Innovating Public Service Management With Value-Based Arrangements

Reinventing the private and public service relationship to create more value
As public service organizations face ongoing financial pressures, the need to deliver next-generation services at a lower cost has become a priority. In addition, managing demographic changes and responding to rising citizen expectations mean that public service organizations are seeking innovative and reliable ideas to improve programs. One approach is to develop new ways of working with service providers to not only effectively reduce costs and risk but also add value to the public service management arena.

Take the example of the Basque Regional Government which selected Accenture to develop a strategic cost transformation program for the Department of Internal Affairs responsible for policing and public safety. Accenture is providing management consulting services to drive rapid cost reduction and operational efficiencies across the department’s fleet management activities. Under this value-based arrangement, Accenture will tie a proportion of its fees directly to the savings achieved, to demonstrate its commitment and confidence in our ability to deliver.

“We believe this project will set the standard for future cost reduction programs across government as departments seek to reduce costs and drive efficiencies without compromising on citizen services. This new partnership model is innovative but also necessary, as we agree new ways of working with our suppliers at a time of reduced government spending,” said Nélida Santos, vice-counselor of administration and services within the Basque Regional Government.

Another example is the City of London, which primarily serves as a local authority, providing services such as education, housing and town planning to 320,000 people living and working in the “Square Mile.” The City also runs its own police force, the nation’s central criminal court, and five Thames bridges, and is the Health Authority for the whole Thames estuary. Facing sweeping budget cuts and the pressure to deliver effective public service management and cost savings, while protecting frontline services, the City used a value-based arrangement with Accenture to deliver in-year cash savings and identify further procurement savings over the next 10 years. As part of this agreement Accenture worked closely with the City to conduct a detailed analysis of spend data and the procurement environment with the aim of saving the City of London Corporation more than £30 million over five years.

What is a value-based arrangement?

A value-based arrangement ties some portion of the service provider’s fees to the benefits achieved as a result of successfully delivering a project and achieving specific performance milestones. The arrangement demonstrates the service provider’s commitment to ensuring the public service agency realizes the benefits of the upfront investment and reduces the risk.

What are the value options?

By adopting value-based arrangements, public service organizations can focus on outcome delivery through a risk and reward-sharing approach. So how do they work? Typically, a proportion of service provider fees are put at risk with payment based on the outcomes delivered. Value-based arrangements help utilize budgets more effectively by closely aligning client success with supplier compensation. A variety of contracting arrangements can occur across the risk and reward spectrum (Figure 1), creating opportunities for public service organizations worldwide to deliver better business outcomes.

What are the benefits?

Value-based arrangements are being adopted more frequently across private and public services organizations. In part, this is due to a number of distinct advantages over the more traditional time and materials and fixed price contracting methods. Indeed, value-based arrangements are often considered in situations where governments or public service agencies have limited budget and therefore choose to pay for a program from the savings realized. In this way, the benefits of such programs can not only reduce costs but also reallocate funds to other areas that are critical or offer higher value. Outcomes from a value-based approach include:

Figure 1. Flexible Arrangements

![Flexible Arrangements](Image)
Financial: where greater efficiencies in an organization’s operations can help to better manage costs and align with budget constraints. Examples: improving collections processing to enhance tax revenue, more accurate allocation of resources to improve productivity or reducing energy usage.

Operational: where improved service performance or compliance helps realize business benefits (may also link to financial outcomes, through incentive payments). Examples: improving response times to citizen inquiries can increase customer satisfaction; greater accuracy of disbursements to reduce fraud.

Capability: where an organization needs to develop or increase the maturity of capabilities to accomplish its public service management objectives (may also link to financial outcomes, through a transaction fee model). Examples: developing a fee-for-service model to conduct training to enhance skills or undertake online processing for educational loans.

Where is the value?

Value-based arrangements can have a significant impact on several areas vital to any public service organization. Value-based arrangements improve:

- **Economics:** minimizing the cost of services—spending less;
- **Efficiency:** the ratio of the program output to the inputs required to produce them—spending well;
- **Effectiveness:** the ratio of the planned and actual results (outcomes) to program spending—spending wisely.

These value levers all have dramatic impact on possibly the most important metric of all, return on investment (ROI). By spending less, spending well and spending wisely, value-based arrangements can provide a more effective mechanism to achieve higher ROI than that found in traditional time and materials or fixed price arrangements. As we have seen, value-based arrangements require less upfront investment. Couple that with a potentially higher return (since the service provider is incentivized to maximize returns) and the ROI increases while also reducing the payback period.

Ultimately, funding approval discussions are simplified as CFOs see these arrangements as an innovative way to achieve bottom-line savings while reducing the upfront outlay of capital.

A value-based approach was adopted by the Florida Department of Business and Professional Regulation (DBPR) which administers numerous licenses across multiple professions and businesses. Its public service management business case, to improve service quality and decrease operational costs, resulted in a technology and business process reengineering project, with the service provider being compensated from savings gained. In all, a net $65 million of benefits were delivered to the state over the five-year life of the project.

**Critical success factors**

While there are many elements that lead to mutually beneficial results, Accenture experience has identified several factors necessary for success. The most fundamental requirement is that the parties involved have a history and a strong, trust-based relationship. From this starting point, a joint governance structure, with clear accountability and responsibilities can then be established, with the support and commitment of senior sponsors from both organizations. This sponsorship encourages a “one team” mentality, where people from both sides are brought together to create a project team with the expertise to deliver. In addition, timely decision making is fundamental to maintain an aggressive pace for the work.

Critical success factors for value-based arrangements include elements such as clarity on project ownership and approval mechanisms. In addition, it is important to have performance measures aligned with outcomes that are:

- **Visible, auditable, clear, transparent and limited in number**
- **Aligned to shared objectives**
- **Simple and easy to measure**
- **Weighted according to level of importance**

Global healthcare company

Accenture worked with a global healthcare company to provide strategic services across multiple business areas. The business had the largest employee cost to total cost ratio in the industry, suffered from process inefficiencies and was overstaffed in support functions. A further challenge was its stagnating business volumes and decreased marketplace competitiveness.

Through a value-based arrangement, Accenture provided strategic services focused on business outcomes through five initiatives:

- Workforce planning and productivity enhancements
- Supply chain transformation
- Manufacturing productivity
- Enhanced sales force effectiveness
- Business turnaround

These initiatives delivered value through reduced cost-to-serve, procurement savings, planning and logistics synergies, and improved workforce utilization. Following completion of the project, new sales, ongoing revenues and sales force productivity all increased.

The way forward

At a time when both public service organizations and private services organizations are under intense public scrutiny to deliver on their promises, value-based arrangements are an innovative means to help deliver potentially greater public benefit at a lower cost. What is more, value-based arrangements help to share risk, reduce upfront investment and actively encourage public service management providers to become more focused, results-oriented stakeholders. In short, value-based arrangements offer organizations around the world an opportunity to reinvent the way they do business.
About Accenture

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