



**TOWARDS VALUE**

*Achieving better VFM through 'market' style performance and delivery.*

**FOR MONEY**

*It's about understanding your business better, being creative, and about harnessing the energies of staff. As well as about applying the right procedures and protocols.*

**THROUGH**

*There can be a lot to it. The information in this folder summarises what the NRA has achieved. It will also give you a structured start to achieving VFM through Market Testing, without the need to wade through lots of detailed documents.*

**MARKET**

*In the right hand pocket you will find highlights of the strategic reviews of individual projects.*

**TESTING**

*In the left hand pocket are summaries of the processes developed and applied in the appraisal of over 40 services, along with outlines of the underpinning techniques and business concepts.*

*Talk to the MTU about your ideas for applying these flexible concepts in a practical way.*

## Achieving VFM through Market Testing

*From the outset in 1992, market testing in the NRA has been about achieving better Value For Money, which is Market Driven-VFM (MD-VFM). The features of MD-VFM are:*

### **VFM Management Practice**

Integrated delivery of outputs to defined quality at required costs, with clear customer/provider roles.

### **High Performance Delivery**

Through competition or other forms of benchmarking, or use of external suppliers.

### **Continuing Improvements**

Putting in place management 'drivers' which promote continuing performance enhancements.

Each service's needs are assessed individually, so that the solutions are a good fit. Normally, it will be too ambitious to introduce all the MD-VFM features at once. A better approach is to make a small number of key changes that head the service in the right direction; this will pave the way for other MD-VFM features in due course.

### **MD-VFM - The Basic Process Elements**

The basic process elements of MD-VFM have developed through the appraisal of over 40 diverse NRA activities, and are:

- Define the service needed, now and in the future.
- Appraise options for improving service delivery.
- Implement preferred option.

These elements can be applied flexibly to any service or part of a service, large or small.

Application of the processes usually opens up basic questions about the relevance of the service and its current performance. Understandably, this can trigger strong defensive reactions. However, early and strong participation of both service users and providers, will promote ownership and ensure that the focus is on positive ideas for improvements.

The MD-VFM processes are powerful. To work to full effect, they should be meshed with other important drivers of organisation development:

- Business Planning, through the need to define the service required.
- Procurement, through need to ensure effective contracting.
- Development and Training through the needs of managers and staff for training in business-like management techniques.
- Quality Management Systems (QMS) and TQM, through the focus on effective processes for service delivery.

Early involvement of the right specialists will ensure this.

### **Applying The MD-VFM Processes - Twin Track Approach**

At the outset of an MD-VFM initiative, managers should gain ownership of the features of MD-VFM as a vision and understanding of the connections outlined above. That said, both the processes and the projects set-up should be kept to the basics. Targets should be set for advancing, but these should not be too ambitious initially, so that early success can be achieved. This builds the confidence to set more demanding goals for the next phase.

As confidence and experience develop, increasingly staff will realise that MD-VFM is not a once-off target. Rather, the MD-VFM features will become the norm for how things 'are done around here'. The MD-VFM processes can be applied either by individual line managers or through project-based formal reviews. There is every advantage to be gained from both approaches operating, ie. a twin track approach:

#### **The Line Management Track**

Incremental Service Development led by Line Management, taking place over a period of months or even years.

As well as:

#### **The Strategic Review Track**

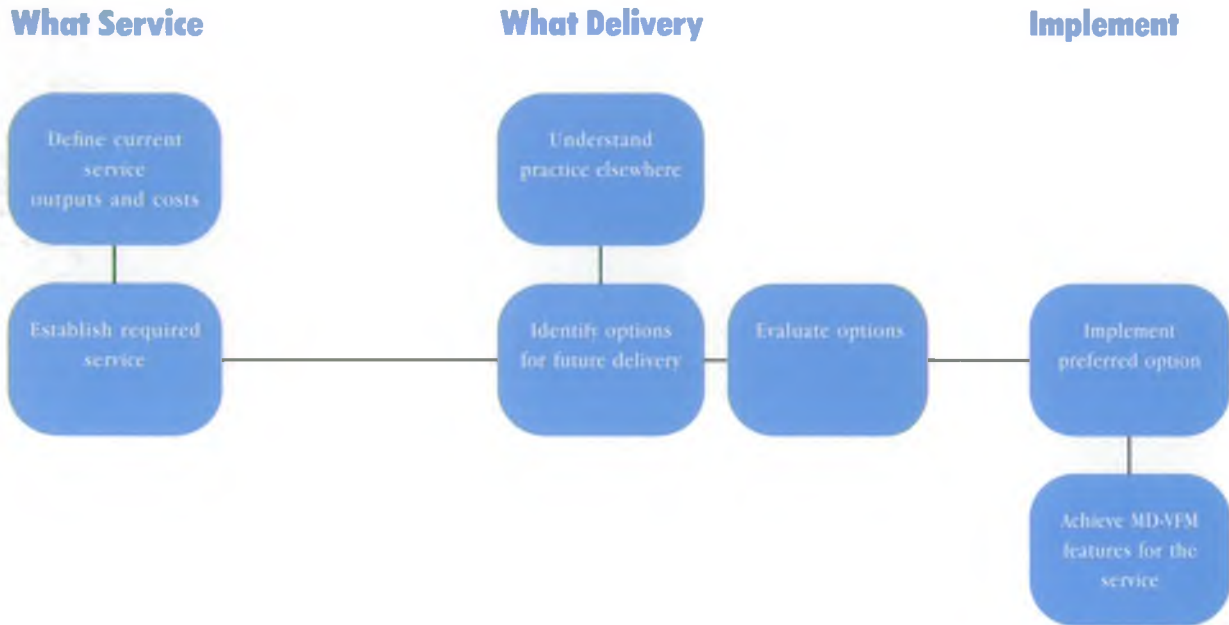
Project-based high level reviews which set the direction for the whole service for a number of years.

In general, the more development that takes place smoothly through line management action, the less dramatic are likely to be the changes arising from a Strategic Review. Indeed, full development through sustained incremental improvement to achieve high performance and the other features of MD-VFM might obviate the need for a Strategic Review at all.

Equally, a Strategic Review should not be seen in itself to be the 'end' of MD-VFM improvement. A Review should lead to an early step improvement in productivity, but it should also put in place 'drivers' for continuing performance enhancement.

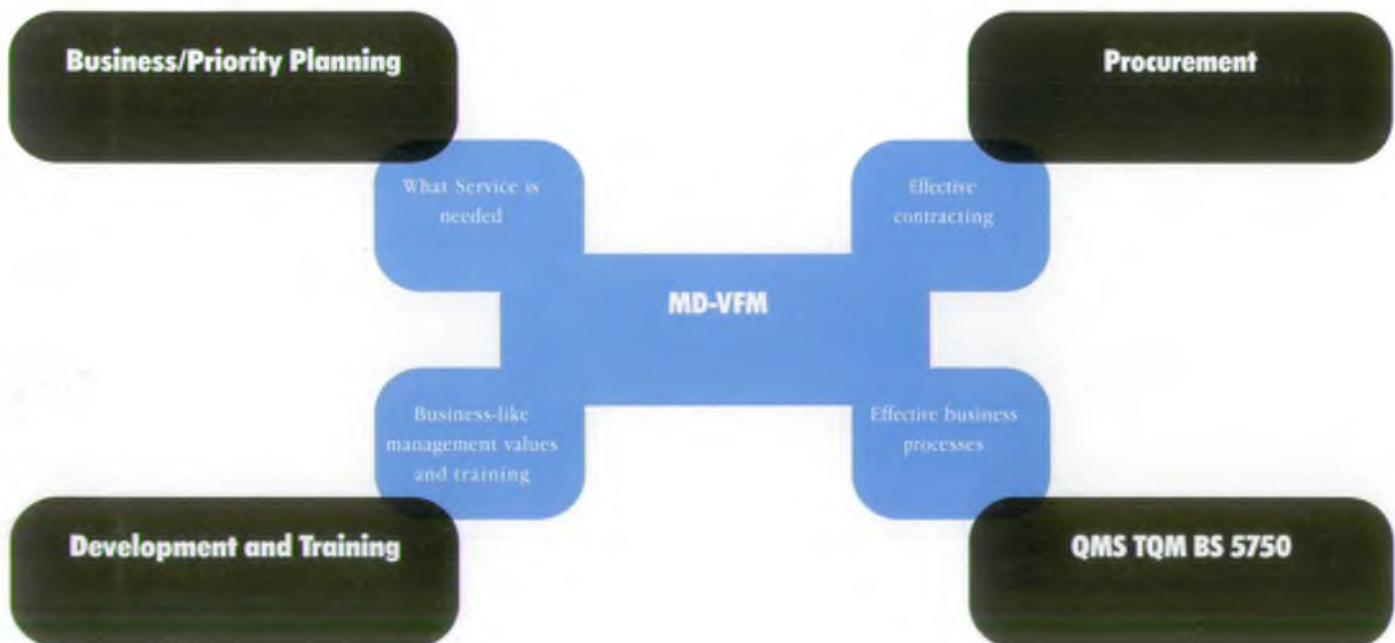


The basic process elements can be applied flexibly to any service or a part of a service. The preferred option should be that which puts in place the three main features of MD-VFM; several phases of implementation may be necessary to do this.



## MD-VFM-The Basic Elements

The MD-VFM processes mesh with other important drivers of organisation development.



## The Line Management Track

*On this track, managers and staff commit themselves to the MD-VFM features and take the initiative in getting themselves ship-shape through incremental development.*

### Some Do's and Don'ts

The Line Management Track to MD-VFM has many strengths. To make it start off well, there are some basic 'do's' and 'don'ts':

- Do**
- Get ownership, by involving staff in signing up to the MD-VFM features as a vision for the future ie. 'the direction in which we are heading'.
  - Have a structured approach to moving forward, with specific goals, timescales and responsibilities.
  - Make the MD-VFM project itself a good advertisement, ie. a practical quality approach, firm but sympathetic, delivering early gains on time.
  - Encourage all staff to put forward their own ideas for improving delivery and give them access to outside information sources.
  - Make sure staff have access to training, so they can develop themselves.
  - Have mechanisms for getting round blockages to progress.
  - Make sure that the momentum is sustained.
- Don't**
- Try to cover too much initially; progress a modest area well, rather than a large area patchily.
  - Make it too complicated too early - keep to the basics of what has to be delivered and how it is delivered, but avoiding system solutions initially.

### Starting Off

A workshop involving most of the staff is a good way of starting. This can explore the MD-VFM features and get ownership of these as the 'vision', and suggestions as to how the concept should be approached. (Management's commitment should be obvious at this event.) After this, some simple project structure will be needed (manned by volunteers from within the group).

It will probably be best to aim first for VFM Management Practice. This will put in place the basic management arrangements from which to advance. Also, think about management drivers. Who or what is going to make this happen? There are two principal ways to address this.

- (a) Take the whole group in question forward (without any re-structuring).  
or  
(b) Clarify or change roles to bring out the right customer/provider relationships.

### Getting A Basic Understanding

Usually, the start will be low key. First, decide the scope of the activity to be looked at. If anything, err on the narrow side and broaden out later. Secondly, identify what outputs the service users need. Some work may be needed to pinpoint who the users are! Next, some means of recording the volume of outputs may be needed.

Attention should then turn to costs. First, find out what the total costs are, including overheads and support costs, then start to understand how much is spent on each type of main output. Some sort of timesheeting of staff time may be needed to do this.

This basic data can be brought together for 2/3 man-weeks of effort at most and will provide the initial understanding of what the business is of the Section in question.

### Moving Ahead

From this point onward, the way forward will depend on the issues that have emerged in the first stage. A practical approach to tackling the MD-VFM process elements will need to be worked out, but the accent should remain on keeping it simple, and giving priority to defining service needed, before options for change are considered.

As understanding grows, possible topics to look at include:

- Working with customers to define service needed, and to pinpoint the key performance indicators.
- Benchmarking and business process upgrade to improve effectiveness and efficiency.
- Business planning to bring ideas into a proper plan.
- SLAs, a formal way of expressing and managing service delivery.
- Setting-up IBUs, out-sourcing or competition.
- Assessing practice elsewhere; how other users deliver the service, and what the strengths and weaknesses of external suppliers are.



## The Strategic Review Track

*The Strategic Review Track focuses on high level strategic assessment of the service role and of its position in the business. It complements the line management track, which is essentially about incremental improvement. Strategic Reviews should lead to a step improvement in Value For Money, and should also put in place management 'drivers' for achieving continuing Value For Money enhancements.*

*A Strategic Review can assess whole functions or individual activities of the business. There are two main stages; the appraisal, followed by the implementation of the preferred option.*

### Appraisal

An executive member of the business should be given accountability, as Project Executive and a 'zap' team selected from various disciplines, to carry out the appraisal. They will need to focus on the issues that really are significant for the future of the service, with particular attention on the overall shape and form of service, what practice elsewhere is available from other suppliers, and business risk issues.

Their aim is to assess strategically what service is needed by the business and *how* the arrangements for delivering the service can be improved, to achieve best 'value for money'.

A set of criteria in the form of deliverables set out below, addressed by the Appraisal Team, makes the appropriate quality standard for the final report easier to establish:

#### Current Service

Define scope of the service, establishing the service boundaries and checking if synergy issues apply. Establish what the service outputs and standards are that the service user needs, and the current costs and head count of each output.

#### Service Required

Establishing the broad shape of the future service, what it has to deliver, the scale, the quality, how different from current service, and other key features. The service to be provided must contribute properly to the strategic results of the Function. The appraisal needs to probe this substantially.

#### Practice Elsewhere

Establish the experience of other organisations as service users (both in-house and through external supply) and an understanding of what provider market opportunities exist.

#### Mopping Out Service Options

Identify and appraise options for future service delivery, which are sensible in terms of risk, practical and cost effective to implement.

#### Options Evaluation & Comparison

Rank options and identify preferred.

#### User Participation & Staff

To gain user views and sign up to the required service and options for change.

#### Line Management Involvement

To understand and achieve ownership of project process and outcomes. Also achieve effective interaction with Unions.

The report to EG and the Board requesting approval of the preferred option should also outline the timescales, costs and the issues relating to implementation.

### Implementation

Once the proposals are approved, a 'quality' implementation plan should be drawn up, which minimises the burden on management time to bring about the change. For some activities, further appraisal work may be necessary to determine what is to be implemented. The scale of the project organisation should be appropriate for the implementation in question, but the approach should incorporate the following deliverables:

#### Project Initiation Document

Project plan for implementing the preferred option, statement of deliverables, quality plan, costs and timings.

#### Costs & Manpower Savings Plan

Management action needed to realise productivity gains.

#### Definition (Quality) Of The Service Required

Plan to develop and implement service to defined standards.

#### Monitoring & Control

Show arrangements for effective control, monthly progress and spend monitoring.

#### Effective Communications

Plan to achieve; service user involvement, local line management, function staff involvement and union consultation.

#### Completion Statement

Formal acceptance of project completed by those affected and independent check that project deliverables have been achieved.





## Options for Service Delivery

### Finding Options That Improve VFM

In the conventional approach to market testing, the only option is to test what happens to be delivered currently in-house against outside competition. The MD-VFM approach is rather different. First, a good understanding of the service needed in future has to be established. Secondly, a strategic approach is taken to finding and examining options which are the optimum solution for the service in question.

The fundamental features of MD-VFM, and therefore of the preferred option, are:

- Adopting VFM management practice.
- Higher performance from the service, ie. better VFM.
- Introduction of management drivers to stimulate continuing improvements.

Where the service is well defined already, and the business risk is acceptable, open competition is probably the option that comes closest to delivering all of the MD-VFM features in one step. However, where the service is not well understood, the leading options will be those that achieve greater clarity through a first phase of development, leading to more rigorous changes in later phases. For example, an initial internal reorganisation might be followed by competition.

### Process For Considering Options

The process for identifying and evaluating options should be iterative, but it is helpful to start with a basic logic. This is set out in the logic flow chart and has two discrete stages:

1. Separate that part of the service which has to be delivered in-house under any circumstances, from that where competition of some kind *can* be entertained.
2. For those elements in the competition 'area', establish the preferred approach.

Having been through the logic once, iteration will usually be beneficial to ensure all issues are addressed.

### Assembling The Preferred Option

The proposals for the preferred option should address development of all aspects of the service and set out a pathway for achieving all the MD-VFM criteria. Where competition is in principle on the cards, this should be flagged up, along with a date for when this should be initiated. For elements of the service following an efficiency route, the proposals should state both how the management drive will be created to make things happen and how productivity will be increased.

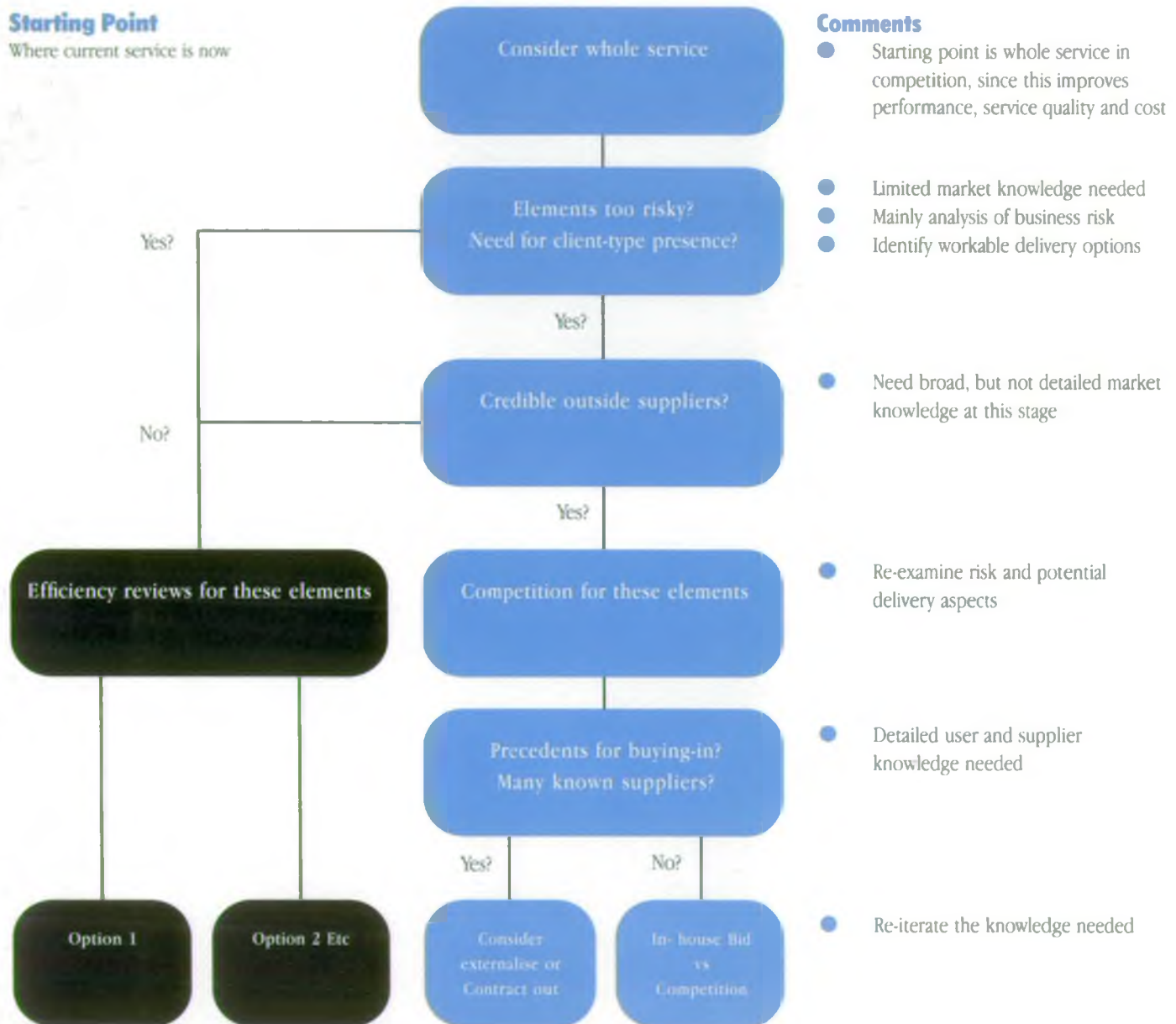
For services requiring several phases of development, a practical form of the preferred option would include:

- Statement of the eventual strategic outcome, eg. competition by 1998.
- Changes to bring about early and tangible VFM advance in at least part of the service.
- A business development plan to take the service along the Line Management 'Track'.
- Means of creating management drive to make things happen; early notice of eventual competition would do this, as might the introduction of a client/contractor split.

## Options Logic

### Starting Point

Where current service is now



### Outcome

Better productivity, Better service, higher performing management

## Efficiency Reviews

*An Efficiency Review can be an effective alternative to competition. The circumstances are likely to be as follows:*

- Service cannot be 'separated'.
- Risk to the business through the competition process.
- Inadequate market to achieve competitive environment.
- Service is insufficiently well understood to develop an invitation to tender.

As with all strategic options, an efficiency option needs to put in place some at least of the basic features of MD-VFM, viz. VFM management practice, higher performance in service delivery, and drivers to achieve continuing performance improvements. An intrinsic problem with an Efficiency Review, is that of how to create the energy amongst managers and staff to take the service forward.

### Requirements Of An Efficiency Review

In line with the three features of MD-VFM, the three facets of a good Efficiency Review are as follows:

#### Specifications and Costs

A proper statement of the standard of service should be an integral part of an Efficiency Review. There are various forms, ranging from a relatively informal standard of service statement through to a highly detailed and formal SLA. When an SLA is being considered for the first time, it is best to start with something reasonably simple. More complex statements can evolve from this. Whatever the statement, there should, of course, be agreement between the user and the supplier.

What steps need to be taken to identify the full cost of the service, and then subsequently the cost of individual outputs? Initially, too much attention to costs may not be helpful, but there should be a long term objective to relate service level and volume to cost.

#### Productivity Increases

These are the cornerstone of an effective Efficiency Review. Productivity is about achieving the required service (ie. the spec) with fewer resources, it is not just about cutting resources without regard to quality. Hence, there must be sound basis for a productivity increase which can be traced to definite management action. Productivity gains can be intuitively sound, such as reducing the number of delivery points, or should be based on an analysis and simplification of business processes.

#### Creating The Management Drive

This is perhaps the most challenging area for an Efficiency Review to tackle. Possible ways of developing the necessary drive include:

- Training/management and staff development.
- Clarifying/simplifying accountability for service delivery.
- Restructuring with client/provider split.
- Setting personal targets for delivery of service improvement.

#### Long Term Commitment Needed

Typically, the Efficiency Review approach will not be a once-off change; rather it sets a direction with the Review itself being the first step, putting in place changes which in broad terms will be followed up by the Line Management 'Track' in many instances.

Even in services where competition is the eventual appropriate strategic outcome, the service may not be sufficiently understood to do this at the outset, and a series of efficiency measures may be essential before competition can be properly determined.

Success in following the efficiency route requires sustained management commitment. This may not be available because of other priorities. Equally, it may not be necessary if other competent suppliers exist or come into the market place over a period of time. Hence, as an efficiency programme progresses, the possibility of outsourcing and of moving more rapidly to competition should be kept under review.

## Examples of Efficiency Reviews

| Improved Service Definition                                   | Basis of Productivity Gains   | Management Drivers  |
|---|---|---|
| <b>Personnel</b><br>'Action' packs for managers.              | Ratio of employees to Personnel staff elsewhere.  | Training.   |
| <b>Laboratories</b><br>National specification for analysis.   | Lab managers calculated lab productivity could be increased by up to 25%.                                 | Client pressure and the spec.<br>Labs put under one manager<br>Need to win 10% of work from outside.  |
| <b>IHWF</b><br>Specifications for routine and emergency work. | Benchmarking from market level performance needed for 'excess' workforce.<br>Reduction in overhead costs. | Client/contractor split.<br>Spur of possible future competition.<br>Better knowledge of actual performance (thus stimulating improvements).<br>Need to compete for some work. |



## Delivering Better Service

*This sheet looks at how service delivery can be improved to be more integrated and to give better value for money. Benchmarking and Business Process Re-engineering (BPR) are also discussed.*

### Background

MD-VFM requires that there should be a clear definition of the service needed, that is, of the key results that the provider has to achieve. Once these 'results' have been pinpointed, you can investigate the business processes and the management systems that deliver them.

### The Challenge

There are many ways of improving effectiveness and efficiency - new technology, fault elimination, quality systems, etc. All have their part to play but often the improvements are more marginal than expected. Also, service delivery often involves several different departments and professional groups; boundaries between the various groups hamper efficiency. The tendency is for each department to organise to do its part, but for the customer, this can mean a disjointed service with the customer having to rectify shortcomings in the provider's service.

An investigation of hospital efficiency from a patient's point of view showed that the time for full diagnosis of the patient's problem in an Outpatients' Clinic took 6-8 weeks and several patient visits to achieve. This was not because of clinical problems, but because seven professional groups were involved, each with their own processes and systems. All told, in one case there were several *dozen* discrete steps before the patient was in the operating theatre, many of them being transfer/reception procedures needed when the patient's details crossed from one group to another. Undoubtedly, each group thought it was efficient, but equally, as a whole the service was grossly inefficient and caused customer frustration.

### Basics Of Sound Service Delivery

Business Process Re-Engineering (BPR) is somewhat trendy and has gathered its own clique of experts. But BPR is sound in principle. It says that quantum gains in efficiency can only be achieved through a thorough review of all the steps in a service. This idea complements the customer focus that MD-VFM requires. Put the two together and the basis of good service organisation emerges as follows:

#### 1 - Focus On Key Results For Customers

The key results are those that satisfy the customer. This is why the service exists. If so, it follows that the (only) essential processes are going to be those that support delivery of these key results; the role of others is in question.

#### 2 - Integrated Service - Crossing Functional Boundaries

The customer wants a complete service, integrated. Hence, if effectiveness is about satisfaction, the whole organisation must be focused on that delivery, ie. a holistic approach needs to be taken, cutting across traditional departmental/functional boundaries where necessary.

#### 3 - Target On The Minimum, Quality Business Processes

Identify the minimum number of processes of the right quality (which is where ISO 9000 and TQM come in); this will yield effective and efficient service.

### Other Aspects of BPR

These concepts provide the basis for practical analysis and upgrading of service delivery. Because they get to the heart of matters, they will also help innovation in other ways, eg. in defining the IT systems that really will add value to effective management. Obviously, in a complex organisation, complete re-orientation of Departments may be inappropriate - there may be legal and H&S requirements, as well as the need for critical masses of specialist expertise etc, etc. But none of these undermine the basic validity of the concepts.

In addition, the concepts are powerful catalysts of culture change. Staff are more motivated by achieving real results for real customers than they are by narrow functional goals, especially if they can use their own ideas to improve the service organisation. The approach fosters both teamwork and the culture of continuous improvement.

### Two Success Stories

In the hospital outpatients study, after BPR had been applied, the diagnosis time became 2/3 hours with only one visit, and the hospital services were more integrated so as to be effective and efficient for what the *patient*, ie. the customer needed. This is a win/win situation. The customer gets quality service and there is scope to cut costs, whilst the staff are now more highly motivated and working in multi-disciplinary teams. In another application, at an aluminium company, a better focus on *customer* needs led to a major restructuring involving sections dealing with ordering, delivery, aluminium foil manufacture, billing and debt collection, all working much closer together. The company's relations with its own suppliers have substantially changed as well. The results were that delivery times were slashed along with the number of steps involved and also the costs of the product and the service.

## **How To Get Started**

Like other aspects of management innovation, there are many consultants and academics making things too complex, and this is unhelpful. Much better is to start on a modest scale, using basic ideas to make progress. Branch out as confidence builds. The worked example (Business Concept Sheet No. 2) gives a suggested approach.

You will need a project structure. Advisors will be able to help you, but overall the investigation should be carried out by the staff currently delivering the service. Once they have got the hang of it, they will enjoy finding new and better ways of delivering the service.

## **Benchmarking - Later**

As part of understanding what is good practice, benchmarking has an important role, but do not let the benchmarking with other organisations become too complex so that the purpose of the study is lost! Also, there is little point in starting to benchmark until you understand systematically what results are required and what your own group's outputs and business processes are.

## An Example of Re-Engineering

This example for the Personnel function illustrates the practical side of Business Process Re-engineering (BPR). There are two main stages - Analysis followed by Synthesis.

### Analysis

#### Step 1

Identify the 'Key Results Areas' (KRAs) for Personnel,  
eg. Effective Health & Safety Advice  
Recruitment  
Etc

#### Step 2

Identify two sets of performance measures:

*Example-H&S advice*

'Hard' measures for management control

*% improvement in accident rate*

'Outcome' or customer satisfaction measures

*Target safety rating following independent audit*

#### Step 3

For each Key Result Area, identify the constituent deliverables and then take each of these and break it down until the basic individual steps and procedures are revealed.

*The example of recruitment shows the level-by-level working down to the basic procedures.*

#### Step 4

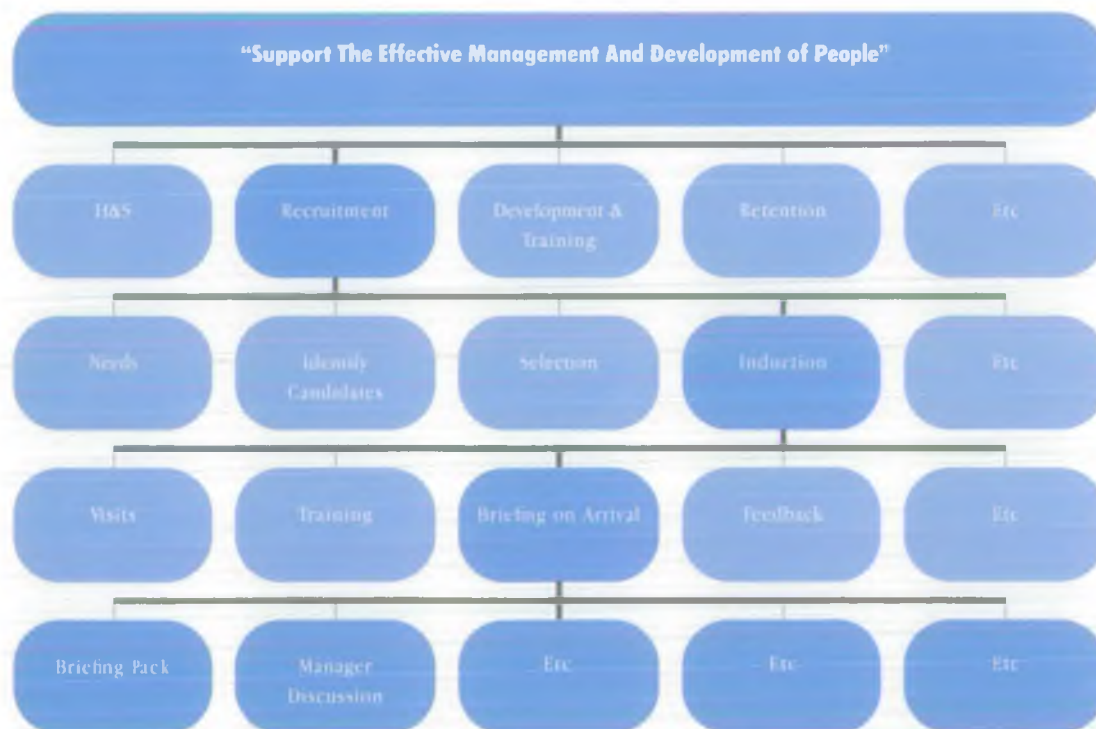
At each level of the breakdown, identify the required performance standard and how it should be measured.

This 4 step sequence is a powerful and quick way of finding out what actually happens in service delivery. But sufficient time should be taken to ensure that all the steps are captured.

### Personnel Mission

Key results Areas  
'What'

'How' Business  
Processes



## Synthesis

For every element that is identified, the questions to be addressed are:

*What does this contribute? How? Why?*  
*Do we still want it? In what form?*  
*Who should do it?*

Answering these properly may require discussions with several parties, including the customer of the service in question. But it need not take massive amounts of effort. The process is iterative; early feedback will include, for example, - what are we trying to achieve in recruiting? After 2/3 iterations, a solid shape for the service will emerge - in probability with somewhat fewer boxes in the array than at the start. At this point the synthesis of a re-engineered service will be well under way.

By analysing and synthesising to some extent in parallel, time can be saved and problems of over-analysing can be avoided.

In synthesis, the fundamental theme is - how does the procedure in question contribute to what the customer needs and to integration?

Don't aim for the 'perfect' solution; better to focus on certain sensible improvements, put them in a performance improvement plan and run with this

## Other Practical Points

Systematic description of the actual business processes involves proper documentation. The staff responsible for the service should do this, after being trained and given guidance. This will empower them, and give them the opportunity to come up with innovative solutions.

Since the idea is about integrating possibly disparate procedures, the initial investigation may need to be widened so that all important contributions to the current service are embraced.



## Benchmarking

*Benchmarking is the identification of key business processes and outputs in order to compare them with similar processes either inside the organisation or elsewhere. The purpose is to gain new insights and to identify opportunities for making improvements.*

*The starting point for benchmarking is to identify systematically the current working practices, as part of a business process review (see Business Concept Sheet No. 1). This in itself will throw up ideas for change, both simple and radical, which improve processes so that they focus on delivery of the 'key results' needed by the service.*

*Benchmarking complements these approaches by bringing in fresh ideas as follows:*

### Innovation

Identifying new ways of doing and challenging the 'business as usual' methods.

### Motivation

Demonstrating what can be achieved with real examples and providing an external and measurable basis for change.

### Focus

Identifying areas of 'high pay-off', quantifying performance gaps and promoting external awareness.

### Benchmarking Clubs

Consultants are promoting Benchmarking Clubs heavily, and are gaining an active response from those providers seeing benchmarking as an alternative to market testing (which it may not be). The idea of the clubs is sound. If high quality information is to be exchanged between organisations, this may need to be on a confidential basis and therefore subject to agreement by both parties. No information can be expected if no information is offered. Hence clubs have been formed to enable this free exchange of information. Some of these are high in aspiration, viz. achieving best in class, even world class performance.

The danger is that the clubs become an end in themselves and become detached from the real business. They can cost a lot, up to £50,000 for a subscription for major exercises. So much thought and preparation should be given before plunging into this potentially expensive and time consuming area.

### How To Get Started - What To Benchmark

The starting point for benchmarking should be the business process review stage. This will clarify the results needed for the group in question, and achieve the systematic analysis of current processes.

Benchmarking comes in when you want to compare one service provider with another. One of the first things to decide on is what you want to compare. The most tempting comparator is the cost of unit output, but usually robust information in this area is the hardest to come by. Remember, other organisations will find unit costing just as difficult as you will.

Accordingly, it is probably better to focus initially at least on measures like the following:

#### Cost of Labour

- Direct costs (ie. effectively salary levels)
- Indirect (Overheads etc.)

#### Productivity

- Outputs per FTE.

#### Process Analysis

- Comparison of the number and type of steps required to deliver particular outputs.

You will need a project type structure to manage the investigation. You will also probably need guidance from a specialist, but essentially, staff doing the work currently should own the approach, do the assessments and come up with ideas of their own for improvements. It is an excellent way of achieving controlled empowerment.

Each process identified requires an 'owner', completely familiar with all aspects and details. This allows in-depth discussion with external organisations and adaptation or replacement of existing processes to achieve greater output and productivity.

In deciding who you want to compare with, the obvious starting point is other groups inside the organisation, followed by other public sector bodies through informal clubs.

Alternatively, or as well, you can commission consultants to carry out preliminary comparisons with other chosen organisations on a non-attributable basis for around £10k. This approach has value in giving rough and ready yardsticks. But it is limited in that the sharing dimension of benchmarking - one of its major strengths - is entirely absent.

## Service Level Agreements

A Service Level Agreement (SLA) is a more formal way of expressing how you are going to deliver a service from one part of the business to another. It can be defined as a statement of various service level options from which one will be selected by the client or customer specifying timing, frequency and cost of a service to match a particular business need.

An SLA is often seen as the starting point from which a more business-like relationship is developed between the client and provider of the service. Initially, an SLA can begin declaration of the service to be provided, which has been agreed with the client; however, this can then progress towards becoming an SLA on which budgets are actually agreed, thus establishing a real contractor relationship.

### Why set up an SLA?

- To ensure the service provider is accountable for quality and cost of the services delivered.
- To make users of the service more conscious of the costs of support services.
- To provide a mechanism for monitoring quality and quantity of services against cost.
- To give the user an opportunity to agree cost in advance for services rather than the provider dictating these factors.

It is important to remember when setting up an SLA, that the needs of three different parties will need to be considered - Client, Provider and Consumer. Sometimes there can be conflict between the needs of the Provider and Consumer because often the consumer has high expectation of services provided; however, and this is the important distinction, they have no responsibility for their cost and, therefore, it is the ultimate responsibility of the client to decide the level of service required to meet the business needs.

### An SLA contains such information as:

- How the service will be provided.
- Timing and frequency.
- Charges to be made.
- Period for which the agreement is valid.
- How the service will be monitored.
- Mechanisms for amending the level of service and how these will be dealt with.
- How the agreement will be enforced.

A good SLA not only demonstrates how a service is going to be delivered, but also demonstrates how a function will help achieve the organisations' core business objectives.

## Internal Business Units

*Separating a service from other functions and operating it as an Internal Business Unit (IBU) can improve both quality and efficiency. Both users and providers perform more strongly in an IBU environment, ie. there is management drive.*

*Business-like, quality relations between any groups, functions or even individuals in an organisation, are based on clarity as to what is to be provided, by whom, and to whom. The service level agreement concept formalises this to an extent. The IBU concept takes it a further step by making the provider a separate management entity.*

### Advantage Of IBUs

- Both user and provider focus on the service needed, with more discipline.
- IBU management focus on service delivered and on managing costs.
- Service users focus more on their own activities, less on managing the provider, and are able to monitor service against agreed standards.
- An IBU is a means of ring fencing the costs and outputs of a service (perhaps for the first time) and facilitates benchmarking, including against the private sector.
- Managers have a greater understanding of their business.
- The performance of Support Services to IBUs is enhanced because of greater demands from their customers.

### Other Issues To Consider

The spotlight that an IBU creation puts on service quality and costs is beneficial, but other issues need to be taken into account if an IBU is being considered.

One of the principal concerns is that the extent of trading between users and the IBU should be thought out; excessive preoccupation with trading, especially if it is 'funny money', can be a distraction from the main business objectives.'

Users may want to have a choice as to whether they use the IBU or external suppliers of the service.

The aims of the IBU may diverge from those of the business. The IBU might wish to build up outside customers - this may or may not be in the interests of the organisation. There are real limits in an NDPB in which an IBU can operate as a proper business. This constraint is both advantageous and disadvantageous.

### When Might An IBU Be Appropriate?

- When the service is reasonably discrete and can be separated from other activities without disruption; IBU creation should not introduce additional demarcations.
- When the volume of service is reasonably substantial - say more than six FTE involved.
- When a competition process is envisaged at a later stage.
- When improved performance is sought by management.

### Getting The Best From The IBU Concept

Given the existence of a discrete set of services, the creation of an IBU can lead to major gains for an organisation. These relate to the outputs of the IBU itself, but also through the knock-on effect the IBU has on the performance of its customers and of its support services.

The IBU management should be given a clear remit. This should exclude the notion that the IBU is an independent business; the main thrust should be on managers developing the performance of the IBU through improved service quality and delivery and better control of costs. This needs to be expressed in tangible targets for performance and for staff development.

If competition in due course is a possibility, then this should be declared early.

Initial establishment of continuous improvement culture will facilitate the effective use of techniques like business process re-engineering and benchmarking as ways of improving performance, rather than using these tools as defence mechanisms.

Overall, the priority should be about achieving better VFM, and avoiding distractions like becoming self-sufficient, building up external business (except in certain heavily prescribed circumstances), and in making the financial systems too complex.

Within the IBU, both management and staff will need support in changing attitudes and management systems, so as to be more business-like. Equally, they will need to receive strong signals that they are (still) an important part of the total organisation.



## NRA Achievements in Market Testing

*In 1993, the Board committed the NRA to reviewing all aspects of its business in the context of Market Testing over a 5 year period. The objective was to improve VFM by use of the market, but to do this without disruption, and by ensuring, wherever possible, continuity of employment for NRA employees (even if with another employer).*

### Appraisals

The published plan for appraising activities (as set out in the Corporate Plan) has kept to time. In the first 3 year period, some 40 activities were appraised relating to about 60% of the NRA resources, viz £200M/y and 5000 FTE.

The findings of the most recent set of appraisals (relating to £100M/y and 1800 FTE) will not be implemented by the NRA; these will be passed to the Agency for consideration. They are a rich source of information on the current service effectiveness and cost, and contain useful proposals for how service could be improved.

Because of the focus on VFM, appraisals have deliberately taken a strategic perspective and each service has been assessed on its merits. As a result, nearly all 'MT' options have been used, for example:

|                              |  |
|------------------------------|--|
| Internal Audit               | Competition with In-House Bid.           |
| Personnel                    | Efficiency Review with repositioning.    |
| Project Engineering Services | Outsourcing through competitive process. |
| Transport Maintenance        | Contract out                             |

### Implementations

The achievement to March 96 relates to -3000 FTE:

- Savings £11M/y (25% overall)
- Headcount reduction of 600 FTE
- Quality of service:
  - \*better definition
  - \*greater clarity as to who provides
  - \*better arrangements for controlling delivery performance
- Greater awareness throughout the NRA of the need both to understand and control, service delivery and costs

### Overall Benefit/Cost Of The Programme

Up to the end of the NRA's existence the total cost of the programme, including severance costs, is expected to be about £12M. Of this, about £2M has been spent on the Market Testing Unit.

Annual benefits are approaching the rate of £11M/y, while the cumulative benefits since the programme was initiated are on target to be about £20M/y. This excludes possible benefits from options appraisals not yet implemented.



## Administration

*Administration includes nearly 50 office related services and employs around 400 FTE, costing a total of around £9M/y excluding bought-in services. An additional 200 FTE costing £4.5M/y carry out administrative tasks within other Functions. About 60% of staff are employed on Office Services (mail, word processing etc), about 20% on reception/telephoning etc, with the rest in Management and Site Services. Administration is organised differently in each Region/Head Office, with the extent of centralisation and de-centralisation varying considerably.*

### The Review

Following an interim report in Autumn 1994, the full Strategic Review was completed by Summer 1995. Over time, all the Administration groups have become actively involved (along with many of their clients), so that the whole Function is now moving forward, in effect implementing initiatives as they are identified. The Strategic direction is now defined as follows:

- Business plan for the Function to achieve, eventually, market level performance.
- External Competition can be used as a means of improving Value For Money in nearly all aspects of Administration; the strength of the supply market is growing.
- Business risk and propriety are not serious obstacles.

### VFM Improvements

- |   |  |
|---|--|
| <ul style="list-style-type: none"> <li>● Rationalise the 100+ contracts (worth nearly £1M/y) for security, cleaning and building/grounds maintenance by July 96.</li> <li>● Achieve 10% efficiency savings by December 95.</li> </ul> | <ul style="list-style-type: none"> <li>● Implement Business Plan, to include single SLA and Performance Monitoring.</li> <li>● Identify best practice and implement.</li> <li>● Complete the appropriate competition processes by April 98.</li> </ul> |
|---|--|

### The Way Ahead

Incremental development of the Function through its Business Plan should continue and include:

- Letting of contracts for pilot FM of site services by April 96.
- Setting target efficiency gains for 96/97 by April 96, based on Service Level Agreements/best practice implementation.
- Using controlled pilots in office services to pinpoint service specification, best practice and optimum delivery arrangements.

Implementation of the Business Plan will provide a better understanding of the nature of the services and their costs. This will permit appraisal of the whole service in the context of competition to be completed by December 96. The competition stage should be completed by April 98.

## Board and Committee Services

*In some Regions, Board and Committee Services (B&CS) is part of the Administration function, but in others, including HO, it is part of the Legal function.*

*Those who carry out the service usually spend a proportion of their time on tasks other than those associated with the services of Committees. The number of Committees serviced varies between the Regions and Head Office.*

*Board and Committee Services employed 17.5 FTEs costing £760k; approximately 60% of this cost was the staff cost.*

### The Review

The Strategic Appraisal (accepted by the Board in 1994), concluded that B&CS should be retained in-house and an efficiency review be implemented with a target saving of 10%.

The Review was carried out in two phases; the first concentrated on achieving the savings required for implementation in the financial year 1995/96.

The second phase focused on development of Service Provision including Service Level Agreements, whilst establishing potential future impacts and savings.

### VFM Improvements

- £93.8k cost savings (73.7k direct costs).
- A reduction of 2.5 FTEs.
- Service outputs more clearly defined.
- National Service Level Agreement set up in July 95.

### The Way Ahead

B&CS Best Practice Group looking at service improvements to meet the future needs of the Agency; some recommendations for consideration are:

- A training programme for all Committees:
  - \*An introduction to the Agency.
  - \*What is required of Committees in the Agency.
- Optional Board Member training to develop their chairmanship abilities.

## Hydrometry

*The Hydrometric service provides data on flows, rainfall, climate and groundwater levels along with associated maintenance of stations.*

*Those parts of the service closely related to telemetry and IS were excluded from the Review and await WAMS implementation before review.*

*The total service covers some 360 heads (82 FTEs) and costs £9.6M overall.*

### The Review

The Review concluded that a number of initiatives was necessary: the introduction of a standard specification, examination of the impact of a 10% and 20% reduction in expenditure in the service, and extension of competition for maintenance of hydrometric sites. A proposal to expose to competition 10% of field data capture activities, was subsequently rejected.

Indicative savings are assessed at approximately 15% available, from adoption of best practice and better targeting of resources. Significant savings are also expected from the exposure of hydrometric site maintenance, costing some £1.5M per annum, to full competition.

### VFM Improvements

- Open competition for maintenance hydrometric sites.
- Introduction of standard specification.
- Introduction of service level agreements.

### The Way Ahead

There are some external suppliers of hydrometric services, but overall the market is not strong, generally it is a fringe activity. The reintroduction of putting 10% of the service to competition would stimulate both Hydrometry and the market.

The review of 10% and 20% reductions respectively in spend should examine critically the priorities and requirements of the service, the quality and volumes of data required, and the effectiveness of the current arrangements for acquiring data.

## Information Systems

*In 94/95, the NRA spent around £40M on IS/IT services. Some 3/4 of IS costs are bought-in services and products, with several new contracts being initiated in 93/94. In-house staff was nearly 200 FTE, with expenditure on new corporate system developments accounting for £13M of spend.*

Service volumes include: IS users - 8000, PCs supported - 6000, Software systems supported - 600, Helpdesk calls - 40,000/y

### The Review

From October 94, the 'inherited' structure of 8 Regional Groups + Head Office was reformed into a National IS Service (NIS). NIS was given the goals of 10% year-on-year reductions of both staff and budgets for its first two years. Other important Value For Money initiatives were the introduction of Service Level Agreements and the split of client activities from the contractor ones of Technical Services and Systems Development.

Building on these, the Strategic Review project assessed the Service Required in the future and Practice Elsewhere. The strategic conclusions are:

- Well established practice in both private and public sectors shows that the majority of IS services can be open to competition
- The issues relating to competition are about packaging and the future role of the client, so as to get the right balance between Value For Money, the size of the retained client, and opportunities for suppliers to innovate.
- The countdown to competition should start in June 96.
- The IS service issues for the Agency are likely to be similar to those for the NRA; hence the conclusions will still be valid after Vesting Day.

### Early VFM Improvements

- Reductions in 95/96 are 10% in both posts (20) and spend (about £4M/y).
- Full implementation of SLAs performance management to achieve the required standard.

### The Way Ahead

#### Business Development

- Introduce hard charging for NIS services from April 96.
- Identify good practice and implement from January 97.

#### Competition Strategy

- Review Strategy Report in relation to new Agency organisation and service needs, by June 96.
- Determine optimum packaging for most cost effective service delivery by November 96.
- Reach decision on service delivery options, January 97.
- Complete competition processes with new arrangements in place from April 98.



## In-House Work Force

*In 1989, on transfer to the NRA, the In-House Work Force (IHWF) consisted of some 2,300 manual and semi-skilled workers with a turnover of about £70M/y. With the exception of Thames Region, where a contractor/client split was already in place, the IHWF was run on an area/district basis with supervisory staff carrying out both roles.*

### The Review

During 1992, two reviews of the IHWF were undertaken to assess possible efficiency savings and to determine the numbers required to provide adequate emergency response (generally known as the Noble number). The Board subsequently supported the extension of the contractor/client split to all Regions, together with the retention of an Emergency Workforce equivalent to the Noble number. The remainder of the workforce in excess of the Noble number were required to win their work in open competition. This affected the 3 Regions of North West, Anglian and Thames, where numbers were significantly in excess of the Noble number.

### VFM Improvements

- All regions have won work in open competition.
- Reduction of workforce by over 500 FTEs, saving £5M/y.
- Productivity increased.
- Reduction in capital asset holding.
- Cost management and control improved, and aided by new PC financial systems.

### The Way Ahead

Further improvements that should be considered include:

- Development of client side to establish realistic manning levels, to improve work planning and to achieve more rigorous benchmarking of directly allocated work.
- More gathering of work requirements into long term SLAs or 'contracts'.
- Improvement of IBU cost base by reduction of overheads in terms of support service costs, exploring local negotiation and pay bargaining to reduce direct costs, and setting measurable targets for productivity increases.
- Development of and agreement to, a set of objective VFM measures, to include rigorous memorandum accounting and possible extension to 'real' accounting.

Within the IBU, managers have responded well to the pressures of reorganisation and competitiveness. It must be ensured that continued support for further initiatives is forthcoming to secure efficiency gains in the future.

## Internal Audit

*Internal Audit is an important support service in the NRA, undertaking VFM studies and compliance monitoring, as well as other reviews as appropriate.*

*Before Market Testing, Audit had already undertaken several steps to improve its effectiveness and efficiency, including having a resourced annual plan, budgets for projects, and a commercial style time management system. The service cost £1.1M/y and employed 22 FTE.*

### The Review

The Review of Internal Audit in 1994 indicated that a competition for the service would not be risky for the NRA, and that there is a substantial supply market. This risk could be minimised by use of the right form of invitation to tender and evaluation criteria.

Accordingly, the NRA Board decided that Audit should be subject to open competition.

The in-house team competed against the open market in early 1995 and won the contract to supply Internal Audit services for 5 years.

### VFM Improvements

- Clearer definition of service required by client.
- Streamlining of Audit team operation, including delayering; increased responsiveness to customer needs and service delivery.
- Overall cost reduction of 40%.

### The Way Ahead

Action is needed to reduce the overhead resource no longer needed by Audit, to ensure that full savings are achieved. Support services need to close the gap between actual support service costs and market rates. A review should be carried out before March 96, to examine the performance of the provider in terms of quality and costs, the arrangements for monitoring costs, and the lessons to be learnt for future initiatives of this type.

## Laboratory Service

*When the NRA was formed in 1989, there were 11 chemistry laboratories employing 413 FTEs nationally, analysing around 0.3M samples per year for customers in the Water Quality and Pollution Control. Each Region had its own Laboratory Service providing all its laboratory requirements.*

### The Review

The Review established that there was scope to increase productivity significantly while meeting likely future workloads and quality criteria. An option to externalise the laboratories completely was rejected because it was felt chemical analysis results are critical to the NRA's core business and, as such, the introduction of competition would place the security of these results at significant risk. The preferred option was to close 5 laboratories and to form a National Laboratory Service (NLS) with its own Board (whose members include managers from Sainsbury and Zeneca).

### VFM Improvements

- Closure of 5 laboratories with savings of £2.75M/y, and reduction of 95 FTEs.
- Service Level Agreements introduced using a national specification managed by a lead client group.
- Business Unit organisation showing separate financial accountability.
- Winning 10% of work for external customers.

### The Way Ahead

The better defined relationship between service user and the NLS should be built on as follows:

- Working closely with customers to improve quality of results.
- Development of client to reinforce partnership to ensure customer satisfaction.
- Introduce 'hard' charging for services based on volumes and type of analysis.
- Review of IS systems.

A review of the decision to retain the service in-house has been postponed until after Vesting Day.

## Personnel

*In 1989, each Region had its own stand-alone Personnel group. The HO group developed after Vesting, taking an increasing role in policy development as well as in project implementation (job evaluation for example). Service to the business was comprehensive in principle, but generally characterised by many procedures and lack of customer satisfaction. The total cost of the service was £9M with 110 FTE.*

### The Review

A comprehensive survey of managers showed a preference for more personnel work to be carried by line management. A review of practice elsewhere both in the public and private sectors suggested that a more strategic role for the function would be appropriate, with a best practice ratio of personnel staff to employees of around 1-160 as against ratios as low as 1-73 in at least one NRA Region.

Some external suppliers of personnel services exist, but none could supply an integrated, national service. Accordingly, competition at this stage was ruled out, in preference for a re-structuring based on achieving near best practice ratios. Other aims were:

- Improve contribution of the Personnel Function to the strategic management of the Agency.
- Significantly reduce staff numbers and operating costs of the function nationally.
- Support cultural development and empower Line Managers.

### VFM Improvements

- Saving of £1.5M/y and reduction of 36 posts by April 96.
- Concentration on strategic role in Human Resources, filler role for line management in personnel work.
- Increase productivity by adopting best practice nationally.

### The Way Ahead

- Implement revised structure by September 1995
- Mobilise action packs for guidance to Line Managers by December 1995.
- Establish new strategic role for Personnel.
- Develop SLA for the new Personnel function.



## Project Engineering Services

*The NRA spends around £100M/y on capital works, with associated staff costs of £12M and consultant fees of £10M. For activities which take an NRA project through feasibility, design and construction supervision, some 65% was already supplied by consultants.*

### The Review

The Review involved the establishment of four provider units of 140 design engineers, surveyors and support staff, together with an inventory of 6 offices and equipment. A market appraisal by consultants concluded that the service could be put out to competition without excessive business risk and that an active mature market existed.

In July 1993, the Board decided that 10% of activity should be retained in-house with competition for the rest being appropriate. Following further discussions, the staff involved concluded that an In-House bid was too risky. They elected for a negotiated takeover through a competition process. This led to a 5 year contract with Halcrow UK Ltd and the transfer of all provider unit staff along with their working assets.

A National Project Board was set up to manage the contract, to ensure consistent flow of work from all 8 Regions, and to assess the performance of the contract against other term consultancies.

### VFM Improvements

- Saving of £3M + over 5 years.
- Alteration to standard terms of contract provides scope for savings.
- Reviews of contract and percentage reductions in workload over 5 years provide incentives to perform at a competitive price.
- Single National Contract provided substantial discounts and potential for economies of scale.
- Strategic overview of contract to ensure impact on the consultancy market provides gains.

### The Way Ahead

- Agency needs to monitor progress and performance in output terms of the contract and also to examine the impact in pricing structures against other term consultancies.
- Declared Business Case savings need to be reviewed to establish whether Regions have achieved the targeted savings and what further savings and discounts had been achieved.
- Examine the potential for further partnership arrangements in order to optimise the management of the Capital Programme.
- Extend the Halcrow management control arrangements to the management of other consultancy contracts.

## Public Affairs

*Public Affairs includes Media Handling, External Affairs, Advice, Promotions, Education and Internal Communications. The budget for 1994/95 was £3M/y of which 35% was bought in, with Media Handling accounting for a quarter of the in-house spend. Some 50 staff are employed, 14 at Head Office; Regional groups are between 3 and 6 staff each. Among the major outputs are an average of 13 TV/Radio appearances each working day, around 13,000/y enquiries from the general public, and around 400 publications annually.*

### The Review

The Review Team assessed a range of strategic options which would strengthen the Function to meet the greater demands of the Agency, generate productivity gains, and create a management climate which would stimulate continuing VFM improvements.

Large variations were found in the unit costs of Regional/HO groups as well as differing practices and service levels.

The preferred option, accepted by the NRA Board, is to manage Public Affairs in two parts. First, to develop and retain in-house Strategic Business Advice, focusing on delivery of Media Handling and Advice services along with the strategic 'client' roles for other services. Secondly, for the other activities supporting these client roles, to use external suppliers increasingly and to use Market Testing to improve VFM.

### Expected VFM Improvements

To be planned out and reported to EG/Board by December 1995.

#### For Business Advice:

- Streamline in-house teams to strengthen Strategy, Advice and Media Handling (especially the emergency response).
- Identify best practice, establish specifications and size the services accordingly, leading to some staff reductions.
- Set productivity targets for managers, improve competence in directing campaigns and projects.

#### For Supporting Activities:

- Move to use external suppliers more.
- As a first step, specific proposals for competition in Publications and Exhibitions.

### The Way Ahead

By March 1996, complete the streamlining of Strategic Advice and Market Testing of Publications and Exhibitions.

## Transport & Mobile Plant Maintenance

*In 1993, the NRA spent around £5M on the maintenance of 8,000 items of vehicle and mobile plant. Three Regions had already contracted out this service, whilst the other Regions spent about £2.5M in-house, involving 140 staff (70 FTE), dispersed over 15 sites. Only Riccall in N-Y and Bridgend in Welsh respectively involved more than 10 FTEs.*

### The Review

The Strategic Appraisal led to the conclusion (accepted by the NRA Board in July 1993) that the maintenance of Transport & Plant was not NRA core business and that in-house provision should be terminated with effect from March 1994. Competent providers of the service exist and the conclusion was reached that there is no need to spend management effort in the NRA on a maintenance operation. A target saving level of 10% (£0.25M/y) was proposed.

### VFM Improvements

- Use of National specification and contract documents, both for the externalising elements and also for revamping existing contracts.
- Results based on NRA accounts suggest savings (including changes to maintenance needs), are running at an annual level of £1.2M. All Regions exceeded the 10% target except S-T (2%) and A (8%).
- At Riccall in N-Y, savings of nearly 25% were achieved and 23 FTE transferred through a negotiated takeover (the NRA's first) to a subsidiary of Anglian Water. Reports 12 months later indicate that the service quality is high, the Depot is winning work from other customers and that the transferred employees are satisfied (they received a 4% pay rise).

### The Way Ahead

Rationalising Transport Management (the Client side) is under way, and should be completed by March 96.

Within the In-House Work Force, the creation of the client/contractor split and the transfer of operational management of assets to the Internal Business Units has created the incentive to improve utilisation and reduce the amount of Transport & Plant needed.

## Highlights of Strategic Reviews



ENVIRONMENT AGENCY

### NATIONAL LIBRARY & INFORMATION SERVICE

#### HEAD OFFICE

Rio House, Waterside Drive,  
Aztec West, Almondsbury,  
Bristol BS32 4UD

ENVIRONMENT AGENCY



099527

National Rivers Authority  
Rivers House  
Waterside Drive  
Aztec West  
Almondsbury  
Bristol BS12 4UD  
Tel No. 01734 535272  
Fax No. 01734 535106