

## Case Study: Department of Work and Pensions/EDS Relationship Transformed From Crisis Point to Mutually Beneficial Five-Year Agreement EquaTerra Approaches Parties With Candour and Clarity

### At a Glance

#### Company Profile

This major arm of the UK central government delivers 13 million state benefit and pension payments every week to over 20 million customers across the U.K. and has the following operating businesses: Jobcentre Plus, The Pension Service, Child Support Agency (CSA), Disability and Carers' Service, Health and Safety Commission, and Health and Safety Executive.

#### Services Featured

- IT Outsourcing Quality Assessment
- Relationship Mediation

#### Business Processes Involved

- Information Technology

### Executive Summary

This case study shows how EquaTerra provided insight and clarity to two parties in a broken relationship, enabling them ultimately to move forward. Since its creation in 2002 – through a merger of formerly separate government departments – the U.K. Central Government's Department of Work and Pensions (DWP) had outsourced much of its IT provision to EDS. The agreement was carried over from its original set up in 1995. By 2004, this deal had evolved into a comprehensive IT outsourcing contract worth between £600 million and £800 million a year. The contract – at this point under scrutiny of updated public sector guidelines – faced realignment. Furthermore, the DWP/EDS relationship was faltering. Disparaging headlines made matters even worse. EquaTerra specialists offered their insights into the public sector, IT outsourcing, and relationship and change management, and the two parties were able to repair the relationship and start anew.

### Business Challenge

#### Massive Public Sector IT Outsourcing Contract Under Stress

In mid-2004, the DWP/EDS IT outsourcing agreement was under pressure on two main fronts:

- The underlying rationale and pricing of the contract was being revisited under the terms of the recently published Gershon Review of value for money in public sector services. This meant EDS faced losing several hundred million pounds in "realigned" contracts, as the department sought to cut back its average annual spend of around £700 million on services delivered by EDS to about £520 million.
- The relationship between the DWP and EDS had reached a well-publicised crisis point, amid allegations of bad faith on both sides and high-profile reports of IT failures – notably including the £450 million CSA system and the £500 million Electronic Benefits Transfer System.

In July 2004, a Work and Pensions Select Committee report described the CSA system as an "appalling waste of public money." On Friday 26 November 2004, the BBC website reported: "About 80 percent of the DWP's network crashed on Monday, and technical experts from Microsoft and the computer firm EDS have been working around the clock to find the fault. Meanwhile, staff was forced to communicate by fax because the e-mail system broke down."

**Note:** This case study was written prior to EquaTerra's acquisition of Morgan Chambers in September 2007. All "Morgan Chambers" references throughout this document have been changed to "EquaTerra" to reflect the new ownership and brand.

## Distrust Stalls Renegotiations

Amid this blanket media coverage, the Gershon-inspired contract renegotiations between the DWP and EDS reached an impasse. The sticking point revolved around the DWP's view that it was paying above the market rate for similar services provided elsewhere. EDS, for its part, said the DWP's service demands were "unique" and, therefore, the pricing could not be accurately benchmarked against other contracts in the marketplace. Even more fundamentally, there was a deeply ingrained level of distrust between the two parties.

Despite their issues, DWP and EDS reached agreement that the way forward lay in some form of utility-based pricing to reflect the DWP's usage of standardised services. However, they needed help to reach an agreement on how to structure and implement this in the contract. Capgemini, which was running the DWP's "Talent Grid," asked EquaTerra to submit a competitive bid to advise the parties. EquaTerra submitted a proposal and was selected as the advisor.

## How We Helped

### EquaTerra Acts as "Honest Broker" and Mediates Stressed Relationship

A three-strong team of EquaTerra consultants started work on the project in September 2004, bringing together specialist knowledge of the public sector, IT outsourcing, and relationship and change management. EquaTerra's specific brief was to conduct a quality analysis of both the outputs from the EDS contract and of the processes deployed between the two organisations. EquaTerra was also charged with mediating the relationship between the two organisations at all levels. The role here was to act as an "honest broker," monitoring the demands being made by both sides and highlighting, for example, instances where the provider might be overcharging against market norms, or where the customer was demanding a service that could not reasonably be provided under a utility pricing model. All this was to take place in the context of a rapidly advancing efficiency programme.

This mediation role was where the greatest stumbling blocks emerged. Despite a series of frank, open, and occasionally, heated meetings between the two parties and EquaTerra, the underlying collapse in trust between the two organisations – including at the top-most levels – was so great that agreement on a new pricing and service structure could not be reached. EquaTerra put together a "trust programme" that was approved on both sides, but full implementation proved elusive.

After six months, EquaTerra provided its report to the DWP, specifying the reasons for the two sides' failure to reach a new agreement. EquaTerra's involvement ceased at that point, and EquaTerra walked away from the project.

## Results

### DWP and EDS Reach Five-Year, £520 million Agreement, With Room to Grow

The insights and frankness EquaTerra brought to the negotiations did, ultimately, bear fruit. Just four months later, in August 2005, the DWP and EDS announced a new five-year, £520 million-a-year outsourcing contract. This allowed EDS to win additional DWP work valued at up to £180 million over the lifetime of the contract if it performed well.

Through EquaTerra's Quality Assessment and Relationship Review, all parties achieved significant benefits, including:

- Greater insight at the DWP into the changes in culture and organisation it needed to pursue in order to achieve the aims of the Gershon agenda
- Enhanced appreciation of the pressures facing the other
- Valuable knowledge and experience for all parties – including EquaTerra – of the issues facing major outsourcing contracts, especially in the public sector
- A heightened degree of openness, which laid the bedrock for the subsequent agreement on a mutually beneficial five-year agreement consistent with Gershon

## About EquaTerra

EquaTerra sourcing advisors help clients achieve sustainable value in their IT and business processes. Our advisors average more than 20 years of industry experience and have supported over 2000 transformation and outsourcing projects across more than 60 countries. Supporting clients throughout the Americas, Europe, Middle East, Africa and Asia Pacific, we have deep functional knowledge in Finance and Accounting, HR, IT, Procurement and other critical business processes. EquaTerra helps clients achieve significant cost savings and process improvement with internal transformation, shared services and outsourcing solutions.

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