

**A Financial Assessment of
Decentralisation Costs and
Savings**

October 2004



Table of Contents

| | |
|---|----|
| EXECUTIVE SUMMARY..... | 2 |
| 1. INTRODUCTION AND OVERVIEW..... | 4 |
| 2. TRANSITION COSTS..... | 8 |
| 3. ONGOING COSTS AND SAVINGS..... | 18 |
| 4. COST TRACKING APPROACH..... | 22 |
| APPENDIX 1 – SUMMARY OF DECENTRALISATION PLANS..... | 24 |
| APPENDIX 2 – COST TRACKING TEMPLATE..... | 27 |

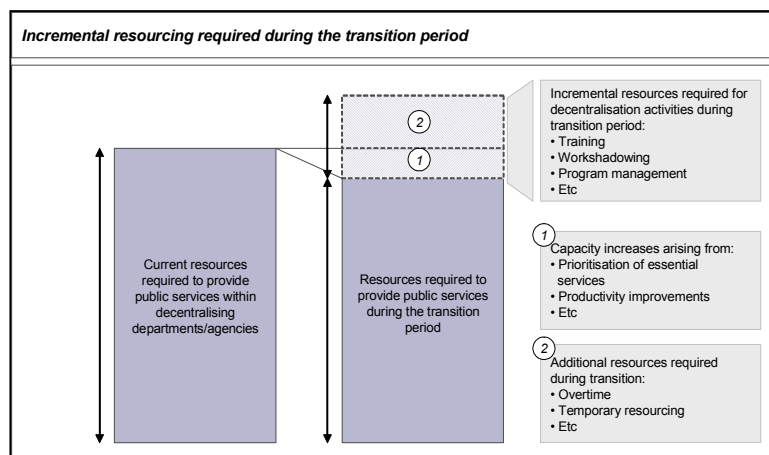
Executive Summary

Introduction

1. The purpose of this report is (a) to identify the types of incremental costs and savings associated with the Decentralisation Programme (other than those related to property) and (b) to assess (where possible) their potential order of magnitude.
2. It should be emphasised that the observations in this report are tentative and are based on a high level two week exercise, which was completed in July 2004. We recommend that the Department of Finance central team conduct more in-depth analysis when the key variables become clearer. We have developed a cost model to assist the team with this process and to consider the potential costs under a range of different scenarios.

Transition Costs

3. The principal costs arising during the transition period will relate to the following activities:
 - ◆ Knowledge retention and training. The key items under this heading are (a) formal training (b) documenting processes (c) on the job training / overlap. Overlap training will be the most significant cost for knowledge retention
 - ◆ Recruitment
 - ◆ ICT (including the establishment of ICT centres and migration of existing IT to decentralising locations)
 - ◆ Logistics – costs associated with the physical relocation
 - ◆ Programme management
4. The largest costs are likely to relate to the incremental time / resources required for these activities. The extent to which this incremental time has a financial cost will depend on the approaches taken by individual Departments and Agencies to meet this requirement (as illustrated below). The available options are likely to include the following (or some combination):
 - ◆ Creating additional capacity by streamlining the provision of public service during the transition period i.e. prioritisation of essential services
 - ◆ Creating capacity through productivity improvements
 - ◆ Use of overtime
 - ◆ Use of temporary resources
 - ◆ Use of external resources
 - ◆ Extending the timescales

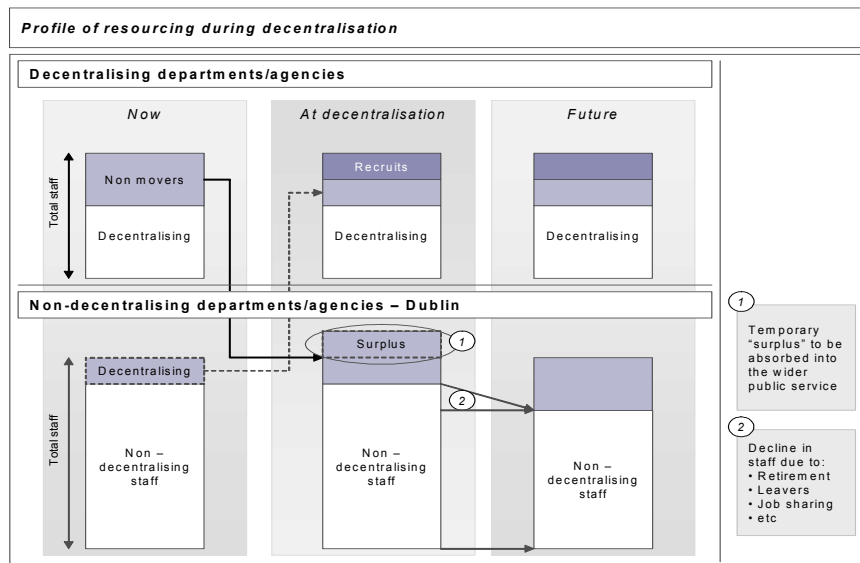


5. It is not possible to quantify many of the costs at this stage because of the lack of clarity on the ultimate outcome of the key cost drivers namely:

- ◆ The number of staff who will opt to decentralise with their “home” department / agency – this will be the key driver for the cost of knowledge transfer (training, overlap etc.)
6. Notwithstanding the above we have developed a model to assist the central team in assessing the incremental effort/resources required under different scenarios.
 7. Relative to the potential transition cost of meeting resourcing requirements the incremental out of pocket expenses of the Decentralisation Programme for travel and subsistence, relocation costs, recruitment adverts, etc would not be expected to be as significant.
 8. We have not attempted to assess the potential ICT transition cost because it is not clear at this stage what the ICT strategy and operating model will be for the Departments / Agencies other than those specifically identified as moving to the three ICT centres. Similarly it is not possible to assess the potential ICT savings that could undoubtedly arise by using a shared services model for ICT.

Contingent Costs

9. There is another important factor related to the Decentralisation Programme which could give rise to an incremental cost unless carefully managed. This is the potential cost associated with temporary “excess” resources in Dublin until the staff not opting to decentralise are reassigned and absorbed into the wider public service. This factor is illustrated below:



Ongoing Costs and Savings

10. The principal Ongoing costs relate to potential inefficiencies and extra costs arising from increased distances to customers, stakeholders, Dublin and the airport. However through improved scheduling and the increased use of tele/video conferencing the potential cost can be reduced.
11. Savings are expected to be gained from redesigning business processes. Anecdotal evidence from previous decentralising organisations (which is supported by Deloitte experience of relocation programmes) would suggest potential efficiency gains of at least 5%.

1. Introduction and Overview

1.1 Background and Terms of Reference

In the December 2003 Budget Statement the Minister for Finance announced the decentralisation of 10,300 civil and public servants in 14 Government Departments and associated State Bodies from Dublin to 53 locations in 25 other counties.

A central Decentralisation Implementation Group (DIG) chaired by Mr. Phil Flynn was established to direct and oversee the process.

The DIG produced an initial report on the Decentralisation Programme in March 2004 which, amongst other things, required each decentralising Department and Agency to prepare individual implementation plans by the end of May.

On 28 June Deloitte was engaged by the Department of Finance to assist with the identification and measurement (where possible) of costs and savings which may arise in the implementation of the Decentralisation Programme. Specifically Deloitte was engaged to provide assistance in:

- ◆ Assessing the types and magnitude of incremental costs and savings associated with the Decentralisation Programme,
- ◆ Identifying potential approaches to minimising costs / maximising savings, and
- ◆ Advising on and devising a system to track costs involved.

The purpose of this report is to summarise the findings of the work conducted during the two week period ended 13 July.

1.2 Scope Limitations

At this stage of the decentralisation process it is not possible to quantify the cost of the programme in any meaningful way given the uncertainties surrounding the critical cost drivers namely:

- ◆ The number of staff decentralising with their “home” Department / Agency – this will determine the number of people who will be taking up a “new” job within the public sector
- ◆ The number of staff remaining in Dublin whose jobs are being decentralised and who opt not to relocate will need to be re-assigned into the wider service after backfilling the gaps left by those decentralising from non-decentralising Departments / Agencies
- ◆ The number of people that may need to be externally recruited in decentralising locations to make up the shortfall in demand from existing public servants. (This is one potential solution to a shortfall in applicants which may emerge)

Notwithstanding the above we have attempted to assess the potential order of magnitude of key cost / savings items by reference to available information and by considering possible scenarios.

Furthermore in accordance with the terms of reference we have not considered property related costs and savings arising from the Decentralisation Programme as we understand this is being assessed separately by the OPW.

Finally, the Decentralisation Programme is expected to bring wider economic benefits such as reduced congestion in Dublin, increased economic activity in the selected locations etc. This review did not seek to consider the financial implications of these benefits.

1.3 Work Performed

During the two week period ended 13 July we completed the following activities:

- ◆ Review of decentralisation plans prepared by decentralising Departments and Agencies
 - To obtain an understanding of the issues involved which would give rise to potential costs / savings
 - To confirm major categories of costs / savings during the transition period and also post implementation
- ◆ Discussions with officials from Departments / Agencies in order to discuss in more detail their perspective on the issues involved, potential costs / savings and potential magnitude
- ◆ Discussions and meetings with members of the Department of Finance central implementation team.
- ◆ Review of preliminary data from the Central Applications Facility which was released on 8 July
- ◆ Design and development of a model to assist in the ongoing estimation of costs / savings
- ◆ An assessment of the options for tracking costs on an going basis
- ◆ Preparation of a written report summarising our findings be presented to the DIG on 15 July

1.4 Review of Decentralisation Plans

1.4.1 Review of Plans

The primary source of information in relation to the identification of potential costs and savings was the 53 individual decentralisation plans prepared by each Department / Agency. As expected the plans did not include any financial assessment of the cost / savings. The focus of the plans was to identify potential issues to be addressed, potential risks and mitigation strategies. The principal issues highlighted in the plans which have a potential to impact on costs / savings were as follows:

Transition Issues

- ◆ Retention of knowledge capital / organisational knowledge
- ◆ Training new staff to ensure they have the knowledge, skills and competencies to perform their new duties
- ◆ Management of the transfer process given the scale of movement between Departments / Agencies
- ◆ Management of the transfer / re-assignment of “non-movers”
- ◆ Maintaining adequate public service during transition
- ◆ Ensuring adequate IT support during transition
- ◆ Ensuring adequacy of skills in relation to the incoming staff
- ◆ Opportunities for business process improvements
- ◆ Potential accelerated write-down of specialised equipment

Ongoing Operational Issues

- ◆ Potential inefficiencies and extra costs arising from increased distances to customers, stakeholders and Dublin
- ◆ Inefficiencies and extra costs arising from travel to the airport for overseas trips (principally to Brussels)
- ◆ Efficiency gains from redesigning business processes

A high level summary of the issues raised by each of the decentralising Departments / Agencies is contained in Appendix 1.

1.4.2 Discussions with Departmental Officials

Following the review of the plans we met with a sample of the decentralising organisations to obtain additional information on their plans and better insights into the issues raised and how it was envisaged they would be managed. We met with the following Departments / Agencies:

Decentralising Organisation

Dept of Social Welfare and Family Affairs
Dept of Agriculture
Dept of the Environment
Dept of Communications, Marine and Natural Resources
Fáilte Ireland
FÁS

1.5 Cost Model

To assist the central team in the Department of Finance in the ongoing analysis of decentralisation costs and savings we have prepared a cost model using MS Excel. The key variables identified in this report have been incorporated into the cost model. This will enable the central team to model and “flex” assumptions and perform sensitivity analysis on these variables.

1.6 Transition approach

The precise approach to managing the staff transfers between different Departments and Agencies has not yet been finalised and will depend on the outcome of the CAF process. However, based on discussions with the Department of Finance central team we understand that broadly it may take place along the following lines:

- ◆ The CAF process will identify the staff who wish to decentralise with their “home” Department
- ◆ A gradual process of “transfers in” will commence starting with staff from Dublin based civil service Departments
- ◆ At the same time a gradual process of “transfers out” will commence taking cognisance of the need to transfer organisational knowledge to the new staff by allowing for an overlap or handover period
- ◆ Where there are shortfalls in the numbers wishing to transfer to a particular location these may be filled by new recruits. These recruits would initially take up their posts in Dublin (or other decentralising location) on the understanding that the position would ultimately be based in the new location
- ◆ Staff who do not wish to decentralise (“non movers”) will be re-assigned to non-decentralising Departments / Agencies as positions become available

- ◆ The final step is the physical relocation. Obviously this will take place on a phased basis depending on property availability and the “readiness” of the Department / Agency

A scenario of how the staff profile of a decentralising and a non-decentralising organisation would change over time is depicted below:

Assumptions:

1. 20% of existing staff wish to decentralise with their “home” Department / Agency
2. 40% of staff wish to decentralise to another Department / Agency
3. 40% of existing staff do not wish to decentralise (“non-movers”)
4. Applications to transfer to the new location from other Departments / Agencies will fill 50% of required resourcing
5. The remaining shortfall will be filled through local recruitment

| Decentralising Organisation | | | | |
|--|-------------|------------------|------------|---------------------|
| | Start Point | Transition Phase | | Fully Decentralised |
| Existing Staff | | | | |
| Decentralising with “home” Department / Agency | 20 | 20 | 20 | 20 |
| Decentralising to another Department / Agency | 40 | 10 | - | - |
| Not decentralising | 40 | 40 | 20 | - |
| Total Existing Staff | 100 | 70 | 40 | 20 |
| New Staff | | | | |
| Transfers in from Dublin locations | - | 30 | 40 | 40 |
| Transfers in from Provincial locations | - | - | 10 | 10 |
| New Recruits | - | - | 10 | 30 |
| Total New Staff | - | 30 | 60 | 80 |
| | 100 | 100 | 100 | 100 |

| Non Decentralising Organisation | | | | |
|---|------------|------------------|------------|---------------|
| | Day 1 | Transition Phase | | Decentralised |
| Existing Staff | | | | |
| Not decentralising | 80 | 80 | 80 | 80 |
| Decentralising | 20 | 20 | - | - |
| New Staff | | | | |
| Transfers in from Dublin (non decentralising) | - | - | 20 | 20 |
| | 100 | 100 | 100 | 100 |

As stated in the Report of the Decentralisation Implementation Group transfers should take place on a phased basis with manageable numbers involved in each phase, which enables staff overlaps with incoming and outgoing staff working together for a handover period.

2. Transition Costs

2.1 Overview – Transition Cost Categories

The key categories of transition costs (other than those related to property and fit-out) which were identified during the review are as follows:

1. Retention of Knowledge Capital

This relates to the cost of transferring organisational knowledge and skills to staff transferring who previously did not work in the decentralising Department / Agency.

It comprises four main elements:

- ◆ *General induction* (“classroom”) training
- ◆ *On the job training* including an overlap (workshadowing) period to enable a seamless handover of the role
- ◆ *Documentation of processes* (where not already prepared) to support on the job training
- ◆ *Out of pocket costs* for travel and subsistence related to the move

2. Recruitment

This relates to the possible incremental cost of recruiting externally for decentralising roles which are not filled by the CAF process. It comprises:

- ◆ Incremental advertising in the regional / national press
- ◆ Time associated with interview panels

3. ICT

The Decentralisation Programme is likely to give rise to upfront ICT costs, for example the cost of setting up and testing the IT environment in the new locations; additional network equipment (servers, desktop PC’s); additional telecommunications equipment etc.

However, given the lack of clarity on the ICT operating model at this stage it was not possible to consider potential ICT costs / savings. We recommend that a separate exercise be carried out when the ICT strategy for decentralising Departments / Agencies is clarified.

4. Logistics

This is the cost of physically transporting files and equipment to the new location.

5. Programme Management

This relates to the cost of project managing the Decentralisation Programme at a central and Department / Agency level. It will principally comprise the opportunity cost of resources dedicated to conducting project management activities although there may be “out of pocket” costs e.g. licences for project management software tools.

6. Other – Accelerated Asset Write-downs

This is the cost of writing down the value of certain assets / equipment which have a remaining useful life and which cannot be dismantled and transferred.

7. Contingent Cost

Temporary Excess Resourcing

Staff who choose not to decentralise will need to be re-assigned into the wider public service in Dublin. It is possible that during this re-assignment process there will be temporary excess resources for a period of time until positions become available to accommodate them.

2.2 Retention of Knowledge Capital

One of the most complex challenges of the Decentralisation Programme, which was highlighted in all decentralisation plans, will be the retention of knowledge capital also described as the preservation of organisational memory i.e. the ability to transfer know how, policies & procedures, case histories and stakeholder relationships to new staff who will be taking up positions in the decentralising organisations. A variety of approaches were identified in the plans but essentially they comprised the following elements:

1. Training

- General induction and “classroom” training to provide a foundation for new staff
- More specialised, modular training related to specific skills / knowledge required by staff to perform their duties

2. On the job training / overlap

- On the job training whereby the new staff learn the essential elements of the job by working closely with the person who they will replace

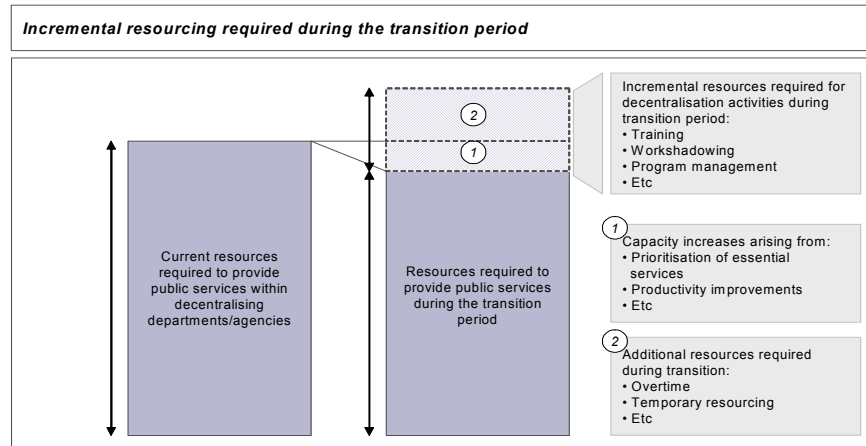
3. Documentation of processes and procedures, where they do not already exist, to facilitate on the job training and to serve as a reference point thereafter. This would also include ensuring file records are properly maintained.

The principal cost of all these elements is undoubtedly the time required to conduct these activities. Whether this time has a financial cost will depend on the approach taken to providing the additional resources required. A number of options will be available such as:

- ◆ Drawing on capacity within the organisation which ordinarily would have been available to do other projects / activities
- ◆ Creating more capacity by streamlining the provision of public service during the transition period i.e. prioritisation of essential services
- ◆ Creating capacity through productivity improvements
- ◆ Use of overtime
- ◆ Use of temporary resources (e.g. retirees, people who formerly worked in the public service, students etc.) to backfill gaps which will inevitably occur as transfers take place.
- ◆ Use of external resources
- ◆ Alteration to time scales

The likelihood is that some combination of these approaches will be taken depending on the individual circumstances taken by various decentralising organisations.

The potential increased resourcing is depicted as follows.



2.2.1 General Induction (Classroom) training

When staff transfer to a new organisation it was envisaged by many Departments / Agencies that they would need to provide some form of initial training and induction in order to give new staff some background on the Department / Agency. The time spent on the induction programmes vary but normally one would expect an induction programme to take between 3-5 days.

The other key variables will be:

- ◆ The number of people taking up positions in decentralising organisations who previously did not work in the organisation
- ◆ The ratio of trainers to trainees in providing the training, which based on our experience would likely be in the range 1:5 to 1:10

Assuming training facilities exist within all Departments / Agencies (which we understand to be the case) the out of pocket costs would be minimal.

2.2.2 On the Job Training / Overlap

The second component of knowledge transfer and undoubtedly the most important and time consuming component is the on the job training which will be required:

- ◆ to ensure the “new” person understands the tasks involved in conducting the role
- ◆ to transfer knowledge of existing case histories of work in progress
- ◆ to handover relationships with key stakeholders

Based on (a) discussions with Departmental officials who have prior decentralisation experience and (b) Deloitte experience of managing relocation programmes, the most effective way to transfer knowledge is on the job training or “workshadows” involving a period of overlap between incoming and outgoing staff.

The amount of time required for somebody to become sufficiently knowledgeable (rather than expert) to carry out the duties of another person is dependent on a variety of factors notably:

- ◆ the complexity of the role
- ◆ the job cycle (daily, weekly, monthly, etc.)
- ◆ the previous experience of the person taking up the position

While many of the decentralisation plans have highlighted the issue only 13 have specified their views on the amount of time required. (See table below)

| Department | Normal | Specialised |
|-----------------------|---------------|--------------------|
| Dept of Ag | 4 weeks | Not Specified |
| Fáilte Ireland | 6 months | 1 year |
| Dept of CMNR | 2-6 weeks | Not Specified |
| HEA | 1 year | Not Specified |
| Dept ETE | 6 weeks | Not Specified |
| Dept Env | 3 months | Not Specified |
| Rev Comm | 4 months | 12 months |
| Dept Jus | 3 months | 6 months |
| DPC | Not Specified | 12 months |
| Eq Trib | 6 months | 12-18 months |
| Land Reg | 3-6 months | 2-3 years |
| Dept Social | 4-6 weeks | 12 months |
| NRA | Not Specified | 1-2 years |

The estimates range from a few weeks for “normal” roles to more than a year for technical / specialised roles. Undoubtedly the learning curve for some specialised roles will be over a year but it would be impractical and unusual for an overlap of this duration.

Based on Deloitte experience of relocation projects in the private sector the workshadowing / overlap period usually ranges from four weeks to three months. Generally for more complex roles or where there is significant residual knowledge (case histories carrying forward) a period of 2-3 months is not unusual. For more transactional or process roles 3-4 weeks is generally sufficient. Therefore the key variables in determining the potential time required for knowledge transfer in the decentralisation programme are as follows:

- ◆ The number of people taking up the positions in decentralising organisations who are new to the organisation
- ◆ The amount of overlap / workshadowing time required
- ◆ The ratio of complex / specialised positions to process / transactional positions

These key variables have been incorporated into the cost model to be used in the ongoing estimation of incremental costs and savings as critical input data becomes more concrete.

In addition to the overlap time it is possible that productivity levels will temporarily be lower as new staff transition up the learning curve.

[This excludes the time required for “non movers” to transition into their new roles within the wider public service. However the overlap time required is likely to be significantly less for non-movers as they will be absorbed into Departments /

Agencies where there is proportionately less staff change (which means that knowledge transfer will be easier to effect).]

2.2.3 Documentation of Processes

The third component of knowledge transfer is the existence of documented processes / procedures for all key roles. Based on a review of the decentralisation plans some Departments / Agencies have good quality process / procedures documentation in place (prepared for other purposes such as systems implementations, control reviews etc). However, others have indicated the need to prepare such documentation. As well as facilitating knowledge transfer, documented processes will be important for the identification of process improvement opportunities.

The key variables in determining the amount of time required for documentation are as follows:

- ◆ The number of decentralising Departments / Agencies
- ◆ The number of distinct processes / activities which exist within each organisation
- ◆ The proportion of Decentralising processes / activities where documentation does not exist
- ◆ The amount of time required to document a process / activity with appropriate levels of QA and approval

It is likely that the relative effort compared to other knowledge transfer activities is likely to be small.

Clearly it would be beneficial for CMOD to conduct training on process mapping / documentation and to provide best practice examples and templates. This would improve quality, consistency and ensure a more efficient process.

Some of decentralising plans indicated that they would consider whether it would be timely to implement document management systems in advance of relocation. Clearly, document management systems can increase productivity by reducing the time required to access / update file information. However in our view this should not be treated as a decentralisation cost as it can be considered as part of the ongoing modernisation agenda.

2.2.4 Out of Pocket Costs

Out of pocket costs are likely to be incurred in respect of the training and overlap programme. Provincial staff seeking to transfer to a new location may need to conduct training / workshadowing in Dublin as it is our understanding that transfers between Departments / Agencies will take place prior to physical relocation. Clearly it would make most sense to transfer provincial staff after all Dublin transfers have taken place in order to minimise the travel and subsistence cost.

Assuming provincial staff spend four weeks in Dublin for overlap / training in advance of the relocation the travel and subsistence cost could potentially be in the region of € 5 m calculated as follows based on preliminary CAF data for the provincial staff who have applied to transfer to a new location (i.e. 2,189) and a travel & subsistence cost per person of circa € 2,500.

Potential approaches to reducing this cost might include:

- ◆ Bulk purchasing of hotel nights (and external courses, where applicable) to obtain volume discounts

-
- ◆ Use of rental accommodation as an alternative to hotels
 - ◆ Incentivising “car pooling” arrangements
 - ◆ Use of a car hire fleet arrangement

2.3 Recruitment

Depending on the final outputs from the CAF process, there may be a requirement to carry out external recruitment, particularly in the case of technical / specialised posts.

External recruitment is one possible solution in order to fill posts of a technical / specialist nature, and as part of local recruitment process. The costs associated with this would be comprised of:

- 1. Incremental advertising costs**
- 2. Conducting the selection process**
 - Shortlisting applicants
 - Conducting Interviews

We have assumed that the Civil Service Commission would manage any recruitment campaign as part of its ongoing work programme.

2.3.1 Incremental Advertising Costs

There are a large number of different media that can be used to advertise vacant positions in decentralised locations, with differing costs / profiles. These include:

- ◆ National Newspapers
- ◆ Regional / Local Newspapers
- ◆ Recruitment Agencies
- ◆ Specialist Publications
- ◆ Internet Recruitment Agencies
- ◆ Department / Agency Websites

The actual out of pocket costs will be dependent on the following factors:

- ◆ The mix of media chosen for advertising positions
- ◆ The incremental number of categories (General Service EO, Medical Officer, etc) to be filled through external recruitment
- ◆ The number of role categories included in each advertisement, and hence number of advertisements required
- ◆ The unit cost per advertisement depending on the media chosen
- ◆ Number of repeat advertisements required, due to the success rate achieved

It is difficult to estimate the incremental costs of recruitment advertising until the precise nature of the staff recruitment requirements are known. However, a budget of €1 million would provide for over 50 ½ page advertisements in a national daily together with 100 advertisements in a provincial paper.

Potential approaches to reducing this cost might include:

- ◆ Bulk purchasing of recruitment advertising space with existing advertising spend.

2.3.2 Conducting the Selection Process

The selection process for open positions will involve two main activities:

- ◆ Review of applications and preparation of a shortlist
- ◆ Conduct of applicant interviews

The amount of staff time involved in the selection process will be dependent on the following key variables:

- ◆ Number of positions advertised
- ◆ The number of applicants
- ◆ The amount of time required to review each application
- ◆ The number of applicants shortlisted for interview
- ◆ The number of persons comprising the interview panel
- ◆ The amount of time required to conduct each interview and prepare its related paper work

As with other resource driver categories whether this time has a financial cost will depend on the approach taken to providing the additional resources required.

These variables have been incorporated into the cost model to be used in the ongoing estimation of incremental costs and savings as key input data becomes more concrete.

2.4 ICT

The Decentralisation Programme is likely to give rise to upfront ICT costs for example, the cost of setting up and testing the IT environment in the new locations; additional network equipment (servers, desktop PC's); additional telecommunications equipment etc.

However we understand that the operating model for ICT services provided to decentralising organisations has not been finalised. Although it has been decided to establish three ICT staff centres in Portlaois, Drogheda and Kildare (and two data centres to house the equipment) it is not clear at this stage the extent (if any) to which of the staff centres / data centres will be used by the Government Departments and Agencies, other than the Dept of Agriculture, DSFA, Revenue, LGSB, Reach and CMOD.

Clearly this could have a significant impact on the overall provision of ICT services for decentralising organisations and the steps required to transition to this model.

Given the lack of clarity on the ICT operating model at this stage it was not possible to consider potential ICT costs / savings. We recommend that a separate exercise be carried out when the ICT strategy for decentralising Departments / Agencies is clarified.

2.5 Logistics

The individual decentralisation moves will require the physical moving of files and equipment to decentralised locations, as well as giving rise to a disruption in the daily activities of decentralising organisations.

2.5.1 Moving of Files and Equipment

A number of implementation plans identified the need for the transportation of their files and equipment to the new decentralised locations.

The costs associated with the transportation files are dependent on the following key variables:

- ◆ Number of files / filing cabinets to be moved
- ◆ Volume of equipment
- ◆ Handling / Transportation cost per Filing Cabinet / volume in m³ (This is based on a number of factors e.g. accessibility of location, distance to destination, weight)

Potential approaches to reducing this cost might include:

- ◆ Bulk purchase of file and equipment moving services.
- ◆ Archiving of inoperative files, this would give rise to alternate costs in terms of staff time in classify/reviewing files and costs of off-site storage. However, these costs would not be incremental to decentralisation as the archiving of inoperative files would be part of the ongoing operations of Departments / Agencies.

2.5.2 Disruption during Physical Move

During the physical move, there will be a disruption of the Department / Agency normal service delivery operations principally due to packing and unpacking. We have estimated this opportunity cost as being in the order of 2 days per person. In conjunction with their decentralisation move, some Departments / Agencies are going to archive inactive files and expect this process to be a significant exercise.

This time could be provided through using additional staff resources to help out during the move, allow service levels to be lowered (which would depend on criticality of services being provided e.g. social welfare), moving over a weekend to minimise disruption which would incur overtime costs.

2.6 Programme Management

It is widely acknowledged that the Decentralisation Programme is highly complex and challenging. Consequently significant effort and resources will be required on a central level and on an individual Departmental / Agency level to conduct programme / project management activities such as:

- ◆ Project planning
- ◆ Resource planning and managing the transfers
- ◆ Issue tracking and resolution
- ◆ Risk management and mitigation
- ◆ Reporting progress against plan
- ◆ Monitoring and controlling costs
- ◆ Managing communications (internal, stakeholder, clients)

At a central level a small core team has already been established within the Department of Finance.

Many of the decentralisation plans refer to the complexities of project management and have indicated their plans to dedicate resources and in some cases have

identified the need for external support given the perceived shortage of skills / capability in this area.

Based on Deloitte experience of complex, multi-annual programmes it would not be unusual for project management resources / effort to be between 5-10% of the total project activity. In other words a programme involving 100 people would require programme management support of 5-10 people on a full time basis.

At this stage of the Decentralisation Programme it is not possible to quantify the time / resource inputs required for all project activities because of the uncertainties over the key variables principally:

- ◆ the number of staff decentralising with their “home” Department / Agency
- ◆ the number of non-movers
- ◆ the number of recruits required

Notwithstanding the above, and as outlined earlier in this report, there will be significant time required for training, documentation, overlap / workshadowing, which are likely to be the key time consuming activities.

Assuming a project management requirement of 5% to 10%, this would result in the need for additional project management support. Assuming the bulk of the programme would be conducted in a two year timeframe this would mean that between 25 and 50 project management resources will be required on a full time basis to manage the programme; however this may be reduced by altering the timeline.

2.7 Other Costs

2.7.1 Accelerated Asset Writedowns

One issue that was identified in a small number of the plans was the potential cost of retiring specialised plant and equipment before the end of its useful life. The primary example of this issue related to the laboratory facilities is the NSAI’s laboratory facilities which would have to be replaced in the new location. This potential replacement cost is not quantified in the plan. This appears to be an isolated issue as laboratory facilities in other Departments / Agencies appear to be reaching the end of their useful lives and hence would not result in any material costs.

2.8 Contingent Cost

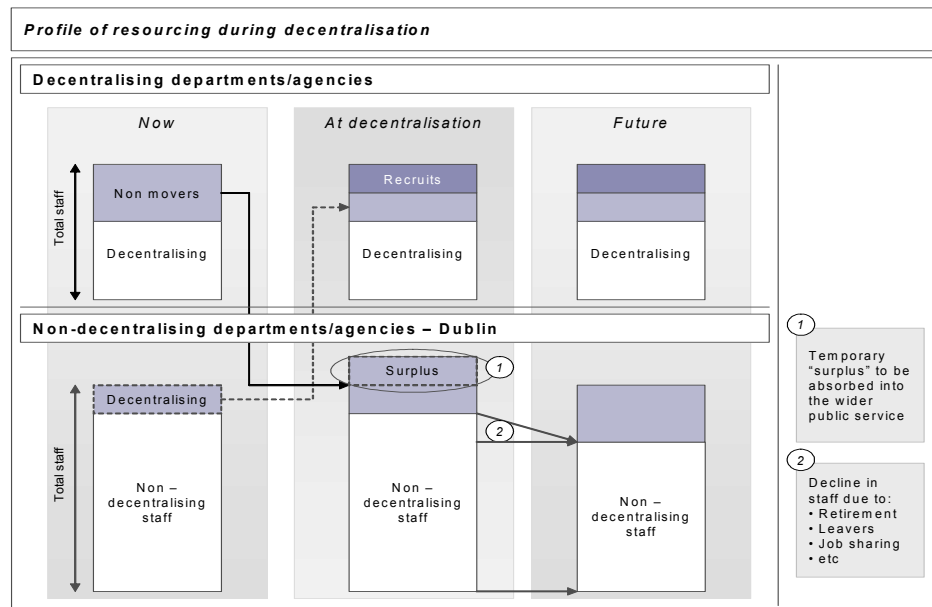
2.8.1 Temporary Excess Resourcing

One of the consequences of decentralisation will be the need to reassign staff not opting to decentralise into non decentralising Departments / Agencies within the wider public service.

Clearly a proportion of these staff should be in a position to fill the vacated positions of staff wishing to decentralise from non decentralising organisations.

However it is possible that there may be more staff to absorb than there are vacated positions.

The following diagram illustrates the point.



Obviously it will not be possible to determine this number until the CAF process is completed but based on preliminary CAF data this number could be quite significant.

Given that the CAF process is still open until September, one would expect this temporary excess to reduce considerably. However it is unlikely to disappear completely.

Clearly, over time this temporary excess will be absorbed into the wider public service through a combination of factors such as:

- ◆ Retirements
- ◆ Leavers
- ◆ Staff opting to work share
- ◆ New opportunities arising in other public service organisations

Clearly, there are steps that can be taken to mitigate the risk of this issue, for example by managing the timescale for transitioning activities to decentralised locations.

2.8.2 Other Contingent Costs – Penalty Costs

One of the risks we considered was the possibility of contractual penalties arising from failure to meet agreed service standards due to service disruption arising during transition. We identified no instances of potential penalties of this nature in the decentralisation plans we reviewed.

3. Ongoing Costs and Savings

3.1 Ongoing Costs / Savings – Overview

The key categories of ongoing costs and savings which were identified during the review are as follows:

1. Incremental Travel Costs Associated with National Travel

This relates to incremental travel related costs that Departments / Agencies expect to incur, due mainly to their distance from Dublin.

It comprises three main elements:

- ◆ Mileage allowance claims
- ◆ Daily and Overnight allowance claims
- ◆ Staff Time

2. Incremental Travel Costs Associated with Foreign Travel

This arises from the increased amount of national travel required in order to access Dublin Airport from decentralised locations.

It comprises three main elements:

- ◆ Mileage allowance claims
- ◆ Overnight allowance claims
- ◆ Staff Time

3. Central Meeting Facilities

A number of decentralising organisations have outlined a need for meeting facilities to be available in Dublin for the hosting of meetings with stakeholders. This has not been assessed as we understand that this is being considered separately by the OPW.

4. Other Costs

Organisations moving to multiple decentralised locations believe the multiplicity of locations could give rise to an increase in the overall level of costs, in the following areas:

- ◆ Administration
- ◆ Travel and Subsistence
- ◆ Loss of staff time due to travel
- ◆ Postage / Courier Services
- ◆ Support costs

5. Business Process Improvements

The Decentralisation Programme provides an opportunity to redesign / streamline the processes / activities currently being conducted by Departments / Agencies, with

a resultant positive impact on productivity. Productivity improvements of the order of 5% are not unusual depending on the level of legacy inefficiencies that have built up.

6. Incremental ICT Costs and Savings

As outlined in Section 2.4, we understand that the operating model for ICT services provided to decentralising organisations has not been finalised. At this point in time it is not possible to consider the extent of potential ICT operational costs / savings. We recommend that a separate exercise be carried out when the ICT strategy for decentralising Departments / Agencies is clarified.

3.2 Incremental Travel Costs Associated with National Travel

In the period post decentralisation there could be an increase in Travel and Subsistence costs for national travel. This would arise mainly from a requirement to travel to Dublin to:

- ◆ Attend meetings with stakeholders
- ◆ Support Oireachtas requirements
- ◆ Attend 'offsite' work locations

Increased Travel and Subsistence costs would arise from the following:

1. Mileage allowance claims for the incremental distance travelled from the decentralised location to Dublin, and between decentralised Departments / Agencies. The savings in travel related costs to certain non-dublin locations is potentially offset by increases in travel costs to other non-dublin locations
2. Subsistence and Overnight allowance claims related to the time that staff are away from their office.

The increases in travel and subsistence costs for Dublin travel will be dependent on the following key variables:

- ◆ Total number of trips required to be made to Dublin
- ◆ Incremental distance travelled on each trip
- ◆ Mileage Allowance Rate
- ◆ % of Trips requiring overnight stay
- ◆ Overnight Stay cost
- ◆ % of Trips requiring daily allowance
- ◆ Subsistence allowance cost

These variables have been incorporated into the cost model to be used in the ongoing estimation of incremental costs and savings as key input data becomes more concrete.

These potential cost increases could be mitigated through:

- ◆ Increased usage of video conferencing (and potentially the setting up of a video conferencing facility in Dublin for meeting attendees that do not 'in-house' video conferencing capabilities.
- ◆ Improvements in scheduling of meetings
- ◆ Use of a car hire fleet facility
- ◆ Bulk purchasing of hotel nights (and external courses, where applicable) to obtain volume discounts
- ◆ Use of rental accommodation as an alternative to hotels
- ◆ Incentivising "car pooling" arrangements

In addition to out of pocket expenditure, the increased amount of travel time will impact on the amount of time spent working.

3.3 Incremental Time and Cost Associated With Foreign Travel

Following decentralisation, Departments / Agencies will no longer be based in close proximity to Dublin airport and anticipate an increase in the costs of foreign travel. This would arise from increased Travel and Subsistence claims for the distance travelled to Dublin airport from their decentralised location.

Increases in Travel and Subsistence costs would arise from the following:

1. Mileage allowance claims for the incremental distance travelled from the decentralised location to Dublin Airport
2. Subsistence and Overnight allowance claims related to the time that staff are away from their office

The increase in travel and subsistence will be dependent on the following key variables:

- ◆ Total number of foreign trips
- ◆ Incremental distance travelled on each trip
- ◆ Mileage Allowance Rate
- ◆ Overnight Stay cost
- ◆ % of Trips requiring 1 (additional) nights accommodation

These potential cost increases could be mitigated through:

- ◆ Improvements in scheduling of meetings
- ◆ Use of a car hire fleet facility
- ◆ Bulk purchasing of hotel nights (and external courses, where applicable) to obtain volume discounts
- ◆ Use of rental accommodation as an alternative to hotels
- ◆ Incentivising “car pooling” arrangements

In addition to out of pocket expenditure, the increased amount of travel time will impact on the amount of time staff spend working.

3.4 Business Process Improvements

The Decentralisation Programme will provide an opportunity to redesign / streamline the processes / activities currently being conducted. The process maps / documentation referred to in Section 2.2 will be a key enabler. It will provide existing / new staff with the opportunity to re-examine how work is performed by considering a number of redesign guiding principles:

Design Guiding Principles

| | |
|----------------------------|--|
| Rethink (why?) | the rational and assumptions behind processes and their outcomes |
| Reconfigure (what?) | the activities involved |
| Reassign (who?) | who will do the work |
| Resequence (when?) | the timing and sequencing of work |
| Reduce (how much?) | the frequency of activities |
| Retool (how?) | the technologies and competencies that enable work to be done |

It is not possible at this stage to assess the scope for productivity improvements however based on Deloitte experience of relocation programmes efficiency improvements of 5%-10% are not unusual depending on the legacy inefficiencies that have built up over time. Anecdotal evidence from one Departmental official who we met and who had prior experience of decentralisation indicated that productivity savings of 5% plus were achieved.

It is highly likely that following the CAF process there will be shortfalls in demand for decentralising positions. Recruitment of replacement positions should be tightly managed to maximise the potential to realise and productivity gains arising.

As well as efficiency gains from redesigning Departmental / Agency business processes on a stand alone basis, there may be further savings on a cross Departmental / Agency basis e.g. use of shared services (ICT, HR, etc.) meeting scheduling, etc.)

3.5 Other Costs

The staff decentralising from 14 Departments / Agencies will be based going forward in multiple decentralised locations and this could increase costs in the following areas:

1. Administration costs, each location may require its own reception, security, maintenance and supports services
2. Travel and Subsistence cost increases arising from:
 - Staff travelling to one central location for training
 - Senior management meetings
3. Postage / Courier services arising from transferring files and documents between distributed office locations
4. Support costs increasing for HR, Finance and management of suppliers

Certain decentralising Departments / Agencies will consolidate their existing multiple Dublin office locations into a lesser number of regional locations as part of the decentralisation moves. Based on information contained within 3 of the implementation plans reviewed 13 Dublin office locations are being consolidated into 4 decentralised locations.

Additionally, these there are a number of cost mitigation approaches that can be applied:

- ◆ Increased usage of video conferencing
- ◆ Use of electronic documents
- ◆ Adopting a regional based approach to training and use of alternative training delivery mechanisms such as e-learning, train the trainer, trainers going to the decentralised location.

We do not believe that overall this would be a significant cost category.

4. Cost Tracking Approach

Each Department and Agency will need to put in place a system to track decentralisation expenditure. This information will be required to allow the in house Decentralisation Committee, the Decentralisation Implementation Group and the Department of Finance to track, monitor, control and report on the overall cost of the decentralisation programme, as and when required.

4.1 Options for tracking Decentralisation Costs

There are three possible options available to the Departments, Offices and Agencies to track decentralisation expenditure:

1. Create a new subhead
2. Creates a subhead item in the appropriate A Group of subheads
3. Track expenditure on a Project basis.

The following table compares the three options:

| Option | Subhead | Subhead Item | Project Cost |
|---|--|---|---|
| Option | Create a new subhead for decentralisation expenditure. Each Department to report on decentralisation expenditure under this subhead in the Abridged Estimates Volume (AEV), Revised Estimates Volume (REV) and the Annual Appropriation Account. | Create a subhead item where appropriate in the A group of subheads for decentralisation expenditure. Each Department will report their expenditure under this subhead item in the Revised Estimates Volume (REV) and the Annual Appropriation Account. | The expenditure will be tracked at a lower level than subhead or subhead item. Each Department to set up a project called decentralisation. As costs are incurred and charged to a subhead they are also charged to a Decentralisation Project. |
| Impact on Current Management Information Systems and Government Account Procedures | Update the Ingres application and the MS Excel spreadsheets used by Administrative Budget Section and Public Expenditure Division. Each Department or Agency to create a new subhead in their chart of accounts in their Financial Management System. | Update the Ingres application and the MS Excel spreadsheets used by Administrative Budget Section and Public Expenditure Division. Each Department or Agency to create a subhead item in the chart of accounts in their Financial Management System. | No changes required to the Ingres application or the current MS Excel spreadsheets used by Administrative Budget Section and Public Expenditure Division. Each Department to set up a Project in their Financial Management System. A report will be required to extract information for the decentralisation project at both a detailed and |

| Option | Subhead | Subhead Item | Project Cost |
|------------------------------------|--|--|--|
| | Update the Comshare Business Intelligent Application with the new subhead. | Update the Comshare Business Intelligent Application with the new subhead item. | summary level. Update the Comshare Business Intelligent Application to facilitate the tracking of decentralisation expenditure. |
| Advantages | Transparency of information. Information can be easily tracked on a monthly, quarterly and annual basis. Reporting is in line with the current structure of the AEV and REV. | Transparency of information. Information can be easily tracked on a monthly, quarterly and annual basis. Reporting is in line with the current structure of the AEV and REV. | The information while not transparent from a publication perspective, will be readily available. The reallocation of funds from existing subheads or subhead items is not required. |
| Required Procedural Changes | Departments would be required to reallocate funds from the existing allocations in the A group of subheads to the new subhead. Administrative Budget Section and Public Expenditure Division would be required to amend their systems with the subhead. | Departments would be required to reallocate funds from other subheads items to a new subhead item in the A group of subheads. Administrative Budget Section and Public Expenditure Division would be required to amend their systems with the new subhead item. | Since expenditure is tracked at a lower level than subhead or subhead item little amendment is needed to current systems. |

Set out in Appendix 2 is a sample template for tracking expenditure. This template is based on the assumption that expenditure will be captured at subhead item or project level. It is considered sufficient to track the costs and this could be subject to review further into the process.

4.2 Reporting requirements

| Information required | Frequency |
|--|-----------|
| Total Decentralisation Expenditure YTD will be reported against its annual profile amount under the following headings: Current, Capital, Pay and Non-Pay | Quarterly |
| See Appendix 2 | Quarterly |

Appendix 1 – Summary of Decentralisation Plans [Contd]

| | HSA | NSAI | Dept Env | NBA | Dept Fin | CSC | OPW | OSI | Rev Comm | Val Off | Dept Jus | DPC | Eq Auth | Eq Trib | GSCB | GS - HQ | Land Reg | Prisons Service HQ | Prob& Wel Serv | Dept Social | Combat Poverty Agency | Comhairle | Dept Trans |
|----------------------------|-----|------|----------|-----|----------|-----|-----|-----|----------|---------|----------|-----|---------|---------|------|---------|----------|--------------------|----------------|-------------|-----------------------|-----------|------------|
| General Information | | | | | | | | | | | | | | | | | | | | | | | |
| Number decentralising | 140 | 681 | 49 | 134 | 100 | 599 | 200 | 750 | 100 | 188 | 21 | 30 | 24 | 203 | 230 | 178 | 100 | 1310 | 25 | 48 | 36 | | |

| | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Entire unit | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Decentralising to multiple locations | | | | | | | | | | | | | | | | | | | | | | | |

| | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Transition Issues | | | | | | | | | | | | | | | | | | | | | | | |
| Retention of knowledge capital / organisational knowledge | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Training new staff to ensure the knowledge and ability to perform new duties | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Documentation of Processes | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Management of Transition Process | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Alignment of Skills | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Maintenance of Public Service | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |

| | | | | | | | | | | | | | | | | | | | | | | | |
|--|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Ongoing Operational Issues | | | | | | | | | | | | | | | | | | | | | | | |
| Potential inefficiencies and extra costs from increased distances to customers, stakeholders and Dublin | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| Inefficiencies and extra costs arising from travel to the airport for overseas trips (principally to Brussels) | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |

Appendix 1 – Summary of Decentralisation Plans [Contd]

| | | | | | |
|-------------|-----|-----|-----|-----|---------|
| Bus Éireann | IAA | NRA | NSC | RSC | Dept FA |
|-------------|-----|-----|-----|-----|---------|

| | | | | | |
|----------------------------|----|----|----|---|-----|
| General Information | | | | | |
| Number decentralising | 87 | 90 | 12 | 9 | 130 |

| | | | | | |
|--------------------------------------|---|---|---|---|--|
| Entire unit | ● | ● | ● | ● | |
| Decentralising to multiple locations | | | | | |

Transition Issues

| | | | | | |
|--|---|--|---|---|---|
| Retention of knowledge capital / organisational knowledge | ● | | ● | ● | ● |
| Training new staff to ensure the knowledge and ability to perform new duties | ● | | | ● | ● |
| Documentation of Processes | ● | | ● | ● | ● |
| Management of Transition Process | ● | | ● | ● | ● |
| Alignment of Skills | | | | ● | ● |
| Maintenance of Public Service | ● | | ● | | |

Ongoing Operational Issues

| | | | | | |
|--|--|---|---|---|---|
| Potential inefficiencies and extra costs from increased distances to customers, stakeholders and Dublin | | ● | ● | ● | ● |
| Inefficiencies and extra costs arising from travel to the airport for overseas trips (principally to Brussels) | | | | | ● |

Appendix 2 – Cost Tracking Template

(Insert Name of Department or Agency)
Detailed Analysis of Year to Date Decentralisation Costs

Current Expenditure
FY 2004

| | Year to Date | | | | | |
|--|-------------------------------|-------------------|---------------------------|---------------------------|-----------------|---------------------|
| | Cumulative Expenditure YTD | Cumulative YTD | Cumulative Profile YTD | Cumulative Profile YTD | Variance Pay | Variance Non Pay |
| Salaries, Wages and Allowances | | | | | | |
| Travel and Subsistence | | | | | | |
| Incidental Expenses | | | | | | |
| Postal and Telecommunication Services | | | | | | |
| Office Machinery and Other Officers Supplies | | | | | | |
| Office Premises Expenses | | | | | | |
| Consultancy Expenses | | | | | | |
| Total | | | | | | |

| | Forecast 2004 | | | | | |
|--|-------------------------------|-------------------|--|-----------------------------------|-----------------------------------|-----------------|
| | Cumulative Expenditure YTD | Cumulative YTD | Profile Expenditure for remaining period | Forecasted Expenditure 2004 | Forecasted Expenditure 2004 | Variance Pay |
| Salaries, Wages and Allowances | | | | | | |
| Travel and Subsistence | | | | | | |
| Incidental Expenses | | | | | | |
| Postal and Telecommunication Services | | | | | | |
| Office Machinery and Other Officers Supplies | | | | | | |
| Office Premises Expenses | | | | | | |
| Consultancy Expenses | | | | | | |
| Total | | | | | | |

Capital Expenditure
FY 2004

| | Year to Date | | | | | |
|--|-------------------------------|-------------------|---------------------------|---------------------------|-----------------|---------------------|
| | Cumulative Expenditure YTD | Cumulative YTD | Cumulative Profile YTD | Cumulative Profile YTD | Variance Pay | Variance Non Pay |
| Salaries, Wages and Allowances | | | | | | |
| Travel and Subsistence | | | | | | |
| Incidental Expenses | | | | | | |
| Postal and Telecommunication Services | | | | | | |
| Office Machinery and Other Officers Supplies | | | | | | |
| Office Premises Expenses | | | | | | |
| Consultancy Expenses | | | | | | |
| Total | | | | | | |

| | Forecast 2004 | | | | | |
|--|-------------------------------|-------------------|--|-----------------------------------|-----------------------------------|-----------------|
| | Cumulative Expenditure YTD | Cumulative YTD | Profile Expenditure for remaining period | Forecasted Expenditure 2004 | Forecasted Expenditure 2004 | Variance Pay |
| Salaries, Wages and Allowances | | | | | | |
| Travel and Subsistence | | | | | | |
| Incidental Expenses | | | | | | |
| Postal and Telecommunication Services | | | | | | |
| Office Machinery and Other Officers Supplies | | | | | | |
| Office Premises Expenses | | | | | | |
| Consultancy Expenses | | | | | | |
| Total | | | | | | |

Appendix 2 – Cost Tracking Template [Contd]

(Insert Name of Department or Agency)
Detailed Analysis of Total Decentralisation Cost

Total Current Expenditure

| | Total Expenditure Yr 1 | | Total Expenditure Yr X | | Total Expenditure YTD | | Forecasted Expenditure over the remaining project period | | Forecasted Total Project Expenditure | | Total Project Budget | | Saving (-) / Excess (+) on Budget | | |
|---|------------------------|---------|------------------------|---------|-----------------------|---------|--|---------|--------------------------------------|---------|----------------------|---------|-----------------------------------|---------|--|
| | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | |
| Salaries Wages and Allowances Travel and Subsistence Incidental Expenses Postal and Telecommunication Services Office Machinery and Other Officers Supplies Office Premises Expenses Consultancy Expenses | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | |

Total Capital Expenditure

| | Total Expenditure Yr 1 | | Total Expenditure Yr X | | Total Expenditure YTD | | Forecasted Expenditure over the remaining project period | | Forecasted Total Project Expenditure | | Total Project Budget | | Saving (-) / Excess (+) on Budget | | |
|---|------------------------|---------|------------------------|---------|-----------------------|---------|--|---------|--------------------------------------|---------|----------------------|---------|-----------------------------------|---------|--|
| | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | Pay | Non Pay | |
| Salaries Wages and Allowances Travel and Subsistence Incidental Expenses Postal and Telecommunication Services Office Machinery and Other Officers Supplies Office Premises Expenses Consultancy Expenses | | | | | | | | | | | | | | | |
| Total | | | | | | | | | | | | | | | |