System Recovery

The Role of ICT in Local Government During the Downturn

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Verso Economics

Executive Summary

Local government and the third sector are facing increasing pressures on service delivery across Scotland. Information and Communication Technology (ICT) budgets are frequently cited as ripe for trimming. Local and central government are right to review public sector ICT spending but joining up spending could realise cost savings and improve service delivery.

Scotland's position

Over the last decade public sector spending on ICT in Scotland has increased substantially as governments have sought efficiency and service innovation through adoption of new technologies. In 2008 spending had risen to just over £1.6 billion. Whilst public sector spending on ICT has more than doubled since 1998, spending by the rest of the economy has risen by just 11.8% over the same period.

Businesses have been quicker than the public sector in adopting new technologies and the slow growth of ICT spending reflects businesses reducing ICT costs and replacing rather than supplementing processes and systems. This may explain why consultants have focused heavily on public sector clients in recent years and why spending is under greater scrutiny. Audit Scotland recently stated that government needs to make better use of consultants where the majority of spending has been on ICT.

Benchmarking Scotland

International benchmarking frequently shows Sweden, Norway, Netherlands, Denmark and Finland as leaders in e-government. However, the share of public sector spending on ICT is generally much lower than Scotland. Only Denmark spends a marginally higher share of operating costs on ICT (12.1%) compared to Scotland (11.9%).

The European Commission singled out Scotland for praise stating it has one of the most advanced implementations of e-procurement in Europe. But further cost savings in service delivery will only be realised with an integrated back-office, collaborative working across agencies, and business process streamlining (not just putting existing administrative procedures online), service-orientated architectures, standards and interoperability.

The Scottish Government is seeking to further strengthen its position through the Central Government Centre of Procurement Expertise (CGCoPE) but people and hardware are not the only supply side levers that need to be pulled. Cost savings could also be realised through ICT procurement and agency infrastructure consolidation. It would be worthwhile reviewing whether it is sensible for the public service providers to own as much infrastructure.

Costs and savings

The ability of many Nordic countries to deliver e-government is helped significantly by the high levels of computer literacy across society, availability of technology and telecommunications and joined up procurement and delivery. Attempts to create collaborative or shared ICT facilities in Scotland have largely failed to emerge over the past five years.

This is partly due to the imposition of VAT on billed or notional revenues or funding contributions. Recent changes to the VAT regime and the introduction of scrappage schemes for old cars and boilers suggest it is feasible to look at similar incentives for local government on ICT projects in the face of the downturn. This may be particularly useful to encourage joined up procurement and delivery.

Another important reason for failure is the prospect of loss of identity and in-house ICT empires. Similarly, there are apocryphal stories of elected members of local authorities claiming their organisation is unique and not suitable for the creation of shared services and that the management governance model would be too complicated.

Potential cost savings are significant, if the share of public sector operating costs accounted for by ICT in Scotland were lowered to meet those of the Netherlands, Finland or Sweden then annual public sector ICT spending in Scotland would fall by £820 million, £753 million or £685 million respectively.

The challenges in securing joined up public sector ICT projects in Scotland are huge but outstripped by the potential rewards, which could counteract the need for spending cuts elsewhere.

Trimming budgets

Local government is facing increasing pressures on service delivery across Scotland. The Scottish Government has already announced budget cuts of around half a billion pounds a year; with local authorities also agreeing to cut spending.

Information and Communication Technology (ICT) budgets are frequently cited as ripe for trimming. The recent pre-budget report (see web links) identified £5 billion of savings from "targeting and prioritising spending" including "reducing the cost and scope" of the NHS IT Programme in England.

The NHS IT programme has struggled to meet its original timetable with concerns over spiralling costs now close to £13 billion. The Independent recently investigated a series of national ICT projects (including the NHS programme) that have missed timetables, budgets and quality targets; ranging from the Ministry of Defence to the Rural Payments Agency. These projects were estimated to have cost £26 billion (The Independent, 19 January 2010).

But the success, and failure, of ICT projects extends well beyond installing software. Local and central government are right to review public sector ICT spending, but a wider review could realise cost savings and improve service delivery at the same time.

Scotland's position

Over the last decade public sector spending on ICT in Scotland has increased substantially as governments have sought efficiency and service innovation through adoption of new technologies. Figures produced by the Scottish Government show that in 1998 the public sector spent nearly £800 million on ICT; by 2004 this had risen to nearly £1.4 billion and by 2008 this is estimated to have risen to just over £1.6 billion (see Table 1).

Whilst public sector spending on ICT has more than doubled since 1998, spending by the rest of the economy has risen by just 11.8%. Public sector spending growth has even outstripped healthy growth among households on items such as computers, software and broadband packages.

Businesses have been quicker than the public sector in adopting new technologies and the slow growth of ICT spending reflects businesses reducing ICT costs and replacing, rather than supplementing, processes and systems. When initiating new ICT projects, businesses tend to focus on realisable benefits instead of aspirations for future benefits. Thus businesses tend to be better at deciding which ICT projects should be undertaken.

Table 1: ICT[i] Spending 1998 to 2008 (£ millions)

Year	Economy			Households
	Public sector[ii]	Rest of economy	Whole economy	
1998	£766	£3,504	£4,270	£980
2004	£1,382	£3,248	£4,630	£1,331
2008*	£1,604	£3,919	£5,523	-
Growth 1998-2008	109.4%	11.8%	29.3%	-

SOURCE: Scottish Government Input-Output (use) tables,
NOTES:*2008 figure updated and estimated using Gross Value Added Chained Volume Measures (see web links) and HM Treasury GDP Deflators[iii]

From 1998 to 2008 the public sector accounted for over two thirds (66.9%) of the overall increase in ICT spending in the Scottish economy. This may explain why consultants have focused heavily on public sector clients in recent years and why spending is under greater scrutiny. Audit Scotland recently stated that government needs to make better use of consultants (see web links) where the majority of spending has been on ICT and business management.

In the public sector, ICT projects are often driven by legislative change where enabling bills are passed but the detailed regulations do not emerge until much later. This makes it difficult to specify the required functional features of new systems and the public sector often has to work to very tight timescales when implementing systems to support primary legislation.

Another factor in many countries is the lack of ICT skills required by local & central government at specific times, for example large system upgrades or application projects. These skills are usually acquired at a premium, impacting on ICT costs. All too often, public sector organisations use consultants simply as sets of skilled labour to supplement in-house head-counts.

Benchmarking Scotland

Public sector ICT spending in Scotland has increased significantly and now stands at 11.9% of the public sector's operating costs (excluding employee costs). This compares to just 4.5% in the rest of the economy. Businesses are clearly more efficient in adopting and diffusing ICT in their operations but how does the public sector in Scotland compare to other countries?

Sweden, Norway, Netherlands, Denmark and Finland are frequently cited as benchmarks for Scotland's economy and as leading examples of e-government. Most of these countries are in the top ten of the United Nations e-government benchmarking exercise, shown in Table 2, and Finland is cited a leading example of usability in e-government in Europe by the European Commission (see web links).

Table 2: United Nations e-government benchmarking 2008

rank	country	index
1	Sweden	0.9157
2	Denmark	0.9134
3	Norway	0.8921
4	United States	0.8644
5	Netherlands	0.8631
6	South Korea	0.8317
7	Canada	0.8172
8	Australia	0.8108
9	France	0.8038
10	United Kingdom	0.7872

SOURCE: United Nations e-Government Survey 2008

Although the countries cited above are world leaders in e-government the share of public sector spending on ICT is generally much lower than Scotland. Only Denmark spends a marginally higher share of operating costs on ICT (12.1%) compared to Scotland as shown in Table 3.

Table 3: Public Sector ICT Spending Share of all Costs

Country	ICT spending share*
Denmark	12.1%
Scotland	**11.9%**
Norway	8.6%
Sweden	6.8%
Finland	6.3%
Netherlands	5.8%

SOURCE: Scottish Government Input-Output tables and Eurostat (Input-Output tables)

NOTES: * For some countries it was difficult to split postal services from post and telecommunications spending and the share was estimated

Costs and delivery

The role of ICT in public service delivery can either be as a utility or as an enabler of services. This will influence the approach of local government to ICT costs; cost containment or investment for a lower service cost future. The model used for the delivery of ICT services to public sector organisations has remained largely unchanged for more than two decades according to Serle (2009, see web links).

The European benchmarking exercise suggests that "Expectations are that ICT / eGovernment will play a more prominent role in supporting the accelerated delivery of efficiency savings." The Commission singles out Scotland for praise stating it has one of the most advanced implementations of e-procurement in Europe. The Scottish Government is seeking to further strengthen its position through the Central Government Centre of Procurement Expertise (CGCoPE).

The European Commission suggests further cost savings in service delivery will only be realised with an integrated back-office, collaborative working across agencies, and business process streamlining (not just putting existing administrative procedures online), service-orientated architectures, standards and interoperability.

People and hardware are not the only supply side levers that need to be pulled. Cost savings could also be realised through ICT procurement and agency infrastructure consolidation. It would be worthwhile reviewing whether it is sensible for the public service providers to own as much infrastructure, particularly in light of Scotland's emerging position in cloud computing.

It is important to consider how well models currently in use can deal with change and adapt to deploy new solutions and services. Increasingly, individuals have access to better technology for personal use allowing more advanced services to be delivered to a broader population.

Challenges and savings

The ability of many Nordic countries to deliver e-government is helped significantly by the high levels of computer literacy across society, availability of technology and telecommunications and joined up procurement and delivery. Attempts to create collaborative or shared ICT facilities in Scotland have largely failed to emerge over the past five years.

This is partly due to the imposition of VAT on billed or notional revenues or funding contributions. Recent changes to the VAT regime and the introduction of scrappage schemes for old cars and boilers suggest it is feasible to look at similar incentives for local government on ICT projects in the face of the downturn. This may be particularly useful to encourage joined up procurement and delivery.

Another important reason for failure is the prospect of loss of identity and in-house ICT empires. Similarly, there are apocryphal stories of elected members of local authorities claiming their organisation is unique and not suitable for the creation of shared services and that the management governance model would be too complicated.

Potential cost savings are significant, if the share of public sector operating costs accounted for by ICT in Scotland were lowered to meet those of the Netherlands, Finland or Sweden then annual public sector ICT spending in Scotland would fall by £820 million, £753 million or £685 million respectively.

The challenges in securing joined up public sector ICT projects in Scotland are huge but outstripped by the potential rewards, which could counteract local spending cuts in other areas of expenditure.

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Web links

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Footnotes

[i] ICT includes computing services (SIC 72), telecommunications (SIC 64.2) and office machinery and computers (SIC 30)

[ii] Public sector is defined as public administration (SIC 75), education (SIC 80), health (SIC 85.1-85.2), social work (SIC 85.3) and sewage services (SIC 90)

[iii] The Scottish Government intend to produce further (more up to date) detail on spending by final markets (including households) this year. Public sector ICT spending for 2008 was estimated by updating the public sector industry columns in the 2004 Input-Output tables using the Gross Value Added Chained Volume Measures and HM Treasury GDP Deflators