# IT in public administration

## - have government agencies made a reasonable assessment of whether outsourcing contributes to increased efficiency?

## Summary

Every year, the use of IT in government agencies and state-owned enterprises costs taxpayers an estimated SEK 20-25 billion, which makes it the third biggest expenditure item in the agencies' appropriations, after salaries and premises costs.

According to the laws and ordinances that regulate their activities, all agencies must strive for a high level of efficiency and for economic use of public funds. Under the government agency ordinance, agencies must also develop their activities and promote cooperation with government agencies and others in order to make use of the advantages that can thus be gained for the individual citizen as well as for the state as a whole. Additionally, changes in the outside world put considerable pressure on public administration, bringing further efficiency demands.

Research, theory and practice[1] indicate that when carried out correctly, outsourcing can be an effective means of both raising quality and lowering costs in different activities. This applies to a very high degree to IT activities, in which e.g. economies of scale, specialisation and cutting edge expertise may be important factors in order to achieve an efficient activity in conformity with the rule of law.

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[1] See e.g. "Managing Successful IT Outsourcing Relationships" by Gottschalk and Solli-Saether (2006).

On the basis of the above, the Swedish National Audit Office (the Swedish NAO) has carried out an audit with the aim of examining

• if government agencies have carried out reasonable assessments of whether they themselves should produce the IT capacity the agency needs, or whether they should outsource all or parts of their IT activity, and

• what possible explanations there are for government agencies not assessing or implementing the outsourcing of IT activities.

The central questions of the audit are:

1. Have government agencies made reasonable assessments of whether they should themselves produce the IT they need or whether they should outsource all or parts of their IT activity to an external supplier?
2. What explanations are there for government agencies not making assessments of the matter of outsourcing?
3. Has the government done what it can to facilitate such assessments of outsourcing in government agencies?

## Conclusions

The vast majority of government agencies cannot be said to have made reasonable assessments of whether the agency itself or some external actor is best suited to produce the IT the organisation needs. The Swedish NAO's observations clearly indicate that there may be a risk that the agencies do not produce their IT in the most efficient way, since most agencies have not properly considered the outsourcing question. The Swedish NAO's audit shows that there are a number of possible explanations for why agencies have not assessed the matter of outsourcing.

**Government agencies are rarely able to account for their IT costs**
Several government agencies have problems accounting for their IT costs at the total level, and even more have difficulties accounting for their IT costs divided into different expenditure areas. The Swedish NAO's approach is that if you don't know how much it costs to produce various IT services, it will be very difficult to assess the matter of outsourcing since you cannot compare outsourcing costs with your internal IT costs.

**Inadequacies in internal control of IT activities**

A further explanation for government agencies not having assessed outsourcing is that there are inadequacies in internal control. Observations from the audit carried out by the Swedish NAO indicate, for example, that several agencies have a decentralised and fragmented IT activity/IT organisation. This organisational structure and the numerous internally developed systems imply difficulties in terms of controlling, following up and globally integrating the IT activity. The agencies therefore do not always know how well IT contributes to fulfilling the goals of the activity, what actually makes up the total IT activity within the agency, or how well it works. One conclusion is that if the agencies cannot make adequate considerations and measure their own performance in the area, they will find it difficult to make rational decisions regarding outsourcing.

**Agency managements rarely make efficiency demands on internal IT departments**
Another explanation for why so few government agencies have assessed whether outsourcing could be a means of increasing operational efficiency is that they have fairly strong and independent IT departments on which efficiency demands are low. There simply has not been the incentive for these IT departments to review their own operations, and it is logical that an IT department which is not subjected to very much pressure from management for efficiency gains does not take the initiative to assess whether it should be closed down and its operations outsourced.

**Inadequacies in purchasing expertise explain why assessments are not done**
Many government agencies lack the relevant purchasing expertise, which is necessary in order to be able to carry out reasonable assessments of the outsourcing question. This applies in particular for assessments of the more complex aspects of IT activities.

**Purchasing expertise and procurement**
The fact that the stipulations in the Public Procurement Act can in some cases be difficult to apply from a business point of view is one explanation for why outsourcing assessments sometimes do not get done. The knowledge that a properly conducted outsourcing process may involve around two years of work, including requirement profiles, procurement and problems appears to lead agencies sometimes to choose not even to assess the matter of outsourcing.

**Lack of clarity regarding the classification of sensitive information**

In order to be able to assess the matter of outsourcing in respect of IT systems, government agencies need to have made a number of analyses, e.g. about what information the systems carry and how sensitive that information is. In many cases these analyses have not been made, nor do they seem particularly easy to make as there is no guidance, among other things, about how information should be classified.

**Inadequate spreading of information within public administration**
There are single government agencies that have got very far in terms assessing the matter of outsourcing. The Swedish NAO's observations during the audit suggest that the knowledge these agencies have accumulated along the way does not get spread throughout the public administration.

**Has the government done what it can to facilitate outsourcing assessments?**
It is the Swedish NAO's view that the government has applied a number of measures to remove obstacles against agencies' assessments of outsourcing. These measures include instructions to pursue certain matters to do with IT and operational development (the E Delegation), and appointing commissions (e.g. the commission on public procurement). It is nevertheless the Swedish NAO's view that the government could do more to facilitate and promote agencies' efforts on outsourcing by providing clear and consistent guidelines for how IT costs are to be accounted for within public administration, by spreading knowledge and examples of good practice related to outsourcing, and by including choices and considerations regarding outsourcing in follow-up dialogues.

## Recommendations to the government

The audit shows that there are considerable differences between different agencies' expertise in assessing matters related to IT and outsourcing. There is therefore a need for better guidance and experience exchange, so that agencies do not always have start from the beginning when these matters are assessed.

The Swedish NAO therefore recommends that the government

• ensure that guidelines are drawn up for agencies' assessment of whether their IT should be carried out internally or externally

• create a structure for experience exchange between agencies on matters regarding whether IT should be carried out internally or externally.

## Recommendations to the agencies

A key issue for agencies is to acquire sufficient purchasing expertise in the IT area. The agencies should ensure that they possess sufficient technological, operational and legal expertise to be able to formulate internal or external orders in the IT area. It may further be noted that many government agencies rarely or never assess the matter of outsourcing.

The Swedish NAO therefore recommends that the government agencies

• ensure that there is sufficient purchasing expertise within the agency to be able to deal with outsourcing matters

• regularly make assessments of whether IT should be carried out internally or externally.