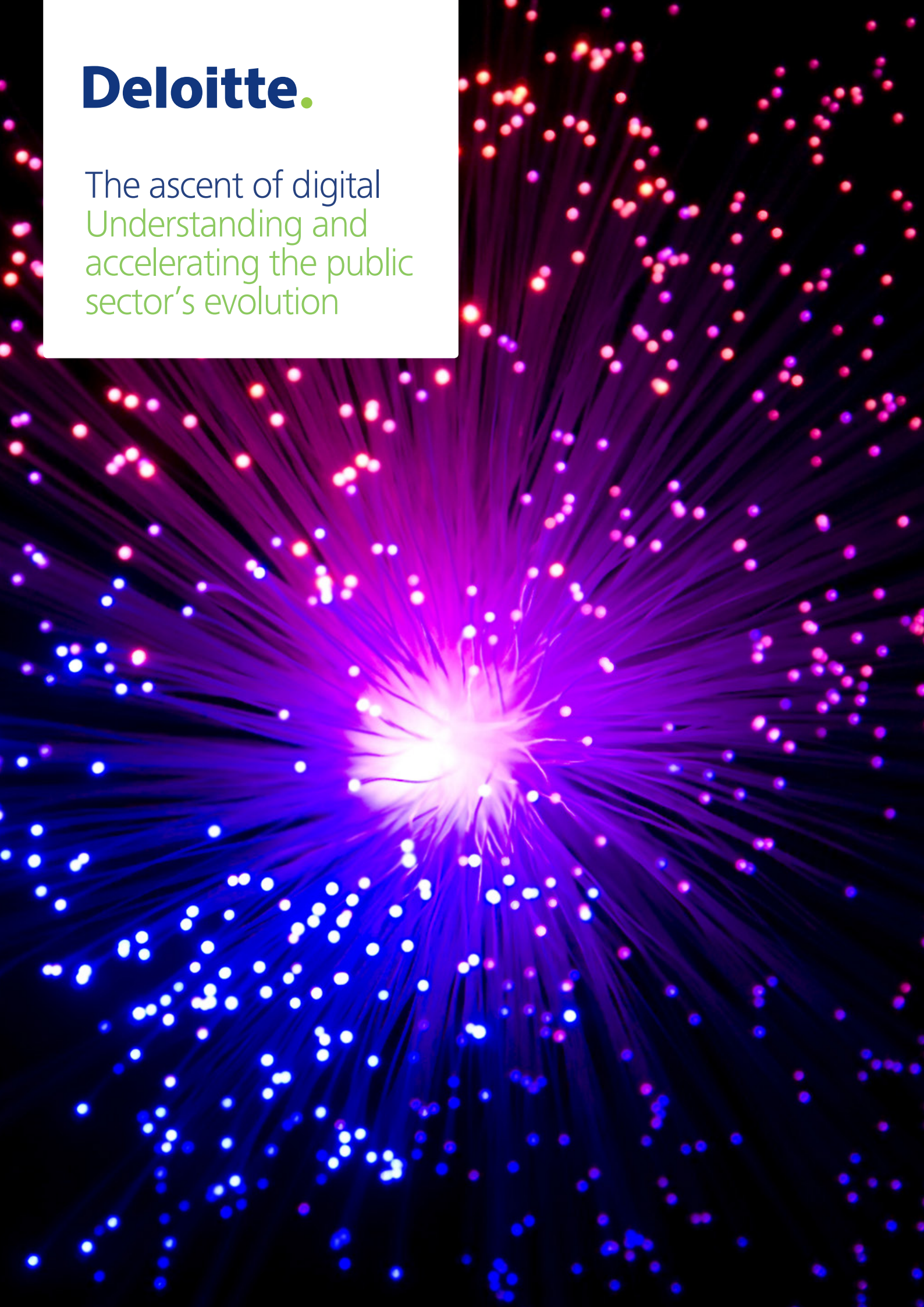


The Deloitte logo, consisting of the word "Deloitte" in a bold, blue, sans-serif font, followed by a small green dot.

The ascent of digital
Understanding and
accelerating the public
sector's evolution



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With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges.

Welcome to government's digital era

This decade, the public sector entered a new phase in its evolution: government's digital era.

Modern government as we know it today was formed in the 19th Century's industrial age when local organisations, each with their own paper-based administration, drove social progress and our society became immeasurably better. In the second half of the 20th Century, government moved into a bureaucratic era when the state embraced electronic records in pursuit of standardisation. And then at the turn of the 21st Century, electronic government began helping the sector improve its interaction with citizens through online services and electronic data capture. However, with just a few exceptions, e-government's impact was limited to creating electronic replicas of analogue procedures.

In recent years, the public sector began adopting digital processes and operating models, heralding the dawn of our new digital era. While technology makes digital transformation possible, change is ultimately being driven by unprecedented cost pressures and rising public expectations.

To assess the public sector's stage of digital evolution, Deloitte surveyed a range of leaders who are involved in digital transformation between January and March 2015. Some 400 responded, from all nations of the UK and from a wide range of organisations spanning local and central government, the NHS, police and justice, further education and higher education.

This report sets out the survey's key findings. Most importantly, it identifies the common barriers that are slowing government's digital evolution and highlights some successful interventions that have helped ambitious public sector organisations accelerate their transformation.



Joel Bellman
Partner, Government & Public Sector
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Executive summary

Survey results

Our survey on the evolution of public sector digital draws four conclusions:

1. Citizens are front of mind for public leaders, but they are too rarely at the heart of service design. Our survey found that:
 - 87 per cent said their digital strategy aims to improve the customer experience
 - 52 per cent said that user-experience design skills are lacking in their organisation
 - 12 per cent report a high or very high level of citizen involvement in co-creating digital services.
2. The public sector needs digital confidence, leadership and skills. Our survey found that:
 - 93 per cent said that workforce and skills issues are the most difficult areas to manage in their digital transformation
 - 26 per cent said their organisation has sufficient skills to execute their digital strategy
 - 32 per cent said their leadership has sufficient skills to execute their digital strategy
 - 35 per cent said they are confident in their organisation's readiness to respond to digital.
3. Funding pressures, competing priorities, workforce issues and culture are common challenges. Our survey found that:
 - Insufficient funding and competing priorities were the two most-often cited barriers to digital transformation
 - Workforce and skills are seen as the most challenging area of change to manage, and changing culture is particularly hard
 - 48 per cent said their organisation's investment in digital initiatives has increased this year.
4. Commercial approaches need to get in step with digital transformation. Our survey found that:
 - 83 per cent said procurement needs to change to allow for digital transformation, especially to allow for agile development and to de-restrict terms and conditions

- Regulations, lack of flexibility and legacy contracts were identified as the most significant obstacles to digital-friendly procurement

- 74 per cent said their organisation blends in-house and contracted resources to develop digital services.

Interventions

Our research concludes that the following interventions can accelerate the public sector's digital evolution:

- Changing the working environment to stimulate collaboration and shock the system
- Putting user research into the heart of service transformation dialogue
- Appointing agitators to key posts
- Shifting onto open standards for data and interfaces
- Breaking larger contracts into smaller parts
- Partnering with universities, local employers and trusted suppliers
- Developing in-house academies and training programmes
- Accessing skills in the wider community through open data, transparency and co-creation
- Funding services that improve rather than isolated projects
- Setting benchmark and baseline data to inform decision-making.

Five questions

We recommend that public leaders consider five questions to accelerate their digital transformation:

1. Do we have a digital strategy that is clear, coherent and central to our leadership narrative?
2. Is our strategy genuinely digital – or are we too focused on online engagement, bolted on to our existing business?
3. How are citizens and service users going to be part of our digital transformation?
4. Have we looked at our talent pool and planned where our skills are coming from?
5. Do we have a coherent business case that monetises our digital transformation?

Understanding the public sector's digital evolution

From January to March 2015, Deloitte LLP surveyed public sector organisations to assess their stage of digital evolution. Some 400 public sector leaders – from central government, local government, police forces, the NHS, further and higher education – took part in the survey from all parts of the UK. We added to this quantitative research with a series of qualitative interviews.

This section of our report shares four key findings from the research.

Citizens are front of mind for public leaders, but they are too rarely at the heart of service design

Our survey of public sector leaders finds that:



Cost pressures, customer demand and **central government** directives are the top three drivers for digital transformation



89% say their digital strategy aims to increase efficiency



12% report a high or very high level of citizen involvement in co-creating digital services



87% want digital to improve the customer experience



52% believe that user-experience design capability is lacking in their organisation yet **86%** describe it as a pre-requisite for success

When asked to rank the most important drivers of digital change, respondents told us that budgetary pressure was the most significant. This is unsurprising given the deficit-reduction narrative across the sector.

Customer demand was ranked as the second biggest driver. The public sector clearly acknowledges that its customers are expecting the same level of user-centred, connected interaction with government that they now enjoy as routine across the private sector.

Our survey suggests that public sector digital strategies, where they are in place, align with these two drivers. Some 89 per cent of respondents told us that their organisation aims to use digital to realise efficiencies and 87 per cent say that they aim to improve the customer experience.

However, while citizens are characteristically front of mind for the public sector, its design capability may need to improve to meet its level of ambition to serve its customers. Half of all respondents say that their organisation lacks user-experience design capability and just 12 per cent report a high or very high level of citizen involvement in the co-creation of services. Yet 86 per cent describe user experience as necessary to take advantage of digital trends. .

Creating public interactions that are intuitive and useful requires user experience design. Delivering digital transformation means that public bodies need to involve customers in service design and adopt research-led iterative methods.

The public sector needs digital confidence, leadership and skills

Our survey of public sector leaders finds that:



Collaborative processes, business acumen and **technological savviness** are the three most highly-prized capabilities for public sector digital transformation



26% say their organisation has sufficient skills to execute their digital strategy, and **32%** believe their leadership has sufficient skills



28% say their organisation has the right resources or opportunities to obtain the digital skills they need



93% say that workforce issues are the most difficult area to manage in their organisation's digital transformation



35% say that they are confident in their organisation's readiness to respond to digital

Our survey suggests the public sector needs to ramp up its digital skills – both for those delivering digital transformation and those leading it – in order to meet its ambitions. Some 93 per cent described workforce issues as the most challenging area to manage in their digital transformation.

When we asked respondents what abilities need to be evident in their organisation to take advantage of digital trends, they said that collaborative processes, business acumen and technological savviness were the three most highly prized. But when we asked about existing capabilities in their organisations, just one quarter told us they had sufficient skills to execute their digital strategy and just one-third believe that their leadership has sufficient skills to lead it.

Recruiting people with the necessary skills, or training those already in post, can of course address skills gaps. But only 28 per cent of respondents to our survey think their organisation has the right resources or opportunities to obtain the right skills.

Overall, 35 per cent of respondents said that they were confident in their organisation's readiness to respond to digital.

There is significant variation across the public sector in whether digital skills are held in-house or are held by external suppliers. Most public bodies are reducing their reliance on vendors, reclaiming capability in-house so that they have the flexibility to change. This is difficult in an economy that is short of digital skills across the board, especially for organisations based away from where those skills are most abundant.

Funding pressures, competing priorities, workforce and culture are common challenges

Our survey of public sector leaders finds that:



Insufficient funding and **competing priorities** are the most significant barriers impeding digital transformation



Changing an organisation's workforce and skills is seen as the **most challenging** area to manage overall, and **changing culture** is particularly hard



48% say their organisation's investment in digital initiatives has increased this year

Our survey asked respondents to identify the main barriers impeding their organisations from taking advantage of digital trends. Two barriers stood out above all others, with 45 per cent of respondents citing them as the most significant: insufficient funding and too many competing priorities.

Funding is a major concern for many public bodies to support their core citizen services – let alone for investment in digital initiatives. While digital is recognised as a route to substantial cost savings, funding is clearly very difficult when public spending is under huge austerity pressure. But while respondents shared concerns about funding levels, almost half told us that their organisation had increased its level of investment in the past year. Some 32 per cent said that it had increased and 17 per cent said that it had increased significantly.

Competing priorities are always a concern for leaders trying to drive change. In particular, many organisations struggle to balance the priority for transformation against the priority to 'keep the lights on'. Public bodies who navigate their competing priorities well tend to have coherent, realistic strategies and well-understood business cases.

We asked survey respondents to rank the areas of digital transition that they thought are the most challenging to manage. Overall, they told us that workforce issues are the most challenging dimension of digital change. While culture came second, responses were weighted towards culture being a particularly difficult area of change. So while 89 per cent of respondents said that changing culture towards digital was challenging, 34 per cent of those said it was highly challenging. In other words, respondents recognise the level of change needed to ensure a digitally-savvy workforce, but they know that changing culture is a uniquely difficult task.

Commercial approaches need to get in step with digital transformation

Our survey of public sector leaders finds that:



Regulations, lack of flexibility and legacy contracts were identified as the most significant obstacles to digital-friendly procurement



83% say that procurement needs to change to accommodate digital transformation, especially to allow for agile development and to lift restrictions



74% of organisations blend in-house and contracted resources to develop digital services while just **10%** rely on in-house capability alone

As with the private sector, local public bodies and education institutions need to access a thriving and successful marketplace to deliver digital transformation. Our survey suggests that procurement and the marketplace need to get better in step with the sector's digital transformation requirements.

Some 83 per cent of respondents told us that procurement needs to change significantly or very significantly to accommodate digital transformation. When we asked them to rank the most significant obstacles to better procurement practices, the three most often-cited were rules and regulations, lack of flexibility and legacy contracts. When we asked in what ways procurement needs to change, the two most significant reasons were to support agile development and to lift restrictions on terms and conditions.

While procurement rules are seen to hamper digital transformation, the vendor community's ability is also a success factor. A significant 74 per cent of organisations use both in-house and contracted resources to deliver services, but only 17 per cent said they were satisfied with their vendor community.

Some 83 per cent of respondents told us that procurement needs to change significantly or very significantly to accommodate digital transformation

Accelerating the public sector's digital evolution

By exploring the public sector's digital evolution, our survey identified the main barriers that prevent the public sector from realising its digital potential. The research shows that culture, procurement, workforce and leadership are all areas in which the ascent of digital is held back.

This section of our report explores those barriers and how public sector organisations can overcome them to accelerate their digital evolution.

Culture

Our survey respondents consistently saw that some of the most critical barriers to digital adoption are nothing to do with technology. Rather they are about people – specifically the skills and attitudes of staff and customers, and the culture within their organisations. Human beings do not typically deal well with exponential change. Many of us can find linear change difficult enough when it challenges our status quo. Yet digital transformation is built upon exponential changes in technology and the pace at which new ways of working become available, and existing ones become obsolete, is astounding.

Furthermore, public bodies often have rigid ways of working, with historical restrictions in policies, procedures and contractual arrangements. These can make culture change even trickier if the changes are perceived as detrimental to established agreements and practices.

Our research found a number of interventions which have a big impact on cultural inertia and illustrate some ways of overcoming cultural barriers to change:

- **Change the working environment to stimulate collaboration and ‘shock’ the system.** Changing the working environment could include layout and style adjustments, such as moving to open plan offices or bringing disparate teams together to foster collaboration. It could also include improving day-to-day technologies through reducing restrictions on computer desktops; introducing tablet or mobile options; or shifting to better telephone, conferencing and collaboration technologies.

These kinds of changes to the working environment send a strong signal that a culture needs to be updated. They harness goodwill, improve productivity and drive collaboration and flexibility. They are not, however, sufficient to change culture by themselves, and must be accompanied by more profound changes to business models and governance.

- **Put user research into the heart of service transformation dialogue.** Cultures that resist change typically have established business processes and long-serving staff members who believe they know what is best for their customers. There is no substitute for acquiring genuine user insight to create the case for change.

This does not mean asking intermediaries, commentators or analysts what users want. It means doing primary ethnographic research, asking users to comment on service options, and building a transformation method that reacts to their feedback quickly. Hard evidence from the voice of customers and service users is almost always impossible to disregard in even the most change-resistant cultures.

- **Appoint agitators into key posts.** Many public bodies have appointed new transformation directors, and the trend of appointing Chief Digital Officers (CDOs) in departments and agencies continues apace. Such appointments stimulate culture change by giving permission for influential people to agitate and challenge the status quo. These posts do not necessarily need outsiders, but do need to be well designed to shake up the system. Such appointments must go arm-in-arm with governance change to create authority to deliver results. Done well, they become role models and lightning rods for new skills and fresh ways of thinking.

Digital story

The London Borough of Camden has many of the fundamentals of a leading digital organisation: strong political leadership for service transformation, a geographic location near top talent, engaged local communities and a forward-thinking technology organisation. Nonetheless its leaders wanted to make a step change in culture to improve customer services, increase collaboration, encourage innovation and further empower staff.

Until recently, Camden staff occupied its historic Town Hall plus its modern extension, along with numerous other sites across the borough. Collaboration between teams and across departments was hindered by travel time to sites, causing strong bonds within local teams but weaker relationships with those elsewhere.

The redevelopment of the Kings Cross area brought Camden the opportunity to co-locate many of its staff into a single new-build site. The main Town Hall remains as the civic and democratic hub but the new building consolidated many teams in an open plan and modern environment.

In an interview for our research, Fiona Dean, Camden’s Assistant Director for Culture and Customer Services told us that the new office environment was a big change but quickly had a positive impact. Levels of collaboration are higher than ever, it is easier to “join up the dots” with colleagues in other teams, and “ideas which seemed impossible before now seem worth trying, risks worth taking”, explained Fiona. Underpinning this transformation was strong investment in flexible and agile technology.

Procurement and commercial flexibility

There was widespread recognition in our research that procurement and commercial strategies need to change to accommodate digital transformation. Public sector approaches to procurement are rightly designed to make sure that public money is well-spent. This must continue, but our research found evidence that the risks of poor public spending are different in the digital age to those that went before.

The root cause is the rising pace of change itself. Historically change was slower and there was greater confidence that established ways of working were stable. Faced with stable business models, commercial strategy across the public sector was to deliver services as cheaply as possible to the prescribed model. This favoured long-term supplier contracts and low unit costs. It also had the effect of fossilising business models at the point in time that IT is bought, suppliers are selected and processes are established.

In Government's digital era, nothing could be less desirable. This is an age of exponential change, where business models of five years ago are rendered obsolete by smartphones, big data, connected sensors and more. Public procurement is changing to reward innovation and flexibility.

The people who responded to our survey want to see improvements in both the commercial flexibility of their organisations and the responses of their vendors. There is a significant body of rent-seeking vendors whose installed base in the public sector is threatened by digital transformation. Public bodies need commercial strategies to free themselves from lock-in and to move to lower cost options for all kinds of services – whether digital or not.

The Crown Commercial Service (CCS) has responded to these drivers by creating the Digital Marketplace. Still in its early years, the direction for sector-wide commercial change is sensible. All public bodies in the UK now have access to increasing numbers of digital services, available without lock-in and with greater flexibility.

Within individual public bodies, our research suggests that interventions with the most impact include:

- **Shifting onto open standards for data and interfaces.** Levels of rigidity and lock-in to existing suppliers increase dramatically when a public body cannot easily extract its data, or share data between different services or IT systems. In extreme cases, organisations barely have access to their own data without going through their suppliers and paying a premium for any non-standard requests.

By making open data standards and open interfaces a high priority for procurement, these risks are reduced. Organisations that do this are better able to improve public services by using the best innovations – for example adding mobile solutions to existing services without been forced to pay over-the-odds or give first rights of refusal to one supplier.

- **Breaking large contracts into smaller parts.** The justification for large contracts has always been that they deliver economies of scale, secure the commitment of trusted suppliers, and allow the client to transfer the risk of complex technical tasks like integration and service management.

In the digital age, these justifications are increasingly diluted. The rapidly falling cost of technology means that savings from economies of scale are lower than the savings that would be achieved by tracking falling prices anyway. Large suppliers may offer deep relationships, but don't always give access to the innovation of exponential change. And the risk of owning technical work in-house is falling as digital skills increase and technologies mature.

This is an age of exponential change, where business models of five years ago are rendered obsolete by smartphones, big data, connected sensors and more

Workforce and skills

Our research identified workforce issues as the most challenging area for digital evolution.

Achieving the potential of digital transformation requires public bodies to have new skills. These are not simply existing people with new awareness, but genuinely new skills including user research and analysis, technology skills, agile and iterative project management, user experience skills, financial modelling for digital business models and commercial skills for a digital supply chain. With relatively constrained levels of public sector pay, alongside a private sector economy that is rebounding strongly, it is difficult for public bodies to attract the talent they need.

The solution is a blend of investment, external support and innovative approaches. Some organisations, local authorities and police forces for example, are choosing to pool or share resources. Others make smart use of secondments to bring expertise in at affordable rates, with an emphasis on skills transfer.

Some of the successful interventions found in our research include:

- **Partnerships with universities, local employers and trusted suppliers.** Some of the skills needed in the public sector can be accessed in small bites. For example, skills with particular new technologies and skills in ethnographic user research do not necessarily require long-term continuity of resource. These become suitable skills for public bodies to access from third parties.

Many public bodies have links to academic institutions, and others use external commercial partnerships to access key skills including contractors, consultants and digital service suppliers. External resources can deliver pace, capability and – with larger suppliers – an element of risk transfer that justifies the higher cost in the short and medium terms.

Digital story

The Department for Work and Pensions (DWP) Digital Academy is a lively space. It has feel of a modern start-up rather than a Government Department. Rainbows of coloured Post-it® notes cover the walls as students brainstorm ideas and learn the secrets of creating an exceptional user experience. They sift through mountains of LEGO blocks, building models and prototyping. The goal: to learn how to work in an agile way. Starting from the basics of “what is digital?” or “what is the Internet?” or “how to create a webpage” cohorts of civil servants work their way to understanding and practicing more complex aspects of digital technologies and service delivery over the course of six weeks.

Along with technical expertise, what academy graduates also take with them is large doses of the digital culture – for instance, working collaboratively in a flat, multidisciplinary team and putting the customer at the heart of their work.

The digital academies were launched by Kevin Cunnington, Director-General for Business Transformation. They are designed to train and upskill staff and get the organisation digital-ready, one cohort at a time. Employees from different pockets of DWP spend six weeks at one of the academy locations. They are trained on the ‘four pillars’ of digital: user-centric design, agile development, digital government services and digital tools. They learn wireframing, paper prototyping, agile, design thinking, coding and more and then at the end of six weeks, they are shipped off to their external placements for a chance to work on actual projects.

Six weeks of training does not mean academy graduates can immediately deliver digital programmes. “You won’t be able to drop in and lead,” explained Rick Stock, the Academy’s former Programme Director to us in our interview with him and Cunnington. Instead they created what they call the ‘Plumber’s mate’ model. Graduates from the academy know enough to contribute to a team, but not enough to lead a project or work independently. This is the right intervention for the workforce at the Department, and sits well alongside recruitment and targeted use of contractors and suppliers to build a skill base fit for the future.

“This year we trained up, let’s say, about a thousand people. Next year’s target is 9,000” Cunnington told us. By any measure, however, six weeks is a long time for productive employees to be pulled away from their daily jobs. He admits that navigating this hasn’t always been easy, but “you have to determine what’s important, and provide the executive support to get on with it.”

Leaders need to manage competing priorities and buy into user-centred design

- **In-house academies and training programmes.**

Almost all public bodies have large pools of skilled people already who can be further developed. Well-designed in-house programmes have a big impact on culture and levels of buy-in. Our research identified organisations where visible investment in workforce skills sent a signal that, of its own right, changed attitudes and shifted the needle on inertia.

- **Accessing skills in the wider community through open data, transparency and co-creation.**

Leading public bodies recognise that their mission does not end at the boundary of their organisation. By tapping into the skills of their customers and local communities they can not only achieve more, but can drive wider public service outcomes for civic participation and democratic engagement.

Often this starts with a change in attitude. Organisations that once would have done everything themselves put raw data into the public domain and allow others to apply their skills to improve services. Open data from school inspections, crime recording, train times and many more sources have all been used by third parties to create apps, analysis and more – all without the public body itself needing the skills to build or maintain such services.

Leadership, governance and clarity of focus

Just 32 per cent of survey respondents believe their leadership has sufficient skills for meeting the challenge of digitally transforming public services. Our research illustrates that leaders need to manage competing priorities and buy into user-centred design if digital transformation is to be achieved.

The exponential changes that drive digital transformation challenge the established models of leadership and governance. Before the ascent of digital, new projects could be assessed through exhaustive analysis, investment decisions could be based on cost-benefit guidance and the end destination of most plans was a fixed point. In the new digital era, leaders are required to make decisions with less information, and the end destination continually moves forward.

Governance of change across the public sector is under similar pressure. Public bodies which expect all change to be slow-moving, subject to rigorous gateways and managed to timescales set in stone will increasingly find that their governance regime itself is a barrier to digital transformation.

Some of the successful ways of working and interventions that our research encountered are:

- **Funding services that improve rather than isolated projects.** Successful organisations in both the public and private sectors have begun to tilt their allocation of budget more to services than projects, with the expectation that service owners will both run the service and be accountable for improving it. This enables quicker innovation, reduces barriers to change and allows executive leaders to set the direction without being dragged into excessive governance.
- **Setting benchmark and baseline data to inform decision-making.** A credible benchmark and baseline would provide public sector leaders with a powerful reference point to aid their decision-making. Many struggle to navigate a world where pressure to keep the lights on is more immediate than the pressure to transform.

Locally and nationally recognised standards for data collection would also allow for constructive comparisons and would particularly benefit the local public sector where comparisons can be readily drawn.

Five key questions for public sector leaders

The lessons drawn from our research suggest that public leaders need to consider five questions to help accelerate their digital transformation:



1. Do we have a digital strategy that is clear, coherent and central to our leadership narrative?

Our survey underscores the importance of leadership – especially in driving cultural change – to deliver digital transformation.



2. Is our strategy genuinely digital – or are we too focused on online engagement, bolted on to our existing business?

Our survey found that the public sector recognises digital's potential, but can struggle to realise it. True digital transformation is not about overlaying digital skins on existing processes, but about redesigning services around the user.



3. How are citizens and service users going to be part of our digital transformation?

Government, with characteristic focus on the value it creates, wants citizens to be central to its digital delivery. Yet our survey suggests that they are not engaging users in design and many struggle with user-centred design skills.



4. Have we looked at our talent pool and planned where our skills are coming from?

Our survey tells us that organisations do not have the right skills to take advantage of digital transformation. Digital strategists need to think about their talent management to plan what capabilities they need and how they are going to secure them.



5. Do we have a coherent business case narrative that monetises our digital transformation?

As public spending remains under pressure, a business case that describes the returns on digital investment is a powerful tool. Crucially, a credible business case can help overcome barriers to change, ensure that digital transformation is prioritised and make expectations on vendors clear.

Conclusion

Government's digital era is progressing at a relentless pace. Our research takes a snapshot of the public sector's digital evolution and points to how the most ambitious public bodies can accelerate the rate of their progress.

Our research suggests a wide spectrum of digital maturity in the UK public sector, but with a common set of issues and a shared series of barriers that are hampering change: culture, procurement, workforce and leadership.

Success for public sector organisations will increasingly hinge on their ability to adapt in the new digital age – to deliver their services, re-imagine their processes and interact with citizens. While the continued digital evolution will see some public bodies struggle as the environment changes around them, others will thrive by taking advantage of all that digital transformation can offer.

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