Spending Review of IT
Final report - summary

October 2016

Introduction and summary

The Slovak government has launched Value for Money project that aims to reform rules, set up processes and strengthen institutions that will in turn support adoption of good decisions in public interest and significantly improve value for money in Slovak public sector.

One of the VfM's tools is a complex revision of majority of public spending. The government has committed to this revision through its programme declaration. Further plans were detailed in the Stability programme of the SR.

Health system, transport and public sector digitisation reviews were conducted in 2016. The majority of public spending will be reviewed in the present government term. Efficiency and effectiveness of spending will be evaluated and actions identified that will increase public finances' VfM This will allow for fiscal savings, better public services for citizens (outcomes) and/or transfer of resources/finances to government priorities. The proposed measures are sustainable in the long-term.

A preliminary report has identified sectors/areas with greatest reserves in effectivity improvement. The final report offers a more detailed view of the drafted problems and measures. The report is part of the government budget.

Developed countries use spending revision as a standard tool that helps governments to find reserves in public policies for more effective use of public resources as savings necessary to meet national and European fiscal commitments.

A key part of the evaluation is to identify and correctly evaluate all costs and benefits. Financial costs and benefits are the basis. The analysis also aims to quantify (in financial terms) as much of non-financial costs and benefits as possible allowing the state to obtain a complex overview of costs and benefits of individual projects.

Background and objectives

- Digitisation spending revision's goal is to identify measures that would create additional fiscal space amounting to 30 % of the planned capital and operational expenses as of the 3rd year after implementation.
- The final report presents measures that offer direct savings of approximately 5-9 % of IT spending in 2017 (€22-40m annually) and introduce higher value to the existing investments of at least 1 % (€4m annually). The report offers procedural and methodological measures that will allow for more effective evaluation and management of the state's IT sector.

Public IT performance

- Slovakia's digitalisation of the public-sector lags significantly. It placed 21st out of the total EU 28 in digital economy and society index (DESI) at the end of 2015. In digital public services, it placed 26th. The index does not encompass OP IS projects finalised at the end of 2015.
- Considering the situation in summer 2016, Slovakia only improved by two positions and advanced to the 24th place. Better results can be observed in online availability of services, however, pre-filled forms offer substantial space for improvement
- There is no updated and evaluated set of outcome indicators for IT as a whole, nor the individual services provided. The final report suggests such indicators on operational as well as investment levels.

Public expenditure on IT

- Average annual spending on public IT between 2010 and 2015 accrued to approximately €500m, of which 70% was consumed by the central public administration. Capital spending was 60% of the total spending. EU resources represent almost half of total spending.

- In 2011 Slovakia spent more on IT in proportion to its government budget than any other OECD country and only one country spent more on IT as a proportion to GDP (0.6%). However, these investments have not yet transformed into corresponding outcomes in terms of digital services for citizens. The disproportion between spending and outcomes might be explained by a technical debt.

- IT spending is not accounted for accurately. Present classifications do not include joint human resource - IT spending and are not detailed enough for comparative analysis.

- Spending is relatively concentrated – Ministry of Finance together with Ministry of Interior and their subordinate organisations accrue to 45% of total IT spending of central administration.

- The ration of capital and operational expenses will swap in 2017-2019. The increase in operational expenses will be due to high operation costs of the existing system. The spending review should look for significant savings not only in strategic selection of new projects but also in operational expenses.

- The final report recommends better collection of data by categorising IT spending in sectoral programmes and IT systems in separate programme elements. Classified register will allow for other relevant operational and performance data to be registered.

Future investment selection and project management

- Slovakia needs to centralise accountability for public IT and create clear digitisation strategy with a reservoir of projects. These, together with a rigorous economic evaluation of projects through a cost-benefit analysis, are necessary prerequisites for selection of investments with the highest value for money.

- Evaluation rules for investment projects will be unified. Compared to projects funded by the EU, those financed from public budget have laxer criteria. Projects that undergo changes in the scope of services, budget or timetable will also be re-evaluated.

- Value for money evaluation of important/strategic investments will be conducted by the Ministry of Finance and Office of the Deputy Prime Minister for Investments and Informatization. Every project with a budget of at least €10m will be evaluated before its grant is approved or public procurement process is launched.

- The state has spent two-thirds of funds for project management on external management rather than internal employees. Projects that were managed externally suffered from financial correction twice as often as those managed internally. We recommend using the EU funding to build internal IT capacity for project management and design, rather than outsourcing it.

Priorities for 2017 based on the Action plan

- An increase in electronic ID distribution that will improve project value by a minimum of €2.3m annually through time saved. Giving access to the services to commercial sector will increase the value by an additional €2m per year.

- Security necessary for digital services will be reviewed and electronic services authentication simplified through alternative methods. Only 6% of the total number of eID owners (1.7m) have security features activated that are necessary for eight out of ten digital services offered by the state.

- Obligatory migration plan to the cloud will be created and will be appropriated in other sectoral IT budgets. Systems with high saving potential will be migrated into the cloud without further delay. This would make it possible to achieve the declared benefits of €10-15m per year.

- Centralisation and optimisation of support IT services in telecommunication services and communication infrastructure may produce a saving of €9-27m per year.

- Need and usage of software licences (Microsoft, Oracle, SAP) will be audited with the aim to improve their consumption and identify the most economically feasible way of procuring licenses. Possible saving in the procurement of Microsoft licences is estimated at €6.5m per year.

1 Measures and action plan

We recommend the following measures to be taken in state IT based on this digitisation spending review:

Saving

Task	Value	Measurable indicator	Responsibility
Develop binding cloud migration strategy linked with IT budgets	€6.8m (2017) €10-15m each following year	• Cloud capacity usage (%) • Total cost of ISVS ownership (€)	ÚPVII in cooperation with MF SR MV SR
Centralise procurement of support IT services such as telecommunication and connectivity	€9-27m per year	• Annual expenses on telecommunication services and communication infrastructure (€)	ÚPVII
Make procurement of Microsoft license products more efficient	€6,5m per year	• Annual expenditure on Microsoft products (€/person)	ÚPVII

Value

Task	Value	Measurable indicator	Responsibility
Review the level of security required for electronic/digitised services		• Proportion of end services that require BOK and ZEP (%) • Number of electronic submissions	ÚPVII in cooperation with MF SR
Issue BOK with new eID automatically	€2,3m in 2017	• Number of electronic submissions	ÚPVII in cooperation with ÚV SR
Create binding user manual for government services		• Implementation of UX manual into service process approval (yes/no) • Proportion of electronic submissions before and after implementation of the manual (%)	ÚPVII in cooperation with ÚV SR
Open eID for business by allowing access to API	€2m per year	• Number of new third party services • Proportion of activated eID (%)	ÚPVII in cooperation with ÚV SR MV SR
Explore alternative ways of identity authentication		• Proportion of alternative authentications to the number of eID authentications (%) • Number of citizens using digital services	ÚPVII in cooperation with

Management

Task	Measurable indicator	Responsibility
Unify evaluation rules for investments from national budget and EU sources	• Propose rules on IT investment evaluation	ÚPVII
Central management and procurement of IT commodities such as licences	• Annual IT expenses per civil servant (€)	ÚPVII
Create and publish reservoir/pipeline of projects	• Projects reservoir published (yes/no)	ÚPVII
Design a management concept for digitisation	• Management concept designed (yes/no)	ÚPVII
Create a status report on public ICT	• Annual status report on ICT	ÚPVII

Data and methodology

Task	Measurable indicator	Responsibility
Analyse uncategorised expenditures on IT in the interdepartmental programme	• Proportion of IT expenditures in 2017 that are in the interdepartmental programme (%)	ÚPVII
CBA methodology update for OP II (PO 7)	• Proposed changes incorporated (yes/no)	ÚPVII
Define standardised employee position from IT perspective	• Definition of standardised position with HW and SW requirements (yes/no)	ÚPVII
Analyse state institutions' IT expenditures structure	• Report (yes/no) • Proportion of expenditures covered (%)	ÚPVII
Separate telecommunication services from postal services in economic classification	• Volume of expenditures that cannot be clearly classified as IT expenditures	ÚPVII
Update information on all IT systems in public administration	• Number of ISVS and data on cost and usage in metaIS	ÚPVII

Design data collection in departmental subprogrammes with ISVS register	• Number of ISVS, where expenditures are monitored in the budget • Existing of classified ISVS register (yes/no)	ÚPVII in cooperation with MF SR
Design data collection purposed for IT operational expenses benchmarking.	• Proportion of IT expenditures that can be benchmarked (%)	ÚPVII in cooperation with MF SR

Analytical tasks

| *Task*	*Measurable indicator*	*Responsibility*
Cost-benefit analysis of all future IT projects over €10m	• Number of IT projects evaluated by ÚHP	MF SR
Analyse services that should be prioritised for electronic communication	• Number of services where the state prefers electronic communication • Savings resulting from electronic communication (€)	MF SR
Analyse the utilisation and procurement of software licences (Microsoft, Oracle, SAP)	• Analysis of software licenses usage and estimation of future consumption (yes/no)	ÚPVII

Figure 1: In terms of digitisation, Slovakia is lagging behind the EU average as well as neighbouring countries. Especially in digital public services and access to broadband (p12 of the report)

Figure 1: DESI 2016 - Slovakia
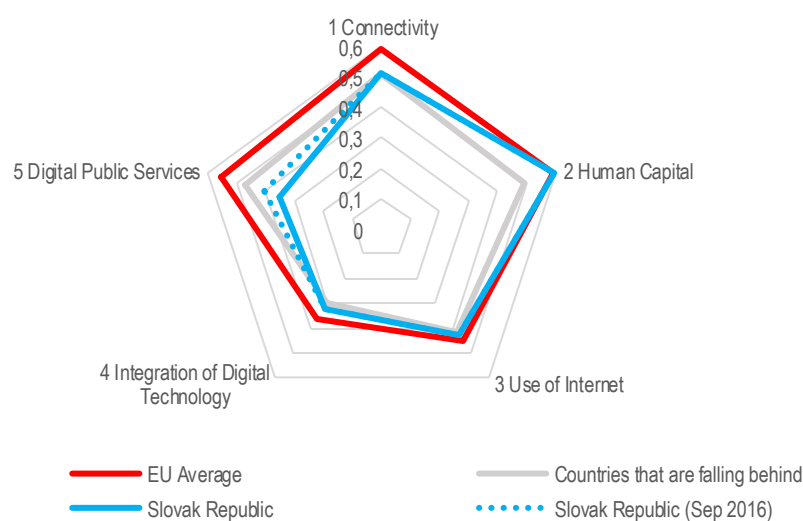
Source: European Commission, Digital Economy and Society Index 2016
Slovak Republic Sep. 2016: ÚHP estimation

**Figure 6: IT expenditures development (m of €) p17**
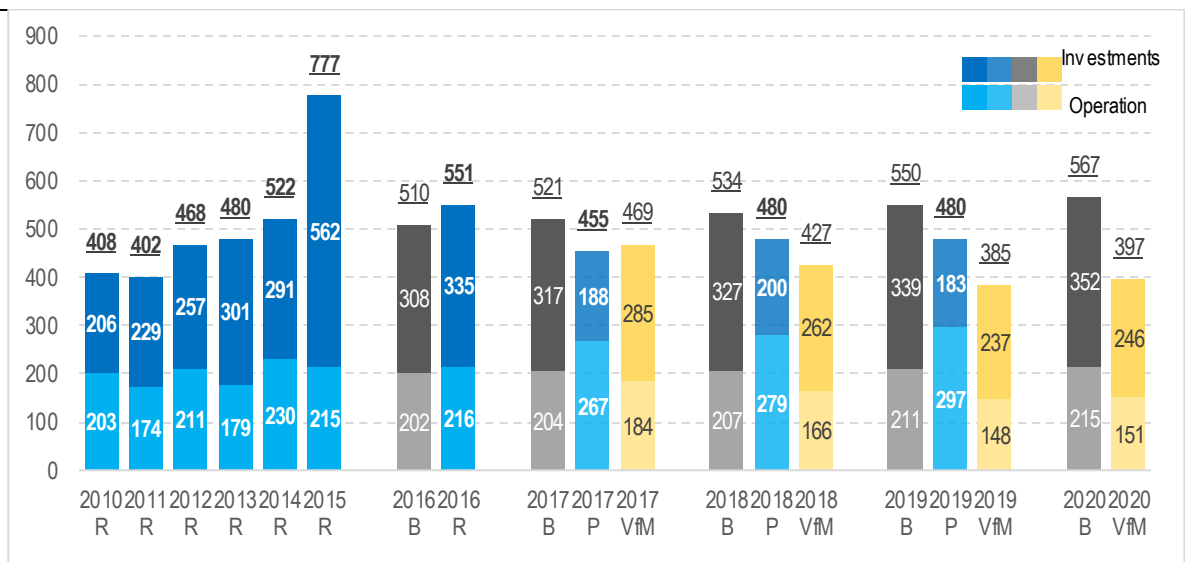
Notes: 2010-2016 reality – in 2016 is the approved budget, appropriated to 30.9.2016 (R),
2016-2020 baseline (B),
2017-2019 budget proposal (P), 2017-2020 spending revision scenario (VfM)

Source: RIS BI, 2016

State's operational expenses in IT grow and in 2017-2019 and OP IS project, they will represent approximately a third of the total sum (p18 of the report).

Figure 7: Operational expenses on IT and proportion of OP IS projects (m €)
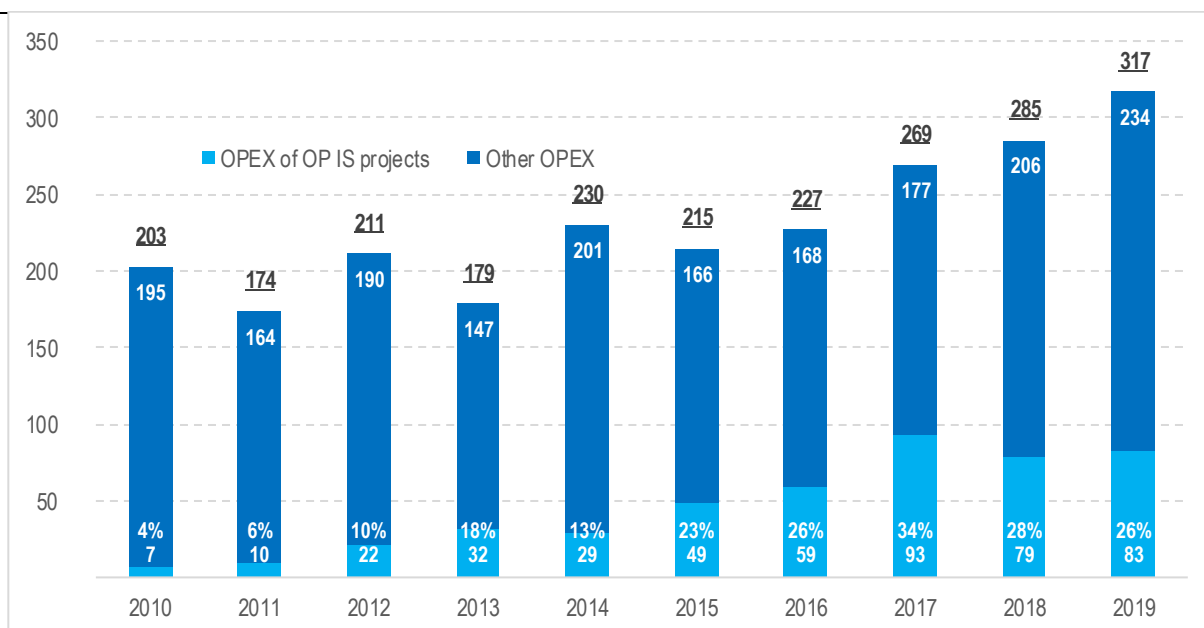
Source: RIS BI 2016, ÚPVII, ÚHP

In 2011 Slovakia spent the largest proportion of its budget on IT out of the 20 OECD countries. Despite the larger investments it did receive the lowest comparative scores in the digital society index of 2014 (p19).
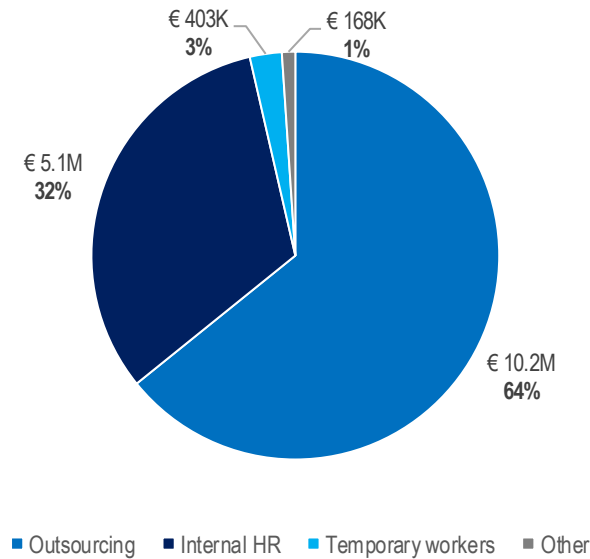
Figure 8: Relationship between DESI 1+5 scores and IT budgets (DESI 2014 and 2016, spending 2011)
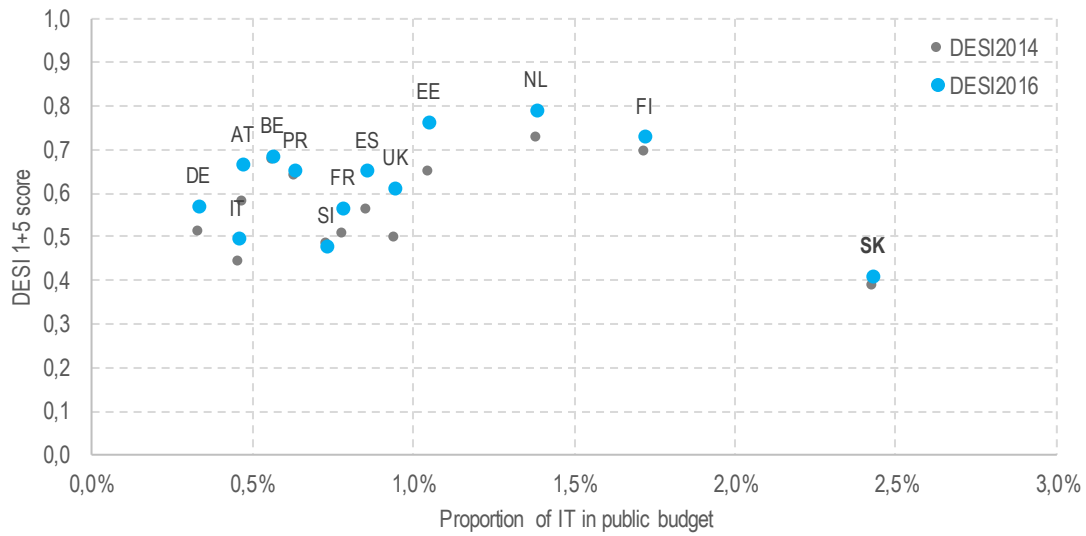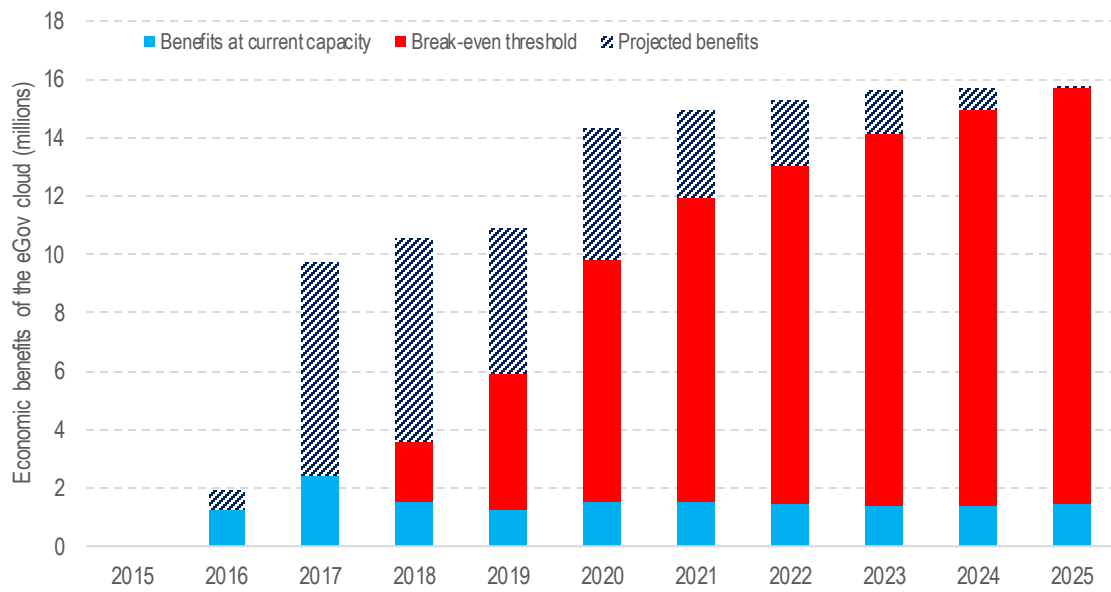
Figure 15: Management in two-thirds of the projects (€10m out of €16m) was outsourced to external suppliers.

Figure 15: Types of project management expenditures in OP IS
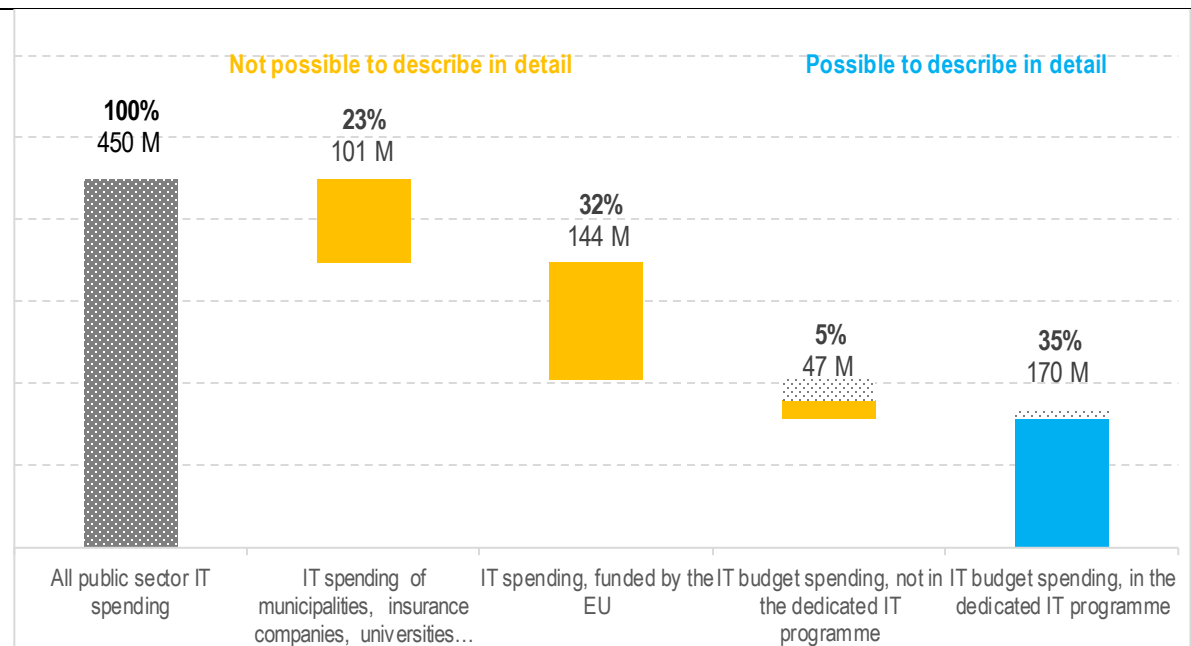
Figure 18: Government cloud's planned benefits and rate of return

Source: CBA of MF SR a MV SR cloud projects, internal data MF SR

Figure 21: As much as 65% of IT spending can only be analysed on inaccurate economic classification (p49).

Figure 21: Public administration IT expenditure structure in 2017 including deposits for EU projects

Source: RIS BI, ÚHP

Table 1: Low rate of return of the government cloud projects that aims to generate savings in procurement and operation of data centres only allows for two years of delay compared to the original plan.

Table 1: Recommended IT indicators

Expenditure type	Indicator type	Indicator	Scale	Value	Source	Year
Investments	Costs	Proportion of spending on investments as a percentage of total IT spending by the central administration	%	61	*RIS*	*2016*
		Average project rate of return	years	8	*ÚPVII*	*2015*
		Average proportion of total ownership costs to the initial investment	%	187	*ÚPVII*	*2015*
	Benefits	DESI score – digital public services	DESI5 score	0,41	*DESI 2016*	*2016*
		Quicker decision-making process	%	N/A	*ÚPVII*	
		User satisfaction with the services	%	51	*ÚPVII*	*2014*
Operation	Costs	Proportion of spending on operation as a percentage of total IT spending by the central administration	%	39	*RIS*	*2016*
		Spending per one employee	€	4 321	*RIS*	*2016*
		Spending per one working station	€	N/A	*ÚPVII*	
	Benefits	Client satisfaction with the services provided	%	N/A	*Survey*	
		Proportion of completed electronic submissions to total number of submissions	%	N/A	*metaIS*	

Table 2: Only 0.3% of the total €121m was spent on public employees despite the fact that half of the sum could generously cover salaries for 134 IT employees for the duration of 5 years.

Table 2: Number of internal employees equivalent to half of the spending on analysis and design

Total monthly labour cost	Man-months	Man-years	Employees for 5 years
5 000 €	12 086	1 007	**201**
7 500 €	8 058	671	**134**
10 000 €	6 043	504	**101**
Total salary budget			**60**

Source: ÚHP

Table 9: The state pays €18.6m annually for the possibility of updating Microsoft programmes to the latest versions. Only half of the service is used and it is 15% more expensive than its equivalent in the Czech Republic. Possible savings are between €3.5m and €7.0m €annually.

Table 9: Possible savings through better contract conditions

Source of saving	Annual saving	Proportion of current spending
Direct procurement of licenses without Software Assurance	*Minimum of €7m*	*31 %*
Unit prices as in the Czech Republic	€3,5m	16 %
Desktop Professional instead of Enterprise	€3,6m	16 %
Prices CZ + Without Enterprise	**€6,6m**	**29 %**

Source: ÚHP

Abbreviations

ÚPVII	Office of the Deputy PM for Investments and Informatisation
MF SR	Ministry of Finance
MV SR	Ministry of Interior
ÚHP	Value for Money Unit (Ministry of Finance)
RIS	Budget IT System
OP IS	Operational Programme Information Society
VfM	Value for money
CBA	Cost benefit analysis
BOK	Personal security code
ZEP	Qualified electronic signature
ISVS	Public administration IT system