standard products and programmes
- Reconcile performance to agreed targets on monthly basis
- Verify agency performance using transparent control processes

### Local agencies have become operational branches

- Make effective use of available support
- Have responsibility for achievement of agreed targets
- Prioritise core Agency tasks, e.g. advice and placement

## The Agency designed the reforms to be sustainable

9 Just as the Efficiency Programme in the UK is aiming to embed efficiency into operations for the long term, the Federal Employment Agency planned reforms in such a way to make it likely they would permanently improve the efficiency of the organisation:

- **Processes were redesigned to best meet the needs of customers.** As the diagnosis exercise had shown, job agents were spending too little time with jobseekers. One of the problems was that interviews were often disrupted by an agent's telephone. This has been overcome by directing telephone enquiries through a local agency's service centre, leaving the job agent free to spend more uninterrupted time with jobseekers.
- **Physical layouts of local agencies have been transformed.** Although the Agency did not have the funding to rebuild its network of offices, refurbishing local agencies was made a priority where necessary. Partly to help change the mindset of employees in demonstrating the permanence

of the reforms, the physical changes help enforce the change in operational processes. As **figure 3 overleaf** shows, new reception areas in agencies now control the flow of people through the office, making sure that jobseekers only see job agents when it is appropriate. Minor issues, such as changes to appointment times, can be resolved at a local agency's front desk.

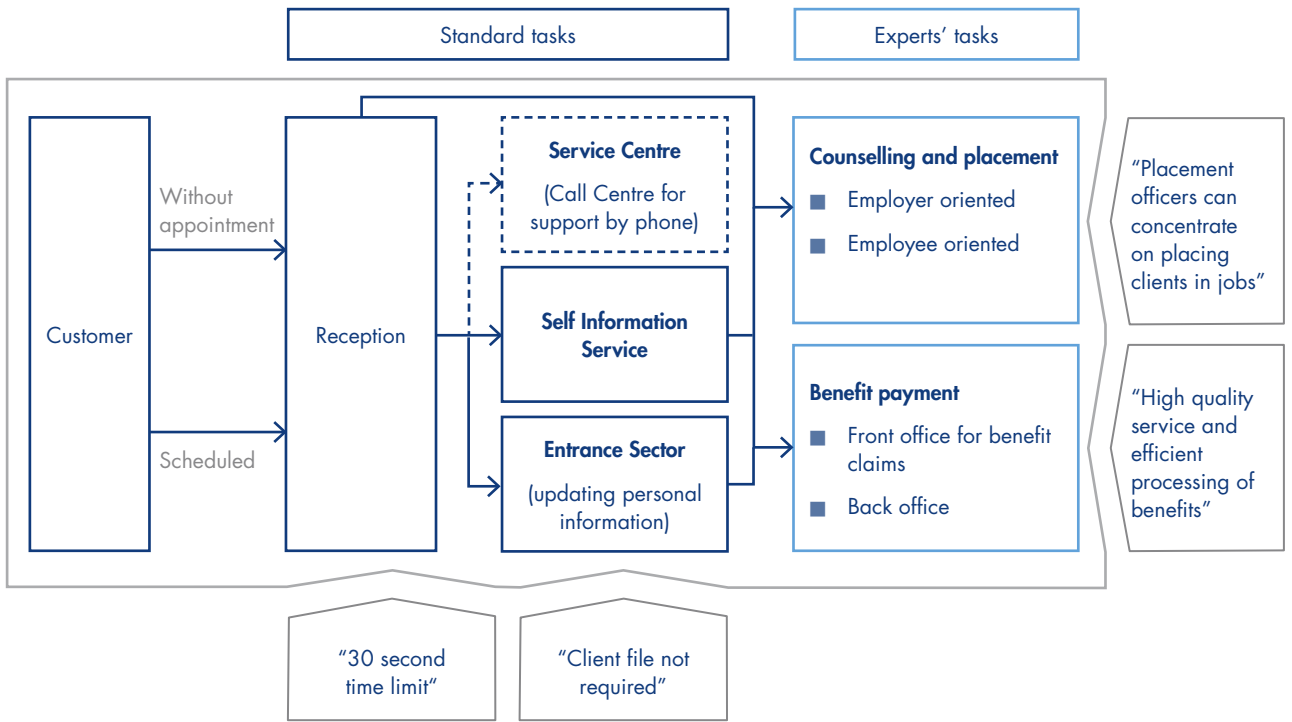
## Continuous improvement is ensured through a transparent performance management system and regular benchmarking

10 The new structure uses benchmarking to rate how local agencies are performing against a number of performance indicators. As shown in **Figure 4 overleaf**, local agencies have been classified according to the nature of labour market conditions they face; whether the agency is in a rural or urban environment, whether there is high or low unemployment. By comparing agencies operating in similar environments, the regional and head offices have better visibility of how well local agencies are being managed given their particular circumstances. More importantly, the agencies themselves know where they need to improve performance.

11 At the employment agency in the Bavarian town of Würzburg, this added transparency is motivating staff to ensure their office compares well against its peers. Tables and graphs based on key performance indicators are displayed at the staff entrance. As Ernst Röhner, the agency's manager, explained, "This has made employees feel more involved in the success of the agency."

12 However, understanding how other agencies are performing also provides the opportunity to seek out ideas of good practice. With testing targets for his agency being agreed each year, Ernst Röhner welcomes any information available on what is working elsewhere. "Discussing the detail of performance each month with our regional office focuses our attention on areas we can improve. They are in the position to put forward ideas of how to do things differently. We can then decide which reforms to adopt. But this can only happen if there is information on what is happening at our office and across the Agency as a whole."

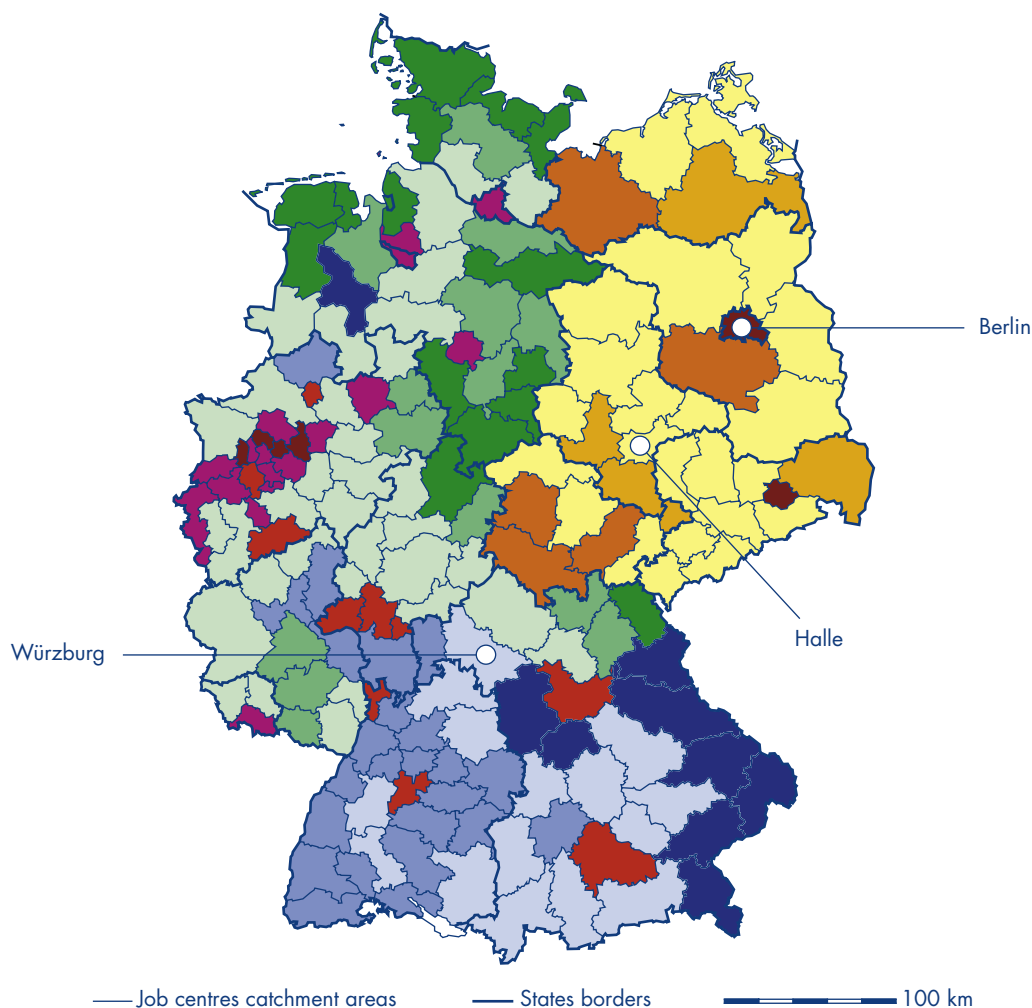
**3** New client centre's work-flow organisation



Source: Federal Employment Agency



4 Comparability between employment agencies established



- Type Ia      Districts in eastern Germany with very poor labour market conditions
- Type b      Districts in eastern Germany with poor labor market conditions
- Type Ic      Districts in eastern Germany with high unemployment, some bordering western Germany
- Type IIa      Urban districts with high unemployment
- Type IIb      Largely urban districts with moderately high unemployment
- Type IIIa      Mid-size cities and rural areas with above-average unemployment
- Type IIIb      Rural districts with average unemployment
- Type IIIc      Largely rural districts with below-average unemployment
- Type IV      Centres with favourable labour market dynamics
- Type Va      Rural districts with favourable labour market and high seasonal dynamics
- Type Vb      Favourable labour market based on small to medium sized enterprises
- Type Vc      Districts with most favourable labour market dynamics

Source: Federal Employment Agency

## CASE STUDY 4

# British Telecommunication's outsourced human resources function

*Since its privatisation in 1984, BT has transformed its Human Resources (HR) function. A key stage in this process was the signing of an outsourcing arrangement in 2000. Aspects of BT's experience will be relevant to any public sector body looking to improve its efficiency through reform of support functions.*

### Key Lessons

- **BT has demonstrated how centralising and standardising support functions can help streamline bureaucratic organisations.** In 1991, of the company's 250,000 employees, 14,500 worked in HR. Today, BT's 102,000 employees are supported by 1,000 HR staff, including those outsourced to Accenture.
- **Outsourcing can include more than basic transactional processes.** The partnership involves more than Accenture administering routine transactions. Accenture is responsible for services ranging from recruitment to employee counselling services.
- **Quality of service can be improved at the same time as achieving efficiency savings.** BT benefits from continuous cost savings at the same time as enjoying enhanced HR capabilities.
- **BT has managed the relationship with Accenture using 'live' performance reporting and external benchmarking.** Senior management at BT routinely monitor the progress of the Accenture relationship through regular performance and customer satisfaction reports.

## The HR transformation

**1** Within BT's transformation, HR was crucial; there was a high ratio of HR staff to employees and services needed to be improved. The transformation has been a series of consolidations:

- **Pre-1984:** HR administration was spread across more than 100 locations, encompassed 46 bespoke HR systems, using more than 30 employee help lines.
- **1991:** BT restructured from its geographic focus to customer-centric functional units. HR followed with a rationalization of its transactional services to nine key sites with a consolidated HR system portfolio.
- **1995:** BT combined its training capability and HR services into a single unit.
- **1997:** BT launched the beginnings of the HR strategy we see today. An internal transactional service was created to:
  - develop basic transactional services to deliver better quality, faster with higher productivity;
  - improve career development opportunities for BT employees in HR and Development Services;
  - focus HR unit input on business issues and the longer term strategic agenda; and
  - create a platform with potential to become a stand alone subsidiary, joint venture or separate business entity.

## Decision to outsource

*"While the steps we took in the 1990s made us leaner and more cost effective, we knew we needed something different if we were to take our transformation to the next level."*

Denis Reay, Former BT Group HR director,  
Performance and Services

**2** BT recognised that they needed a partner as HR services were not their core business and expertise could be harnessed from elsewhere. As a result, in 2000 BT outsourced its transactional HR functions to Accenture. This aimed to:

- improve cost efficiency and customer satisfaction;
- optimise the pace of change; and
- commercialise HR transformation knowledge to compete and win in the new market place for outsourced HR activities.

## EXAMPLES OF SERVICES

### Total Health Management

The Total Health Management scheme aims to improve employee health and well being and reduce absenteeism costs. On the one hand, individual cases are handled consistently according to how long employees have been absent for. However, the scheme also remains flexible enough to respond to events affecting employees' circumstances. Underpinned by a toolkit for managers, THM has enabled BT to provide much more regular support to absent employees.

The scheme has delivered £15 million of savings over three years and reduced absences by 20 per cent in its initial 2 years. Absenteeism in the year to February 2005 was 2.7 per cent, down from 3.81 per cent before the start of THM. There is also the non-cashable gain of more healthy staff being at work for more time, leading to increased productivity.

### Newstart

In 2004 the outsourcing relationship enabled BT to handle more than 1,500 voluntary redundancies over three months. BT would not have had the capability to do this alone. At the end of January 2004, senior management decided to bring forward to the current financial year a voluntary redundancy scheme planned for the following year. Between mid February and 31 March the Newstart project received 10,000 calls to a specially set up helpdesk, provided 40,000 estimates of benefits that people could receive under both the existing and new terms and processed 2,220 cases. An additional 500 cases were processed for people to leave during April 2004.

**3** Accenture revamped the technology platform so it was flexible enough to suit a wide variety of customers, but also sufficiently developed to provide a low cost alternative for companies looking to take their first step into HR enterprise software solutions.

**4** Initially this was a 50:50 joint venture. This would allow BT to retain the capability to determine the strategic people agenda with a secure base of transactional services behind them, while maintaining some control over this function, and the opportunity to formalise the partnership through working together. This was helpful given the pioneering nature of this project. In spring 2002, BT sold its position in the joint venture to Accenture, turning it into a 100% outsourcing relationship – Accenture HR Services.

### The services outsourced

5 Although BT has retained strategic HR issues in-house, the activities outsourced to Accenture go beyond routine transactions. The services include:

- **Recruitment Services:** ranges from relocation administration, sourcing, selecting, hiring, resourcing administration and recruitment.
- **Customer Services (Peopleline):** provides a single point of contact for BT’s managers, retained human resources functions, employees and former employees available through e-mail and telephone.
- **Employee Self-Service:** allows employees at all levels to access information via the web and perform a number of HR functions such as managing personal data, enrolling for benefits, raising queries and viewing job information.
- **Pay and Benefits Services:** includes basic and variable pay administration, compensation notifications, benefits administration and pension administration services.
- **Counselling Services:** includes employee assistance programmes and grievance management.
- **Performance and Health Services:** includes absence management, discipline, and performance management; occupational health screening, triage and safety consultancy.

6 Accenture deliver these services through collaboration with BT to accommodate the needs and characteristics of their business operations and people, using a customer focus model.

### Retained HR

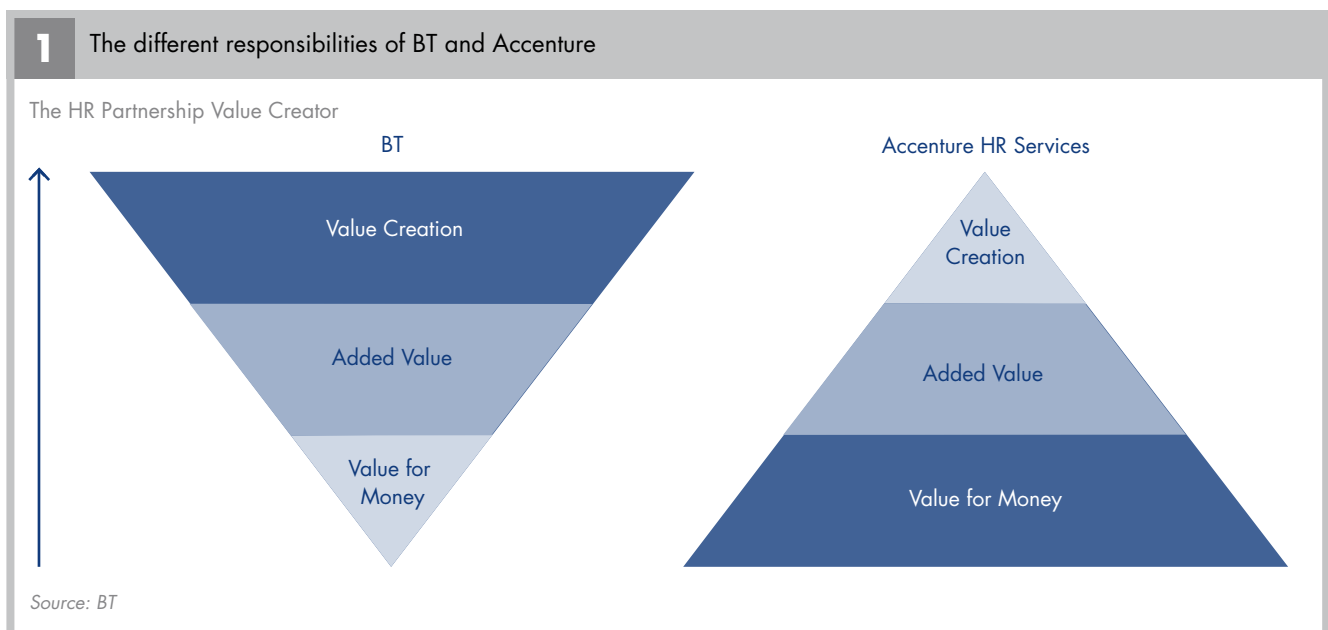
7 As **Figure 1** illustrates, the relationship between BT and Accenture allocates roles on the basis of who will deliver most for shareholders. BT concentrates on creating value through strategic leadership of HR issues. Meanwhile, Accenture has been allocated those roles where it can deliver better value for money than the in-house alternative. For example, with discipline management, the case management is performed by Accenture, but BT retains the authority on any final decisions. As the relationship has developed, roles performed by the two parties have changed.

Two years after the original outsourcing, BT’s retained HR function reduced by 15 per cent in the first two years of outsourcing.

### How was this done?

8 Accenture HR services employ several principles to achieve results:

- **Standardisation:** In this way the HR solution aims to make systems more accessible to more people in more locations and facilitates easier and cheaper support and maintenance.
- **Integration:** BT and Accenture work together to provide services using a ‘one-stop’ HR contact centre with a single point of coordination.
- **Centralisation:** Through the use of specialised service centres, Accenture delivers HR services to BT’s workforce. Centralisation helps standardise processes, pool expertise and reduce costs.



- **Empowerment of the individual:** New HR tools use workflow technology to enable employees and managers to serve themselves where possible.
- **Transactional push to Accenture:** BT's transformation has relied on increasing the efficiency of transactional processes through pushing these types of functions to Accenture, and in so doing, reducing labour costs.
- **Innovation:** BT is ready to consider any innovation and work with Accenture to develop new services such as Total Health Management, now successfully in operation.
- **Consultation:** Trade unions are consulted extensively on reforms. BT and Accenture have aimed to establish open and honest working relationships in any initiatives. For example, in 2000, BT transferred 1,000 of its staff to the new joint venture and maintained the terms and conditions that they would have had as BT employees.

### Managing an outsourced relationship

*“Not all our providers could grasp our culture...cultural fit was important since we needed to build a relationship with the supplier. It's a bit like a marriage – you have to be clear it's with someone you will be happy with several years from now. That requires a leap of faith grounded by trust.”*

Stephen Kelly, BT Global Services senior vice president of HR

**9** BT has a dedicated 'relationship management' team that interacts with Accenture. This team consolidates the feedback from Accenture to BT and coordinates the flow of information between the two companies. Communication is channelled through one point in both directions and a logical framework exists to facilitate optimal change.

**10** Part of the service that Accenture offers to BT is a 'live' Management Information System (MIS) that allows Service Level Agreements (SLAs) to be monitored in real time, without a lag. BT looks at three key reports to gain assurance that Accenture is meeting its SLAs and quality commitments:

- **Service Performance Report:** Reports the volume of transactions and quality of performance delivered by Accenture against the SLAs, and tracks service improvement activity.

- **Billing Report:** Shows costs at a granular level where every service is given a price. This gives BT transparent financial charges for all HR services it consumes and helps to contain costs.
- **Customer Satisfaction Report:** Gauges customer satisfaction with services and allows BT to take action to make improvements where necessary. See **Figure 2** for results of recent customer satisfaction surveys.

**11** Additionally Accenture are contractually obliged by BT to have external benchmarking by cost and quality.

### The future

**12** In February 2005, BT signed a new 10-year contract with Accenture to provide HR services throughout their global network. This decision was based on the results of the quality assurance processes, customer satisfaction and external benchmarking, and the similarity in global spread of Accenture's business and BT's. BT believes it is well placed to capture the maximum efficiency gains through the continual reinvention of its HR services.

*“This agreement will allow our staff to concentrate even more on the strategic role of HR management to our growing global business.”*

Alex Wilson, BT Group HR director

2 Customer satisfaction surveys		
Type	Frequency	User satisfaction (per cent)
Peopleline – telephone and web-based employee services	Quarterly	87
Performance Advisory Services e.g. performance management	Annually	74
Performance services: Absence management survey	Monthly	95
HR Advisory Services: Stress workshops	Monthly	99
HR Advisory Services: Employee Assistance Programme e.g. employee counselling services	Monthly	95

## CASE STUDY 5

# ASDA Wal-Mart’s supplier partnership and other efficiency initiatives

*ASDA Wal-Mart (ASDA) has adopted a partnering approach with suppliers of frozen vegetables which has yielded efficiency gains in elements of the supply chain such as administration, warehousing and transport. This case study sets out how ASDA looks beyond the procurement aspects of supplying its stores to achieve better value. The company constantly benchmarks its performance against other major retailers and reviews internal processes at its headquarters and stores to make the best use of staff time.*

### Key Lessons

- Organisations cannot know if they have best value unless there is **transparency in the end to end supply chain**. With such transparency, it will be possible to determine where value is added and where value is lost. Equally, if an organisation does not have a clear view of where all its costs are incurred, it will not know if and when best value has been achieved.
- **Begin with what the customer wants and work backwards** to source. Then map out the ideal flow rather than force changes through existing assets and processes. Challenge all stages and processes that just add cost and complexity.
- The procurement model for commodity products has usually involved an element of confrontation and the annual re-tendering of business between competing suppliers. In order to move beyond driving small, annual price reductions to reaping more substantial benefits, a **collaborative approach** is required that considers the placement and maintenance of business over a longer timeframe.

- Since 1987 ASDA has nearly halved its logistical costs as a percentage of sales. As part of its approach to driving down costs, ASDA **regularly benchmarks** its overall performance against a range of industry comparators.
- Routine checks within operating units need to be properly controlled but processes should be regularly reviewed to ensure that **unnecessary paperwork is removed**, freeing staff time to concentrate on more productive, customer-facing duties. ASDA has been able to make £5 million a year in productive time gains in this way.

Key Statistics	
Second largest food retailer in the UK, £15 billion a year sales	135,000 staff
Largest clothing retailer in the UK by volume	80,000 products
289 stores, 13 million customers a week	3,000 suppliers

## The challenge facing ASDA

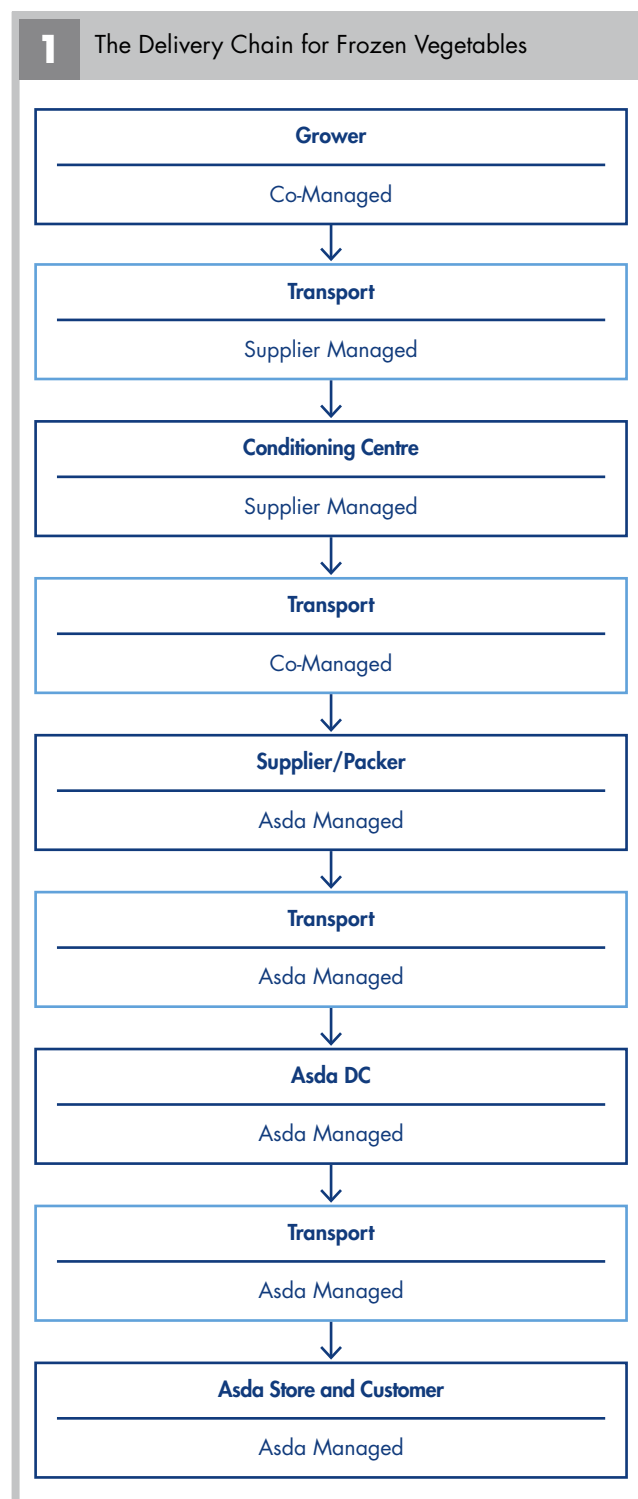
**1** Demand for fresh food and prepared meals has increased in recent years. As a result, demand for frozen products has declined and customers are not prepared to pay as much as they may have done in the past. In addition, instability in the UK frozen vegetable manufacturing base was creating significant risks in terms of availability and rising costs. This instability resulted from:

- the existence of only three major wholesale suppliers of frozen foods in the UK, all of whom faced difficult trading conditions;
- the trend towards global sourcing of commodity items to secure best quality, availability and price had in recent times been applied to the frozen vegetable market place. Eastern Europe and China were rapidly becoming key sources of supply for many food items, with increased lead times and associated transport costs;
- forward inflationary pressures such as fuel, insurance, road tolls and congestion charging and waste disposal liabilities were becoming increasingly important.

**2** The combination of the above factors had resulted in a declining return for the UK supply base of frozen vegetables, with exit from this market segment a very likely outcome for some (or all) of ASDA's three existing suppliers. ASDA therefore looked for ways to reduce costs and the prices charged for frozen food in its stores.

## ASDA's response to the challenge

**3** ASDA aims to strike a balance between supporting UK farmers and satisfying the needs of its customers. ASDA decided to re-configure and then manage the delivery chain, from the fields in which the vegetables are grown through to the frozen food sections of its stores (**Figure 1**).





4 ASDA's objectives were:

- **To improve on-shelf availability.** The time through the entire chain was reassessed. From crop plantation, to harvest, bulk storage, processing, storage, transport to store and the last 50 metres to shelf.
- **To reduce lead-times and improve responsiveness to sales fluctuations.** Responsiveness was increased at the start of the value chain by revising crop planting schedules and the acreage planted by vegetable type. At the other end of the chain, the amount of floor space in ASDA stores devoted to frozen vegetables was varied in line with actual sales.
- **To deliver all of the above in a sustainable manner.** A 'fit for the future' assessment was applied to each partner, process, and financial measure through the planning, negotiation, and agreement phases of the project. This included provision for items such as fuel costs, and reinvesting in future efficiency – an example being improved pea viner machines at a cost of £140,000 each.

5 Working in a collaborative and transparent manner ASDA and its chosen supplier partner, Fullers Foods International:

- Awarded long term contracts to UK vegetable growers.
- Established a single site to store and process raw materials from the growers.
- Utilised the processing site as a single warehouse and distribution point.
- Facilitated 'flow through' into and out of the ASDA frozen depot network.
- Optimised the 'last 50 yards' through timing of arrival of all vegetables together, and by revised case sizes that are matched to sales and require less time to open, empty and fill.

6 In order to achieve all of the above a complex value mapping exercise was undertaken. The exercise ignored what had been done in the past and started with a blank piece of paper. In effect, everything was challengeable including ownership and costs. To develop the initiative, research was undertaken to:

- understand customer trends and expectations as well as the supply base, in terms of quality, price, capacity, lead-times and ethical standards;
- understand ASDA's ordering pattern and any inefficiencies therein;

- make short, mid, long-term forecasting of inflationary cost pressures such as fuel, insurance, road toll and congestion charging;
- decide whether there should be one national or a number of regional processing plants and warehousing sites and where they should be located; and
- map all transport flows – from field to store, including all raw materials, packaging and waste.

7 Service level agreements were put in place throughout the chain which take account of dependencies in the following and preceding processes. This gives ASDA the ability to view the chain and its links to ensure the product flow (and associated costs) are as planned. The ability to view incidents by exception and identify and rectify the cause has been built into the process.

8 ASDA has a product contract with Fullers Food International for the procurement of vegetables. On ASDA's behalf, Fullers Food International has agreements in place with the growers, the processor and a warehousing and vehicle loading service level agreement. ASDA has separate service level agreements with hauliers for collection, vehicle turnaround, and depot delivery. All agreements through the chain are transparent, uncomplicated and focus on the achievement of a process on time and to the required quality and quantity. Each of the partners in the chain knows exactly what their area of core competence is and the associated tasks and degree of ownership involved. Simple open book costings were applied that accurately capture costs, overheads, and agree fixed returns, in return for a longer term commitment.

9 The initiative took around two years to complete and required a large amount of time and commitment from all the parties involved. Since the Summer of 2005 ASDA has:

- **one guaranteed supplier of frozen vegetables.** ASDA has committed sole supply over a forward contract, and the supplier in return has been able to commit exclusively to ASDA, the processors and the farmers;
- **removed costs from the end product.** Significant levels of 'buffer' (just in case) time, stock and money have been removed and all parties in the value chain will be making a higher, guaranteed return over a longer period of time than had previously been the case; and

- **radically reworked the supply chain for frozen vegetables.** Having all frozen vegetables supplied by one supplier, from one warehouse, means the process from warehouse through depot to store has been shortened. In other words, someone is always waiting just in time for the stock to pass to them, to do something immediately.

## The benefits

**10** The benefits to ASDA and its customers/business partners include:

- a reversal of declining availability from previous suppliers, improved margins and lower retail costs, along with improved on-shelf availability to customers;
- significant cost reductions and environmental benefits through 120,000 fewer ‘food miles’ a year across the chain through the optimal positioning of one processing hub, which also doubles as the storage point;
- reduced handling times in depots and stores, through the ‘right-sizing’ of outer cases, pallet and vehicle fill levels;
- greater forecast accuracy – throughout the value chain – with real time visibility of commitments in various states (e.g. finished palletised goods, processed not packed, loose bulk etc);
- a greater mix of product is now UK sourced – maintaining ASDA’s commitment to UK farming; and
- security of fixed returns and reinvestments, over longer term contracts.

**11** Elements of this end-to-end model are in the process of being applied to two other major areas of ASDA’s business and will encompass additional learning and enhancements from the frozen vegetable model.

## Other efficiency initiatives

**12** ASDA benchmarks its overall performance against industry comparators (**Figure 2**) to ensure that it remains competitive and cost-efficient.

**13** Under competitive pressure, ASDA also re-engineers detailed administrative processes to yield greater efficiency, including increases in the productive time of staff (**Figure 3**).

### 2 Benchmarks used by ASDA to monitor performance

- Annual Manufacturer Performance Measurement
- The Advantage Group survey of 87 suppliers
- Grocer 33 price survey
- AC Neilson availability survey

### 3 ASDA in-store routine checks

- On a regular basis, ASDA managers had to conduct up to 35 different audits or checks to ensure that each store complied with legal, safety and security regulations and standards.
- To simplify the process, ASDA reviewed each routine check to test whether it was still needed and, if so, to reduce the amount of paperwork required in carrying out the checks.
- The result was a single manual for store managers containing fewer checklists and concentrating on what was high priority.
- The reduction in the time needed to conduct the audits released managers to concentrate on more customer-focused aspects of their jobs.
- This increase in **productive time** has been valued by ASDA at around £5 million a year.

## CASE STUDY 6

# Southwark Council – Customer Services Centre

*Southwark Council has implemented a strategic partnership that is intended to improve customer services efficiency. Customers will be able to deal with all their council queries in one place, whether it is by telephone, e-mail, Web, letter or face to face.*

### Key Lessons

- **Understand what customers want** before attempting to modernise a service.
  - Consider carefully whether the best solution can be provided by changes in existing in-house provision or by outsourcing the service. The construction of a “**should-cost**” model to provide a baseline for the service required will help when comparing options.
  - **Efficiency can be improved at the same time as costs are increased**, for example, where service improvements outweigh the increased costs.
  - If an outsourcing is the preferred route, **consider early on whether the service might be of benefit to other public bodies** and, if so, structure the procurement process to allow others to join later on.
  - **Use advisers not only to help shape the procurement process but also to transfer skills** such as business process re-engineering, where this will be beneficial to a public body in the longer term.
- Ensure that the new service provider has to meet agreed performance standards and that **information on the achievement of the standards is provided regularly** and in good time to allow corrective action to be taken.

**Key Statistics**

**Annual budget of over £400 million**  
300,000 residents.

**9,300 employees**  
42 per cent of residents living in council housing.

**Represents one of the most diverse demographic groups in the UK**  
More than 40 per cent of the Borough, one of the most deprived in England and Wales, is covered by a current or planned regeneration area.

## The challenge facing Southwark Council

1 Over many years, the Council had received poor reviews in independent customer satisfaction surveys of the way it responded to enquiries from residents. The reviews had reported a poor access strategy with no single point of contact, 60 per cent of call attempts were abandoned, and many of the Borough's diverse language needs were not being supported.

*"All I wanted to do was apply for and pay for a residents permit. So I went to the parking shop. They told me I had to go to the one stop shop to complete the application. I was then sent to the housing office to process the application – who told me I had to go to the cash office to pay!"*

(Southwark resident)

## Southwark Council's response to the challenge

2 The Council, with advice from PA Consulting Group, decided to undertake a project to:

- improve the performance of its customer facing services through business process redesign, supported by new IT systems; and
- make efficiency savings.

3 The project involved three key stages:

- the design of a customer service strategy;
- sourcing a private sector partner to deliver the new service; and
- the piloting of changes to key business processes to achieve efficiency savings.

### Strategic Design

4 Southwark Council realised that the project would not work without a full understanding of what customers need and expect from their local council. The Council therefore conducted a number of reviews and consultations with residents and staff. As a result, an

access strategy was developed to deliver multiple access channels for customers, with resolution at first point of contact to an agreed and acceptable level of service.

5 A business case was produced which illustrated the financial impact of the transformation, identifying where savings could be made to pay for these improvements. The Council concluded that it needed a partner to provide a service covering multiple access channels, including a contact centre, one-stop customer shops and Web site access, along with the supporting IT infrastructure and business change.

### Procurement of a partner

6 Following briefings and publicity, 14 suppliers submitted a pre-qualification questionnaire with five being invited to submit a full bid. Should-cost models of the required service, constructed by the Council and its advisers, were used to compare the bids. The Council's legal unit and external lawyers advised on the commercial aspects of a partnership, including the structure of the contract and how to obtain a fair balance of risks between the Council and its new strategic partner.

7 Following a competition, the Council signed a 10 year contract with Pearson Government Solutions Ltd (with a parent company guarantee provided by Pearson plc) to provide a Customer Service Centre designed to transform the quality of service for customers at a cost of some £4 million a year more than was currently spent on such services.

8 During contract negotiations, the Council, PA Consulting and the potential strategic outsourcing partner developed a framework for the benefit of other councils. In tendering the contract, the Council invited tenders for a Customer Services Centre, but also for the Council to act as Lead Borough on behalf of the London Contracts and Supplies Group. The LCSG is a London-wide organisation (of which Southwark is a member) and is made up of a number of other Local Authorities, universities, the Police, a number of charities and other bodies. The members of the LCSG work together and regularly use joint contracts to realise savings for their members and thereby make greater use of resources.

**9** Tendering the contract in this way will enable members of the LCSG, if they so wish, to enter into separate contracts with the CSC Provider under a framework arrangement which forms part of Southwark's contract. The advantage to LCSG members is that they avoid some of the procurement costs (estimated at £2 million) which the Council has incurred. The advantage to the Council is that it will receive 2 per cent of turnover for any contract let through the LCSG framework, which it can offset against the procurement costs. This customer services framework is now available to all public sector bodies and was the first of its kind in local service delivery.

### Re-engineering Business Processes

**10** Southwark recognised that its existing business processes needed to be re-engineered and would be key to the delivery of benefits. To ensure that the benefits of the partnership would be realised in full, the Council, with the help of its advisers, set up its own Business Process Re-engineering team to undertake three "proof of concept" pilots studies of service delivery across housing repairs, cleansing and payments. The recommendations from these pilots prepared the Council for a larger change programme and have helped to shape its overall Corporate Efficiency Programme.

### The benefits

**11** From May 2005, a new Customer Service Centre became operational. It deals with all enquiries, handling a projected 2.6 million calls a year in over 30 languages. In addition, there are three walk-in one-stop shops across the Borough. When a phased transition has been completed, customers will be able to deal with all their council queries in one place, whether it is by telephone, e-mail, Web, letter or face to face, with no need to contact several departments. An appointed customer services representative will take ownership of the enquiry and make sure it is resolved.

**12** Other benefits for the Council's customers include:

- Guaranteed service levels, with 80 per cent of all calls being answered within 30 seconds and 80 per cent of enquiries resolved within the first call, thus avoiding multiple calls for the same process.
- The new One Stop Shops will combine the services previously provided by Area Housing Offices with Revenues and Benefits services and additional services such as parking permits, school grants etc. Residents will have tangible benefits from guaranteed quality targets, e.g. 90 per cent of all face-to-face meetings will require no more than 5 minutes of waiting time.

**13** A survey of residents undertaken for the Council between June and August 2005 indicated that, where residents had contacted the Council, overall satisfaction levels had improved in comparison with a similar survey in 2004. One of the early benefits for the Council has been an enhanced information system, allowing Council managers to access details of what residents are contacting the Council for and the timeliness of responses, including potential backlogs within the system. The information is downloaded into a database in the early hours of every morning and available to managers that day.

**14** The Customer Service Centre will bring improved information on customers and the Council's performance in meeting their needs. The information will be used to target services more effectively and to improve their quality and operational efficiency. While this will create new challenges (as the true demand and costs of services become increasingly transparent) it will also provide a data-set that will help in the redesign of services to ensure that resources are more effectively directed towards those areas of greatest need.

**15** The Council is currently considering whether the currently unquantified monetary benefits of increases in quality of service (outputs) outweigh the increased input costs and therefore will result in efficiency gains that can be counted in its Annual Efficiency Statements.



## CASE STUDY 7

### Merton Council’s sickness management strategy

*Merton Borough Council has introduced a sickness management scheme to address the issue of high levels of absences and associated financial cost. Producing timely and accurate absentee information and reforming working practices has enabled the Council to manage sickness absences effectively. Significant productive time improvements have been achieved because the average number of days taken per employee has reduced from 14 to 8. The Council considers that the fall in absenteeism has contributed to the improvement in the Council’s Comprehensive Performance Assessment.*

#### Key lessons

Public organisations looking to increase productive time by reducing absenteeism should:

- **Identify reasons behind absenteeism** – The production and analysis of accurate and timely information can identify areas of weakness requiring attention.
- **Provide support for managers on how to reduce absenteeism** – define roles and responsibilities of managers on HR issues and disseminate clear procedures for reviewing absences.
- **Recognise the changing needs of employees** – take steps to minimise absences by understanding the causes and take preventative measures. For example, recognise external demands, motivate employees to ensure they feel valued and promote good health.

Key statistics	
Location:	South West London
Citizens:	190,000
Employees:	5,500
Staff Costs:	£130 million, which represents approximately 70% of the annual budget
Cost of Sickness Absence:	£6 million in 2001-02



## Sickness absence is common issue for public sector organisations

**1** Staff absences have a significant impact on the work of an organisation and its ability to deliver a high quality service to its users. The financial cost is often significant and provokes questions over the use of public money.

**2** Managing sickness absences is a vital issue across the public sector. An NAO report, *Management Attendance in the Department of Work and Pensions* (HC 18, Dec 2004)<sup>2</sup>, found that in 2003-04 five per cent of the Department's staff are absent on any given day, at an annual cost of £100 million. The report identified the following factors as affecting the levels of absences:

- Nature of work – contact with the public, excessive hours and stressful travel arrangements increase the likelihood of absences.
- Employee profile – gender, age and grade. Part-time, female, low grade staff members have the most occurrences of sickness absence.
- Domestic responsibilities – taking care of children or elderly relatives can result in unscheduled leave.
- Scale of organisational change – if handled badly, organisational change can have a negative impact on morale, job satisfaction and commitment to organisation.
- Health and life style factors – smoking, excessive alcohol consumption and lack of exercise increase the likelihood of absences.

## Effective absentee management is contributing to Merton Borough Council's aim to perform better

**3** Poor performance in managing sickness absences contributed to Merton Borough Council receiving a Comprehensive Performance Assessment rating of weak in 2002 and 2003. According to ODPM Local Government Performance data, Merton featured in the lower quartile for the management of sickness absences. Merton devised a strategic vision, entitled 'Journey to Excellence' to help achieve the CPA status of excellent by 2006. Introducing effective absentee management was part of this programme.

## A detailed diagnostic exercise highlighted underlying causes of absences

**4** Previous to 2000-01, the only information on absences Merton collated was the annual average number of absences. There was no ongoing monitoring of absences, nor any regular production or analysis of data.

**5** To remedy this lack of information, Northgate were contracted to install an integrated payroll and HR system. Other contractors provided the reporting tools, software and advice. Council Members approved funding for the project on top of the HR budget. The new system is able to generate accurate and timely absentee information. Monthly reports are produced so that trends, such as repeat absenteeism, can be identified and addressed. Staff have found the system to be simpler and less time consuming than the previous manual reporting.

**6** Furthermore, senior management has been able to make decisions on the basis of detailed information:

- In 2002-03, 60 per cent of Merton's workforce had at least one day of sickness absence.
- The average number of absence incidents per person was 2.51, lasting an average of 7.17 days.
- 1 out of 3 employees had between six and forty days off.

**7** In addition, the data can be also be organised to perform correlations between absence and age, ethnicity, disability and on a departmental basis. This identification of the root causes of absences is crucial to making informed HR decisions. For example, it was discovered that absences tended to rise with age. Staff under twenty years of age had an average of 4.71 days off while employees over 60 years of age had an average of 23.51 days absence. This is significant as more than 30 per cent of local government workers are over 50 years of age, while only 6.5 per cent are under 25.

<sup>2</sup> ref to NAO audit toolkit on attendance management.

## Increasing line manager responsibilities developed better management techniques

**8** If an improvement in attendance was to be achieved, the management of sickness absences needed to be addressed. Line managers were instructed to adopt an active role and underwent training and attended workshops to understand their role in implementing the new policy. By receiving monthly reports, managers could have a greater visibility of HR issues occurring within their team. In addition, they are given guidelines on the procedures regarding referrals to occupational health, ensuring absent staff make regular contact with the organisation and carrying out return to work interviews.

## Sickness absences have decreased significantly

**9** By introducing a new sickness management programme, Merton Borough Council has reduced the average number of absence days per employee from 13.6 in 2000-01 to 8.42 in 2004-05.

**10** As a result of this programme, the Council believes it has realised the following benefits:

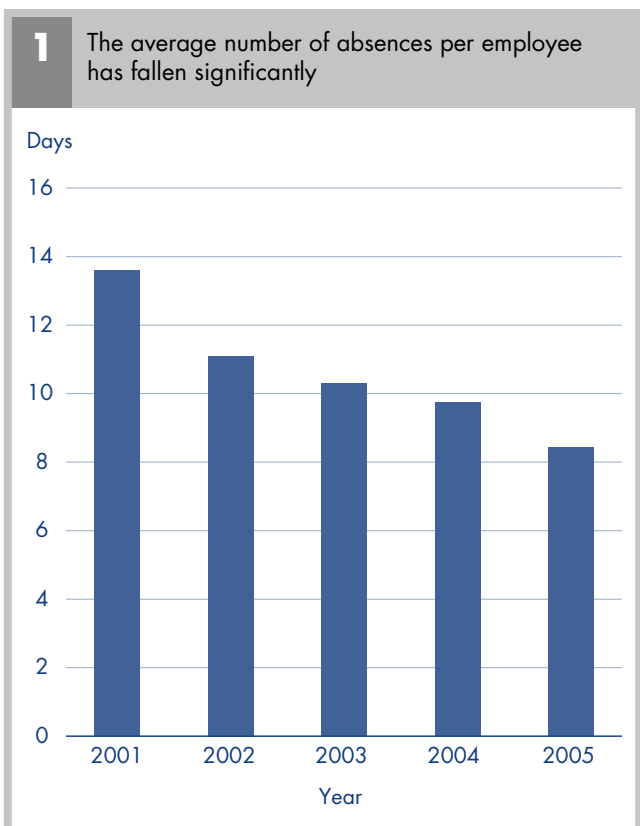
- 75% reduction in time off for medical appointments.
- £0.5 million in absenteeism costs were saved.
- Increase in productivity and staff morale.
- Alleviation of concerns over staff recruitment and retention.

**11** The next target is to achieve an average of 8 days sickness absence per employee, by the end of the 2005-06 financial year. In addition, Merton aims to expand the use of the software to produce one page reports containing a combination of HR and financial information in order to further increase the effectiveness of sickness absence management.

## Changing working practices through staff involvement was crucial to the success of the scheme

**12** Focus groups were held with front line service staff for suggestions on their ideal working conditions. The aim was to empower employees through involvement, ensuring their commitment to the programme. The initiatives to increase productive time through lower absences from work that Merton has introduced as a result of this consultation process include:

- Core hours abolished and office time extended from 7am to 7pm.
- Opportunities for career breaks.
- Working from home flexibility.
- Job sharing opportunities.
- Salary sacrifice schemes, e.g. the Home Computers Initiative and childcare vouchers.
- Healthy living programme, e.g. cholesterol checks, on-site yoga and agreements for corporate rates at local gyms.





## CASE STUDY 8

# The Terrence Higgins Trust and collaborative working in the voluntary sector

*Joint working and mergers have allowed charities to improve service delivery and increase efficiency. For example, joint working has enabled the Terrence Higgins Trust to increase its profile, credibility and influence. It has been a key driver in making the Trust able to provide a more focused, consistent and efficient service in a changing environment.*

### Key lessons

Charity Commission research shows that charities working collaboratively can improve service delivery and lower administration costs.

Public sector organisations looking to make operations more efficient could benefit from innovations in the voluntary sector. For instance, some funding bodies award charities specific grants to fund significant one-off costs involved in collaborative working or mergers.

The Terrence Higgins Trust has been through 15 mergers since 1998 making it the largest HIV and AIDS charity in Europe. The Trust believes organisations can increase the chances of successful partnerships by:

- carrying out due diligence work to understand potential partners.
- establishing a clear shared vision as early as possible.
- maintaining open communication with users and employees
- holding regular monitoring groups to track progress against the shared vision.
- making clear from the outset how the partnership will be dissolved if it does not work.

## Joint working has become a way for voluntary organisations to increase efficiency

**1** A Survey of Public Attitude undertaken by the Charity Commission in 1999 found that 58 per cent of the public thought there were too many charities competing for too few funds. Indeed, charities have often been established or expanded in an ad hoc manner, many operating with related purposes and offering similar services. To address possible inefficiencies, many charities have turned to collaborative working.

### Collaborative working can take many forms

**2** From one-off joint campaigns to full scale mergers, collaborative working can work through varied arrangements:

- **Informal collaborative working** – for a limited period in relation to a specific activity, such as sharing data and best practice information.
- **Formal arrangement for collaborative working** – ongoing collaborative agreement to manage projects with higher levels of risks.
- **Group structure** – charities enter into an arrangement where a parent organisation governs a group of subsidiary charities.
- **Merger into new entity** – two or more charities combine assets and resources into new organisation while dissolving the original charities.
- **Merger into one of the existing charities** – whereby one or more charities are dissolved and their assets and resources are transferred to an existing charity.

### Charities generally find collaborative working to be beneficial

**3** According to the Charity Commission, 22 per cent of charities work collaboratively. The benefits include:

- **Better service delivery** – for instance, working together means charities' clients can have access to more specialist resources.
- **Higher public profile** – collaboration can enable a charity to benefit from more sophisticated political lobbying and marketing.

- **Stronger fundraising capabilities** – larger organisations have access to more funding channels and can employ specialist fundraising staff.
- **Merged back office functions** – combining support functions can lower administrative costs and release staff to front line service delivery.

**4** As part of a 2003 Charity Commission Report, entitled *Collaborative Working and Mergers*, 1,400 charities were surveyed for their experiences of working with other voluntary sector organisations. As **Figure 1** demonstrates, for those charities which have undertaken joint working improved service delivery is the most likely benefit. Where a full merger has occurred, better service delivery is again the most likely benefit although significantly more charities observed lower administration costs.

### While recognising the challenges, the Charity Commission recommends charities regularly consider the option of joint working

**5** Despite the likelihood of positive results, full mergers between charities are not common. The following factors act as brakes on potential opportunities for collaborative working:

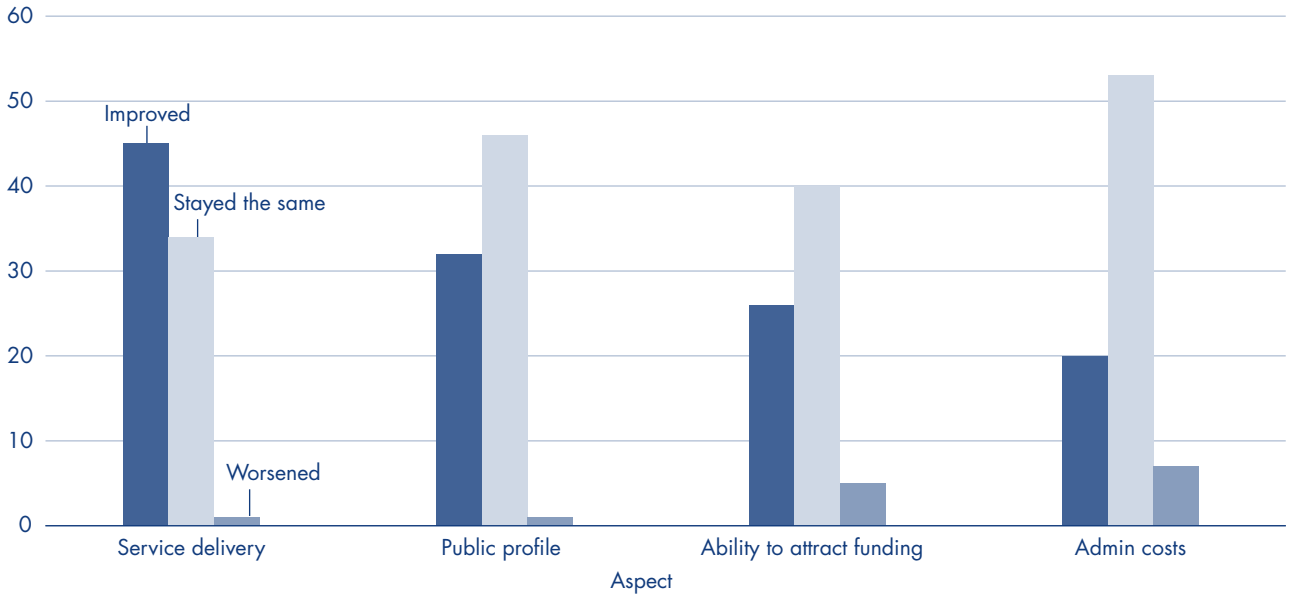
- Desire to retain independence.
- Culture clashes.
- Negative association of a merger being viewed as a takeover.
- Time, effort and resources taken to process a merger.

**6** The Charity Commission suggests charities should be alert to the potential benefits of merging and should undertake regular reviews of their strategic position. Organisations should evaluate whether they are still functioning in the most efficient way and whether any areas could be managed more effectively by working collaboratively.

**1** 45 per cent of charities working collaboratively believed the partnership had improved service delivery

Whether key aspects of a charity have improved, worsened or stayed the same as a result of collaborative working

Percentage

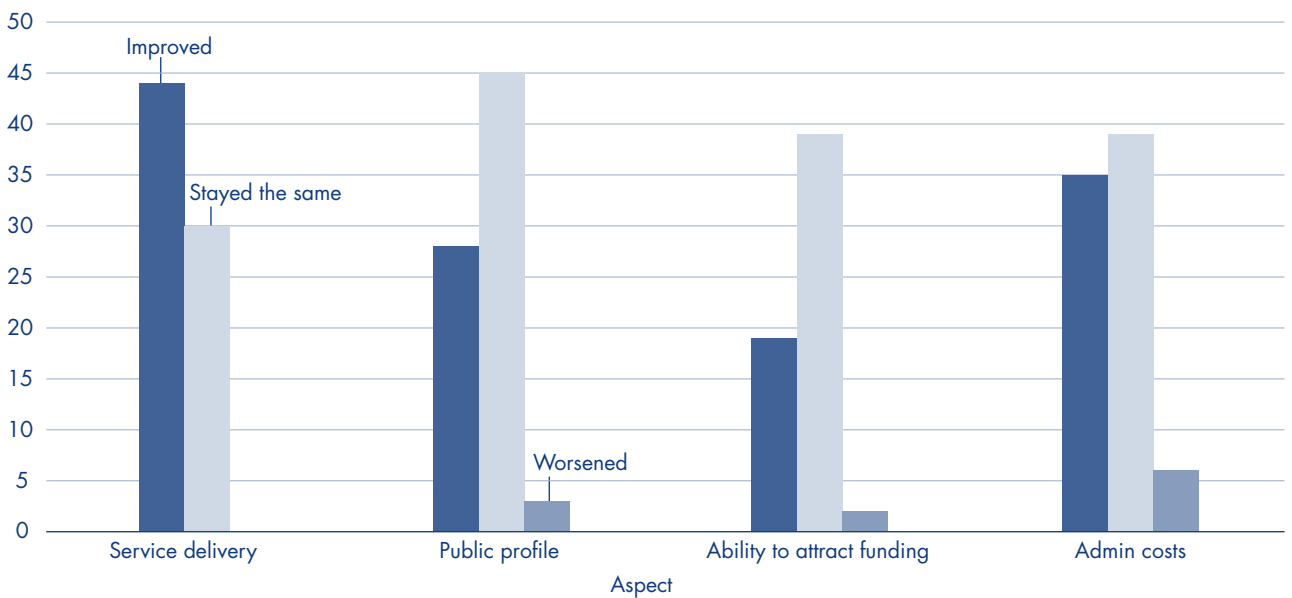


Source: Charity Commission 'Collaborative Working and Merging' 2003

**2** 35 per cent of charities which had merged experienced lower administration costs

Whether key aspects of a charity have improved, worsened or stayed the same as a result of merging

Percentage



Source: Charity Commission 'Collaborative Working and Merging' 2003

7 Like public sector bodies, charities often recognise the potential of joint working but are restricted by a lack of funds to evaluate the options properly. Collaboration can often require a significant one-off investment, such as to fund relocation of staff and the re-branding and development of new policies. To overcome this, some funding bodies award specific grants to be spent on collaborative working or to administer a merger, a model which may be of interest to central government departments wanting to encourage collaboration among publicly funded organisations.

### The Terrence Higgins Trust

8 The Terrence Higgins Trust has a strong record of collaborative working with other voluntary charities. It has undergone fifteen charity mergers since 1998, six alone in 1999. Organisations with which the Trust has merged include London Lighthouse, with which the Trust consolidated HIV-related services for people living in London, and the Cardiff AIDS helpline, which became part of Terrence Higgins Trust Cymru in 2003.

#### EXAMPLE

##### The Terrence Higgins Trust

###### Key Facts:

Leading HIV and AIDS charity

Established in 1982

Aims to reduce the spread of HIV, promote good sexual health and provide effective support to those affected by the HIV epidemic

Employs 250 staff and 800 volunteers across a network of over 20 offices

9 Joint working has enabled the Terrence Higgins Trust to increase its profile, credibility and influence. It has been a key driver in making the Trust able to provide a more focused, consistent and efficient service in a changing environment.

10 In 1997 a highly effective combination drug therapy was introduced which drastically improved the quality of life of people living with HIV and AIDS. As a result resources were diverted from the voluntary sector to the NHS to make the therapy widely available, while the demand for voluntary services increased because those with HIV and AIDS were living longer.

11 Merging with other organisations aimed to address these issues. In addition, integrating with other charities provided an opportunity to restructure the organisation to provide a wider and more co-ordinated range of services and to increase the public and political profile of the charity. As a result of this organisational change, the Terrence Higgins Trust has been able to introduce the following improvements:

- The existing helpline was transformed into THT Direct, a national telephone service which acts as a one-stop shop for information and advice.
- Volunteer recruitment increased by 15 per cent.
- Specialist advice centres and knowledge bases have been developed such as the African Health Promotion Team.
- Restructuring administration offices enabled them to claim recurrent annual savings of £750,000.
- Senior management was restructured producing estimated savings of £250,000 a year.

*“There is now one charity with a national profile, £6 million worth of assets, links to government and to about 250 income sources. That is a far more stable situation than having a lot of small organisations with limited assets and insecure funding.”*

(Terrence Higgins employee quoted in Success Factors in Non-profit Mergers Lessons from HIV/AIDS Agencies in the UK, Margaret Harris and Romayne Hutchinson)



Through its experience of joint working, the Trust has developed some guiding principles for successful partnerships

**12** The Trust has developed the following techniques for improving the likelihood of successful partnerships which will be of interest to any public sector body considering joint working:

- **Undertake due diligence exercises** – each partner should be clear about the assets and outstanding liabilities of the other organisation. Terrence Higgins Trust has developed the capacity to do most due diligence work in-house.
- **Establish a jointly-owned vision** - agreed as early as possible, it should feature ideas and aspirations for the future, while respecting the history of all the organisations and recognising that this vision can not be achieved independently.

*“Standing alone, neither organisation has the means to achieve the breadth of its ambitions”.*

(Terrence Higgins Trust  
Heads of Agreement June 2002)

- **Hold open meetings** – transparent communication with employees and users to communicate information will help alleviate inevitable concerns arising from organisational change.
- **Maintain a merger monitoring group** – it is necessary for representatives of different parties to meet on a regular basis to discuss the partnership's progress, any arising issues and to devise finance, human resource and IT strategies.
- **Consider adopting a de-merger trigger** – providing the assurance of a get-out clause for a scenario where the partnership does not prove successful may make parties more likely to consider working together.

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