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Public Sector

Choosing Channels.

Optimising the channel mix
in the UK public sector

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Foreword

The United Kingdom's public sector is under growing pressure to improve efficiency while also raising its quality and reach. Choosing the right customer channels to deliver products and services can have a significant impact on realising these aims, for any business. However, without the competitive drivers of the private sector, the public sector has often found itself with a polarised and overly expensive mix of channels through which to deliver its services.

Sir David Varney's recent review of service transformation has put the use of channels at the heart of the efficiency agenda for UK government. Deloitte & Touche LLP's research identifies areas where the current structure of channels is underperforming. Take-up of electronic channels is poor when compared to other countries, and poor take-up of benefits shows that even where traditional channels are used, government can fail to market them effectively.

We recognise that many public bodies are daunted by the scale of the Government's vision for service transformation. We believe that a series of smaller steps would not only be workable, but could actually accelerate Varney's end goal. By optimising their existing channel mix, organisations can deliver productivity gains quickly. These gains could then be reinvested in redefining their channel strategy, and in executing this alongside a package of measures to encourage and incentivise channel shift.

Using evidence from the United Kingdom and other countries, we propose several areas where government could better utilise existing customer channels to improve access, enhance outcomes and drive efficiency savings. We then go on to outline an approach for redefining a channel strategy. This analyses the three key dimensions of any channel strategy: knowing your services, knowing your customers and knowing your channels.

Given the vast range of services offered by the UK public sector, there is no magical solution to channel optimisation. Our aim is to provide organisations with a number of practical and pragmatic ways to improve their channel mix and achieve their priorities.



Mike Turley
UK Public Sector Leader

Executive summary

Government is aiming to transform the delivery of public services through the use of more efficient and effective channels. The Transformational Government strategy published in November 2005¹ set out the Government's overall aims of greater personalisation, choice, speed, access around the clock and efficiency in public services. Sir David Varney's review of service delivery transformation, published in December 2006, is the latest phase of this strategy.

The UK public sector has invested heavily in IT for customer service delivery, but is failing to reap the rewards. The existing channels used for public service delivery have not provided the results expected, and many public bodies do not have a coherent channel mix that makes best use of the range of options available.

The scale of the service transformation agenda is large, yet many organisations are best advised to take smaller steps. We suggest a three-phase approach that creates a path for public bodies to take, which is on the trajectory set by Sir David Varney but does not require large-scale change. Organisations should optimise existing channels first, to extract productivity savings that can be reinvested in later phases to redefine and then to execute a new channel strategy.

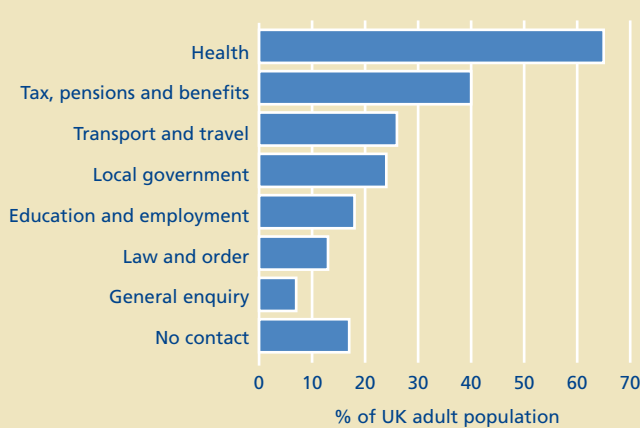
Channel optimisation requires deep understanding of services, customers and channels. Choosing the right channels requires a service provider to understand the different drivers, from the degree to which a service is standardised to the capability of a customer to self-serve. Further, customer segmentation can identify the channels preferred by customers and the best means to persuade them to migrate to more efficient channels. Possible channel mixes identified in this paper include the self-service stream, contact-centre-based services and targeted face-to-face delivery.

Government should use a mixture of advertising, incentives and assistance to promote channel migration toward self-service. Despite heavy investment, new electronic channels have tended to suffer from poor take-up. Use of online services is well below international levels, despite the undoubted quality of many of the systems and the high level of electronic literacy in the United Kingdom. International best practices show that this can be radically improved if good channel migration strategies are put in place.

Why channel optimisation is needed

Government has more contact with the UK population than any other body, public or private (see Figure 1). In the year up to July 2005, 82 per cent of the United Kingdom's adult population contacted government.² Two-thirds of the UK population contact the National Health Service (NHS) alone at least once a year. Forty per cent of the population make individual contact with tax, pensions and benefits agencies every year. Government also initiates a significant quantity of contact with UK citizens. In 2005, a single department, Her Majesty's Revenue and Customs (HMRC), generated 398.6 million items of mail, equivalent to over six letters for every citizen.³

Figure 1: Individual contact with government by service area, 2004-05



Source: Omnibus Survey, Office for National Statistics, 2006

Interactions between government and its customers are still mostly via the traditional channels of post and face-to-face contact. But a growing range of channels is now available and the Government is a strong advocate for the greater use of newer, typically lower cost, electronic channels.⁴

Evolution of the channels available

The range of channels available for the delivery of public services has grown significantly over the last decade, as shown in Figure 2. The growth in the choice of channels has created the need for channel rationalisation.

The main change has been the emergence of electronic channels, principally text-messaging, email, websites and digital television. The use of contact centres – a combination of traditional, human interaction undertaken remotely and backed up by new database technology – has also grown.

In parallel with the growth in the use and availability of new electronic and telephone channels, the use of established channels, such as direct mail and traditional advertising media has remained high.

The emergence of new channels has enabled new mixes of channels which can, as a package, be much more efficient. Yet having more channels has also increased the scope for confusion. Getting the channel mix right can pose a difficult challenge for many public services, but the benefits of doing so can be great.

Figure 2: Channels of public service delivery



Source: Deloitte Research, 2007

Realising the channel dividend

Choosing the right channel, or channels, for each service is central to the public sector's efforts to meet its goals of efficiency and quality of service for its users. Optimised channels offer a significant dividend in terms of improved quality and lower costs.

The Pension Service is already realising this dividend. The legacy approach to dealing with pensions, based on face-to-face contact, was arduous. It took a cumulative two hours of the applicant's time, involved several customer contacts, and could require several weeks to complete.⁵ New State Pension applications can now be dealt with by contact centres in just one 20-minute phone call. A quarter of State Pension claims are currently handled by phone. The phone-based approach is more efficient and delivers better service to some of the public sector's most vulnerable customers.

The efficiency dividend from an optimised use of channels can be significant. Lord Carter has estimated that HMRC could achieve £452 million in cumulative cost savings by improving online take-up over the next eight years.⁶ The National Audit Office (NAO) has estimated that contact centres contributed to an annual saving of £375 million for the Department for Work and Pensions (DWP) over the period from 2003 to 2005.⁷ Costs were reduced through a 15,000 cut in staff, and £40 million was saved by the release of office space.

Constrained channels

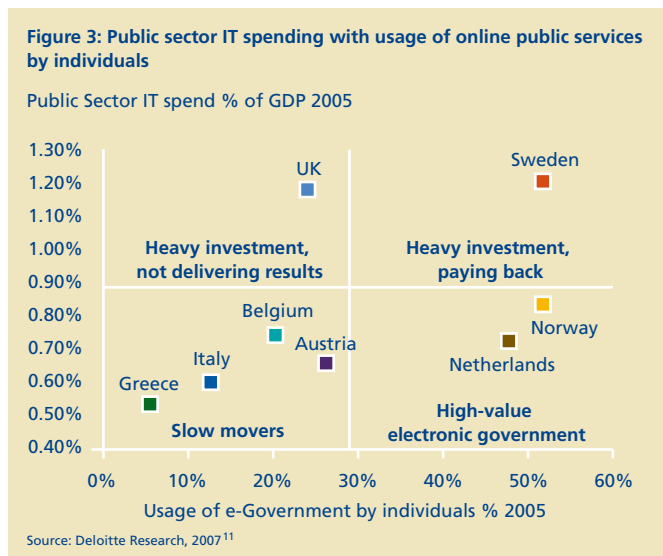
Despite offering a range of channels, some public services do not connect optimally with their users. Take-up of benefits through traditional channels and take-up of services through electronic channels are both lower than they could be.

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The problem appears to be twofold for both electronic and traditional channels. Firstly the mix of channels used for a particular service may be wrong – perhaps being poorly aligned to the preferences of target customers, or perhaps not suiting the characteristics of the service being delivered. Secondly, customer awareness of the range of channels available can be insufficient.

The low take-up of benefits provides an example of how channel mixes have not succeeded despite the best intentions of the service provider. Take-up of pension credit is only 61 per cent.⁸ This implies 1.8 million eligible individuals do not receive their entitlements. And nearly three million individuals do not claim their council tax benefit.⁹ Some of this is due to customers who choose not to take up benefits that would be only marginal to their income. However, low awareness of entitlements and perceived complexity of services are significant factors. To improve this is likely to require a better understanding of customers, their channel preferences, service characteristics, and the barriers that prevent the message from getting through.

Electronic channels have a specific challenge, despite the UK public sector boasting one of the highest levels of public sector IT expenditure relative to GDP, as shown in Figure 3.¹⁰



Electronic channels became central to government policy following the publication of the white paper, **Modernising Government**, in 1999,¹² which set out a target to make all services available online by 2008. In 2000, the Prime Minister, Tony Blair, brought that target forward to 2005.

UK citizens happily browse, bank and shop online, but they do not use this medium to interact with government. The Government has created flagship, one-stop portals for citizens (Directgov) and business (Businesslink). But in 2006, these sites had had an average of just 16,000¹³ and 70,000¹⁴ unique, UK-based users a day, respectively. The BBC's website, bbc.co.uk, attracted 2.7 million unique, UK-based users per day in the same period.¹⁵

In the light of the United Kingdom's high investment in electronic government, this is a disappointing outcome. The reason is that the public sector has been too focused on achieving targets for the provision of self-service channels. It has not considered sufficiently the interplay between channel choice, service design and customer preference. Whilst customer service and access have improved, low take-up levels mean the size of efficiency gains lags behind that enjoyed by other nations.

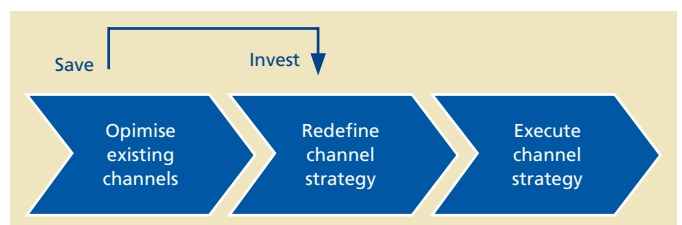
The path to service transformation

Choosing channels is a part of the broader agenda of service transformation discussed in Sir David Varney's report.¹⁶ For Varney, service transformation is about shaping government services around the customer. At its most ambitious, this seeks to transform cross-government service delivery.

The path to service transformation includes both long- and short-term steps. Realistically, cross-government collaboration should be regarded a long-term goal. As well as requiring significant investment, it also implies substantial cultural change and runs counter to the interests of many existing stakeholders. In other words, barriers to change are likely to be high.

But in the shorter term, a more pragmatic package of measures is possible, which can provide stepping stones towards service transformation. Channel optimisation within the existing government framework should deliver real efficiency savings and improved customer experience. This means it is likely to sow the seeds for future collaboration.

Crucially, the right package of smaller pragmatic steps could carry public bodies in the direction that Varney prescribes, without the need for huge leaps or painstaking cross-departmental collaboration. We believe that, by focusing on the channels used for public services, organisations can craft such a package and can develop a programme that is self-funding and that is politically palatable. Our three-phase approach for organisations is illustrated below.



Phase 1: Make the most out of existing resources, focusing in particular on improvements to working practices. By addressing people and process issues, particularly those at key crunch-points that drive productivity, it is possible to make progress without this needing to touch IT. The cashable savings from these improvements can be captured and then re-invested in subsequent phases.

Phase 2: Use our approach to analyse and then redefine channel strategy. This is presented on pages 8 to 17 and forms the majority of this report.

Phase 3: Execute the redefined channel strategy, paying due care to the lessons that others have learned about instigating a successful channel shift.

Making the most of what you already have

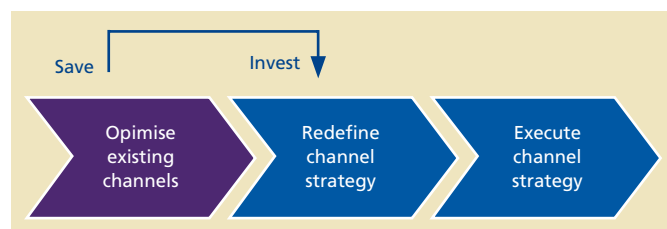
Faced with conflicting pressures of doing more and doing it more effectively, with the same or reduced budgets, organisations may find it difficult to know where to start. Some public bodies have taken the leap into complex, high-cost, high-risk change programmes. Others are effectively paralysed, unable to overcome initial strategic or budgetary obstacles. The added challenge of aligning responses with the ongoing efficiency agenda means there is a risk that many organisations will underdeliver whether they act or not.

We believe that there is a middle path that is likely to move organisations along the right trajectory, working within funding constraints and satisfying existing appetites for risk and change. It is possible to deliver real value through optimising the existing customer contact channels and services – and by doing so overcoming many of the apparent barriers to change.

The first step on this middle road is to optimise the existing channels. This should improve consistency, stop unnecessary or unhelpful activities and refine the processes and skills that support customer interactions. The following examples show what can be achieved:

- One local government body reduced the complexity of services offered by telephone from over 500 combinations to just ten and has significantly simplified their process and training requirements, as well as their phone-book entries, advertisements and correspondence.
- Effective exploitation of an existing workforce management system led to a reduction in opening hours and a simplification of working patterns but an increase in customer satisfaction.
- Root-cause analysis led one organisation to realise that two items of regular correspondence generated a high proportion of unnecessary customer contacts. Reworking the letter content and transferring known customers to the email channel reduced the processing overhead by ten per cent.

The savings from a well-managed channel optimisation project can be as high as 15 to 25 per cent and these should be ring-fenced for investment in more radical change. They are also typically very visible, making a real difference to the customer and demonstrating commitment to the Service Transformation agenda, as well as having low risks.



We describe below some of the key steps towards identifying what can be done in this first stage. These steps have helped organisations prioritise their early improvements in efficiency and service quality and may help to shape the pattern of more advanced change that will ultimately lead to the cross-cutting transformation advocated by Varney.

The three top targets

The existing mix of channels typically includes three high-value 'targets' for channel optimisation. Better co-ordination of local office networks, productivity improvements in contact centres, and changes to websites offer real improvement potential without significant investment in technology.

Local offices

Government in the United Kingdom operates out of around 4,000 front office locations.¹⁷ Better use of this network could generate improvements in efficiency and service quality.

The potential for savings in local offices is dependent on the extent to which an organisation relies on the face-to-face channel. In most local government organisations it is significant and in some central government departments, for example, HMRC and the DWP it is huge. Varney identified a potential for £300 million of savings per year through better use of the face-to-face channel.

Early success can result from:

- better signposting
- reducing avoidable contact through clearer, more proactive communications
- introducing more effective operational practices
- adjusting opening hours and working patterns
- minimising duplication of services and points-of-contact
- developing service processes and skills to deliver more of a one-stop-shop approach.

Contact centres

The ongoing opportunity for the public sector to drive efficiencies and improved service from its contact centres is significant. We have found that focusing on performance management, tight workforce-scheduling, and techniques to encourage the sharing of knowledge and simple best practices, can deliver notable productivity improvements in a short timescale.

As an example, in 2006 the 'Leap Forward Programme' at HMRC delivered sustained productivity improvements of 20 per cent within the first year, with improved process quality and customer satisfaction scores. The team specifically avoided any technology change, and focused instead on enabling people to work more effectively and developing improved processes and operational practices.¹⁸

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Contact-centre productivity improvement

In our experience, contact centres often provide fertile ground for productivity improvements that make a tangible difference to the customer and do not rely on expensive technology investment. The discipline of improving efficiency and effectiveness through working practices is prevalent in the private sector but commonly underestimated across the public sector.

We recommend that organisations examine the following areas, where surprisingly large productivity improvements can often be achieved without expensive or difficult change:

- Redeveloping call flows, queuing messages and simple self-serve information, intended to inform customers and provide choice. Complexity is to be avoided – particularly multi-choice, multi-level interactive voice responses (IVR), which confuse more than they help.
- Challenging unhelpful, legacy processes and operational practices and developing a business model which is based on 'one and done' (in other words customers get what they require in a single call).
- Developing team leaders who coach and support their teams with clear objectives for productivity, customer service and quality, as well as knowledge sharing and communication. This shift from an 'old-school' supervisory style to a modern, active performance-management culture can make a real difference.
- Providing focused, modular training for advisers on the main types of demand from customers, providing, for example, quick reference tools for common queries and simple, quickly accessible guides for basic calculations or eligibility checks.
- Instigating programmes of knowledge-sharing across teams and sites, perhaps with medium-term secondments for subject-matter experts to help embed best practice.

Electronic channels

Electronic channels such as email, websites, digital television and interactive kiosks can require significant upfront investment. It is often relatively straightforward to reduce cost or enhance customer uptake by reconsidering the following:

- website layout and fitness-for-purpose from both a customer's and a business-process perspective
- reassessing the target customer segments, given the rise in uptake of broadband and changing attitudes and behaviour in the United Kingdom
- launching online or kiosk transactions that do exist but may have been restricted by legacy policies or business rules
- fulfilment by email (for example, PDF forms) rather than printed post
- downloadable brochures, forms, maps and so on
- effective links and signposting for other services.

A more radical approach, albeit requiring investment, would be to set up a single Web portal, such as 'Online NI', 'Liverpool Direct' and 'Service Canada', through which customers could access a broad range of government services, effectively breaking down some of the boundaries between departments and agencies. Directgov has shown some of the benefits of this approach, such as in its collaboration with the DVLA, highlighted in the Sidebar on page 9. The public sector should continue to look to Directgov, where possible, for an example of how to deliver electronic services effectively.

One of the disappointing characteristics of the UK public sector is the continuing resistance to sharing knowledge and innovation between bodies. This is changing, not just through the efforts of the Cabinet Office, but also through other forums and the work of individuals. Sharing best practices and reusing both technologies and contracts would, we believe, save a great deal of taxpayers' money.

An example of how knowledge-sharing made a difference, the digital television platform, DiTV, used for local government services around the country, was initially developed by Kirklees Metropolitan Council. It offers all local authorities a starter-kit to host council services on a digital television platform. Over 50 authorities are currently running pilot-phase projects.¹⁹

Simplifying operational policy

In our experience, many public bodies shy away from policy simplification because they perceive it to be time-consuming and political. However there are many types of lower-level policies and procedures that can be changed without many hurdles, and which have the potential to realise quick savings from the existing channel and service mix.

The complexity of some forms, for example, can make it challenging to convert them for use in electronic channels. Errors and inconsistencies on completed forms may increase the number of contacts necessary to obtain the relevant information.²⁰ This can increase the administrative burden on staff and systems²¹ and lower the potential efficiency benefits from self-service channels.²²

Poor form-design itself creates a barrier to migrating customers onto self-service channels. This is because customers who have had poor experiences filling in forms are reluctant, in future, to attempt to transact with the same organisations, without help.

On the telephone channel, many customers are still required to listen to the “your call may be recorded for training or quality purposes” message. This takes between 10 and 20 seconds and is no longer a legal requirement, as long as the correct information is included in directories, advertisements and on correspondence. This is not only a waste of customers’ time but it also adds to the telephone bills of the customer or the organisation, depending on what type of telephone number is in use.

Simplifying procedure

From the forms of identification required to register with a General Practitioner (GP), to the rates of fines to be charged for the late return of library books, rules and procedures for authentication and assessment that are unnecessarily onerous create bottlenecks and add cost. Mostly they exist for good reason, and are key to the integrity of business processes, but the savings that can be achieved by seemingly small simplifications are significant. For example, the removal of the requirement to give a signature to access the State Pension was a significant factor in allowing delivery to be moved from face-to-face and post to contact centres.²³

Harmonising identification and verification procedures across different parts of the same organisation can also reap rewards: When organisations use the same reference details consistently across all channels, such as customer surname or account number, interactions become quicker and less prone to error. Simplification reduces errors and reduces repeat calls, visits or letters.

Simplifying administration

Much complexity can reside at the level of service administration, such as the layout of forms and the provision of prepopulated information. Taxpayers in Australia who are filing electronically for the second and subsequent years are presented with their electronic form populated with personal details provided in previous years.²⁴ This simplification has contributed to the large numbers, more than 80 per cent, of Australian citizens who file tax returns electronically.²⁵ Prepopulation can also be used by contact centres. Some local authorities take the details of new council-tax payers over the phone, and then send them a prepopulated form to be checked and returned. This eliminates error and cost, whilst also improving customer service.

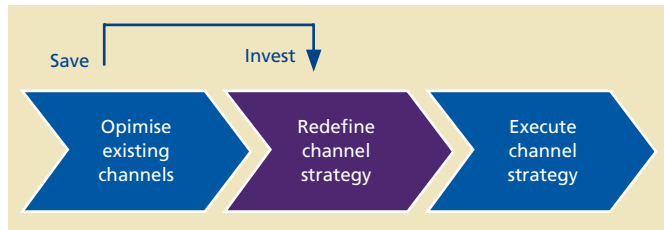
The best practices in simplifying administration require effective feedback mechanisms between the service provider and the customer. HMRC aims to encourage electronic filing of returns by making this a simple mechanism for taxpayers to use. It meets regularly with its customers and holds workshops to establish and prioritise their requirements on electronic filing.²⁶ HMRC research has identified two particular areas with scope for greater ease of use: language and guidance. Language could be made simpler by replacing technical terms on forms and providing clearer explanations. Guidance could be made clearer by making less use of jargon and increasing use of examples to support complicated concepts.

Realising the savings

In this section, we have outlined a number of practical and pragmatic initiatives that public bodies can adopt to ‘make the most out of what they have got’. By defining this as the first phase of a channel redesign programme, it is possible to capture the benefits achieved from this and to reinvest them in future phases. These benefits can help to smooth the funding requirements of the more sizeable improvements that we outline in the next two sections. They can also create momentum for the overall programme of change.

Redefining your channel strategy

Despite the large potential for optimising existing channels, there is a limit to the benefits that can be achieved from a static channel mix. The second phase of our approach is to redefine the channel strategy. This involves analysing and assessing the drivers for using particular channels to get services to the necessary customer base.



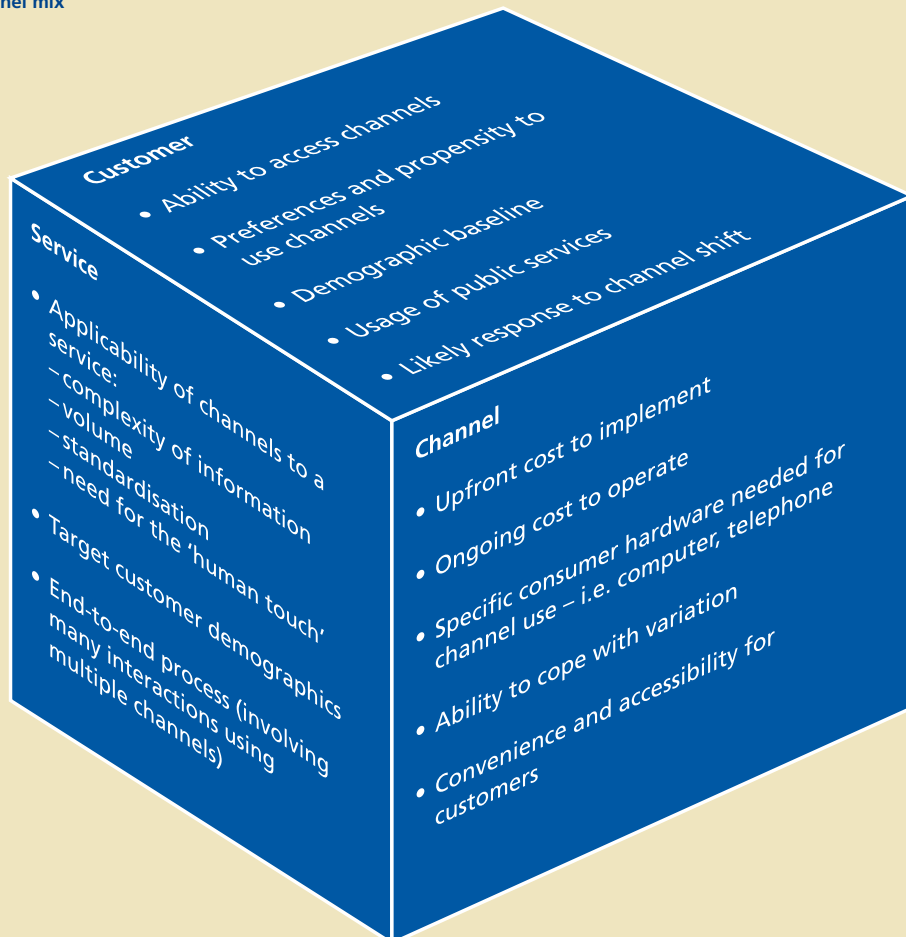
Having already taken steps to optimise existing channels, organisations are likely to have realised savings that can quickly be reinvested in this phase of our approach. Linking together the phases into a coherent programme of work not only allows the savings of phase one to contribute to the funding of phase two, it also creates a more substantive footprint of change. This can help demonstrate that progress is being made.

Channel strategies are three dimensional

Optimising the channel mix for a service requires good knowledge of:

- characteristics of the service
- channels available and their suitability to key characteristics and organisational priorities
- customers, and their preferences and needs with regards to their service interactions. (See Figure 4).

Figure 4: Optimising channel mix

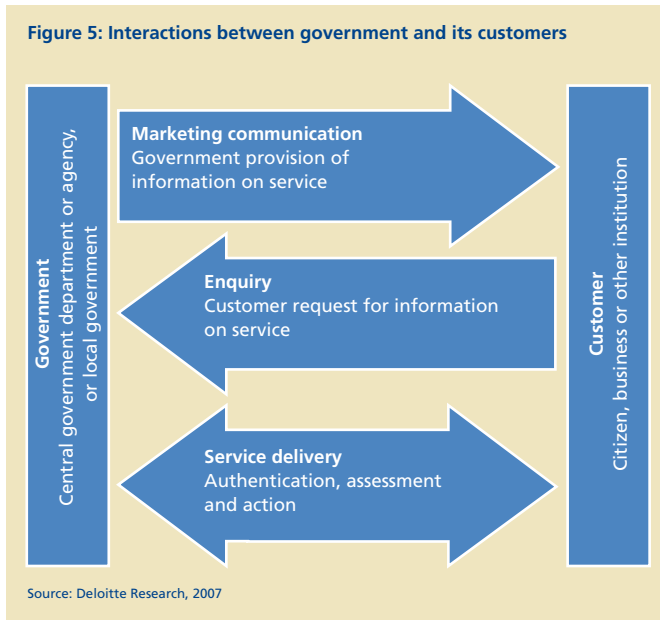


Source: Deloitte Research, 2007

Knowing your services

While it is often assumed that service efficiency is driven by its delivery, getting the right information about a service to the right people can be just as important. A government service is based around three distinct elements: marketing communication, enquiry and service delivery. Each may be delivered by a variety of channels.

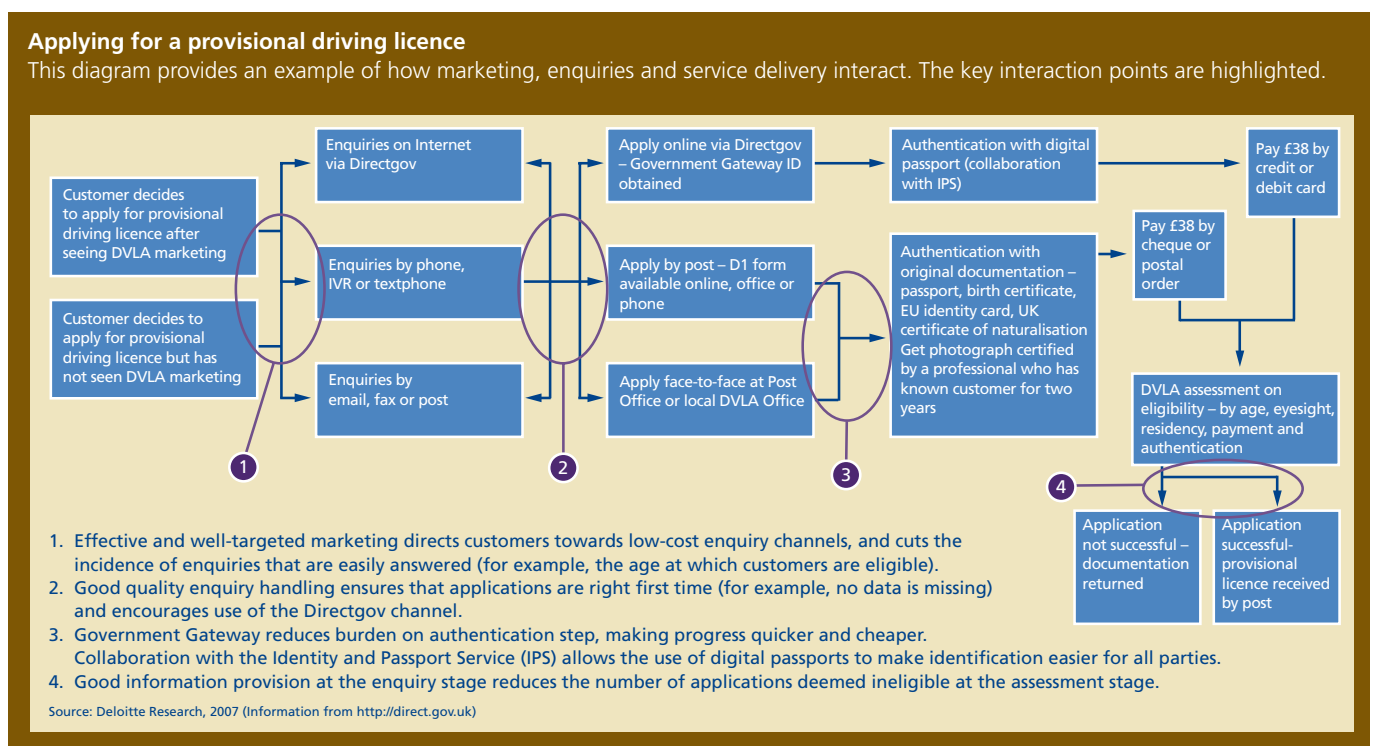
Marketing and enquiries can help to direct customers towards particular channels, and can therefore help to maximise operational efficiency. The Sidebar shows the key interactions between marketing communication, enquiries and service delivery in the Driver and Vehicle Licensing Agency's (DVLA) delivery of provisional driving licenses.



Problems can result if marketing and enquiries are not used to manage demand for service delivery, as the United Kingdom Passport Agency found to its cost. In early 1999 the Agency began to implement a new, computerised, processing system, which caused disruption in the form of temporarily lowered capacity. As a result, the Agency found it increasingly challenging to meet demand for passports. If the Agency had sought to influence customer behaviour through the use of marketing, the volume of applications may have decreased. However, its failure either to take action, or warn the public of the need to apply earlier than usual for a passport, led to a surge of late applications, which exacerbated the problem. Although by June 1999, a backlog of over half a million applications had built up, the Agency did not issue a statement on the problem until the following month.²⁷

Processing time reached as long as ten weeks, compared with the typical average of ten working days.²⁸ While a processing system was the initial problem, proactive management of customer demand, through marketing communications and subsequent effective handling of first contact, could have helped to prevent the problem from escalating into an expensive operational crisis.

Government should ensure that all three elements work in synergy to support each other. For example, government can manage customer demand through proactive and targeted marketing communications and via the effective provision of information at first contact. Marketing can raise awareness about a service, clarify who is eligible and inform customers on how to enquire about a service.



Marketing

Judicious use of marketing can be a vital tool to the public sector. It can drive more efficient use of resources and signpost customers to use the channels that offer them the best quality of service.

Broadcast marketing, such as television, radio and billboards can be broadly divided into activities that are led by 'brand' or 'direct response'. Brand-led marketing focuses on building a positive perception without an obvious 'call to action' to purchase or use a product or service. Unlike the private sector, the public sector does not face competitive pressure to differentiate its brand, so the priority for public sector marketing should be direct response. Direct response uses broadcast channels to persuade customers, with or without incentives, to take action such as to call a number or visit a website.

Direct-response marketing can be highly effective. HMRC's advertising campaign, fronted by Adam Hart-Davis, has cost £15 million since 2002. Between 2004 and 2005, online filing of tax returns rose by 400 per cent.²⁹

The role of good marketing in controlling the costs of service delivery is often underestimated. When marketing works at its best, it not only informs customers of basic information about opening hours, deadlines, contact numbers and website addresses, but it also includes more detailed information such as the kinds of services that can be executed, over which channel, and the likely duration of each. By setting customer expectations properly and informing them well, marketing reduces the volume of contacts and, in particular, the volume of unnecessary contact. This has a direct impact in releasing resources, which can then be targeted at improving service delivery itself.

People in the United Kingdom consume media in a much more fragmented fashion than they did ten years ago. The proliferation of digital television, mobile devices and the Internet means that the public sector can no longer rely on a handful of media sources to deliver a message to all. Intelligent delivery through a number of channels is likely to be necessary to reach today's target audience.

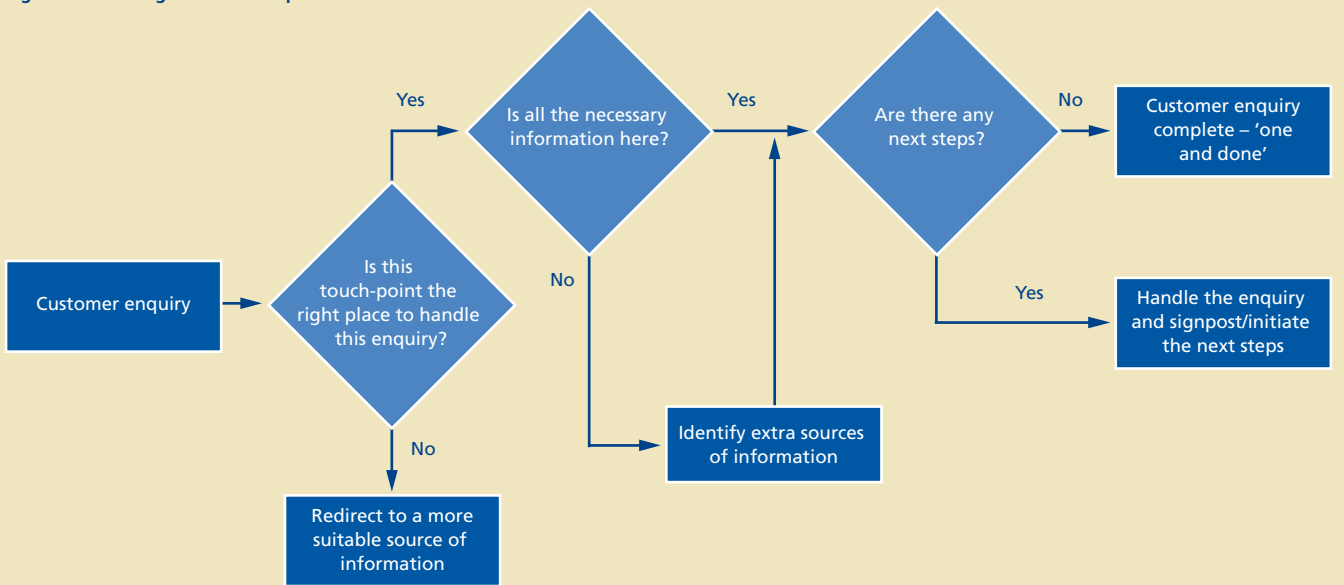
The factors driving choice, or choices, of marketing channel are:

- The degree to which the marketing message requires standardisation. Where a message is standardised, broadcast media such as television, radio and billboards can be used. Where it is not, targeted messages via direct mail or text message can be used.
- The number of customers to be addressed. The most expensive form of marketing, television, is only used if the target market is very large. For instance, the NHS targeted the 24 per cent of UK adults who smoke³⁰ with television advertisements for its anti-smoking helpline.
- The target market's media preferences. Media usage varies markedly between different customer groups, from the television programmes they watch at different times of the day, to the magazines and newspapers they read, to the websites they visit. Knowing the channels through which customers prefer to be contacted, for what services and at what times, puts organisations in a better position to engender the trust of and build long-term relationships with customers.
- The complexity of the information purveyed. The more complicated the information, the higher the expected need for personal explanation. For instance, face-to-face contact is often used to give advice on the multitude of benefits for which individuals may be eligible. It remains the bedrock of many advice services provided by government and by the third sector.

Enquiries

Enquiries represent the greatest volume of transactions between government and its customers.³¹ Enquiries provide a key vehicle for the government to inform customers about a wide range of services and are often undervalued simply because they do not produce a readily measurable outcome. If low-cost channels can be used for enquiries, the more specialised, more expensive resources can be focused on actual service delivery.

Figure 6: Handling customer enquiries



Source: Deloitte Research, 2007

Enquiry lines can also be used to promote and assist in the use of alternative channels, particularly self-service. Trained staff can direct people towards a self-service channel and supply a helping hand when necessary. This instils customers with the confidence to use self-service without assistance for subsequent interactions.

As with marketing, good handling of customer enquiries helps control costs by minimising unnecessary and wasted contact. When it works at its best, enquiry handling consolidates the required information and validates eligibility before signposting customers to the most effective channel for their transaction. Figure 6 shows how a simple map of the process should lead to the completion of an enquiry via successful signposting.

The following factors determine the choice of channel for enquiries:

- The urgency of the enquiry, and whether the primary need is for a speedy response. NHS Direct provides online and telephone services for less urgent matters, while hospital Accident and Emergency departments can deal with matters of life and death.
- The propensity of customers to use different channels, according to their mobility, language or access requirements. Differing levels of Internet access mean that local authorities should continue to provide enquiry services via contact centres even if websites are cheaper.³²
- The complexity of the enquiry. For a complex enquiry, such as an application for planning permission to build a shopping centre, some contacts may be better dealt with in-person. Conversely, a simple enquiry regarding the criteria for obtaining a provisional driving licence is unlikely to be suited to in-person channels.

Service delivery

Service delivery is the objective of government and therefore the most important area for the right channel choice. The delivery of any single service may require a number of interactions between government and its customers. Service delivery typically comprises three sequential steps: authentication, assessment and action.

Someone claiming incapacity benefit, for example, needs: authentication of identity and assessment of needs and eligibility before finally payment can be actioned.

Authentication is the means by which customers prove who they say they are. Improving authentication processes was a focus of the Varney review, in particular the scope for sharing authentication procedures across government departments.³³ This would aim to stop customers from having to authenticate themselves with every government agency they need to contact. It would also aim to achieve efficiency savings³⁴ and to reduce identity-related fraud. The nature of authentication may dictate that certain channels are used, for instance where a signature is required.

Assessment determines eligibility for services. Many benefits are means-tested, requiring complex assessments of income and employment. Electronic channels can reduce the cost of many assessments, and along with contact centres offer the opportunity for assessment to take place in the front office. This could reduce the amount of human processing involved and can deliver efficiency savings and service improvements.³⁵ However, legal requirements may mean that some assessments should continue in person, such as the compulsory fortnightly interviews for individuals claiming Jobseekers Allowance.

Actions are the end goal of service delivery and follow the processes of authentication and assessment. Automation has made many actions less labour-intensive. For example, once a person has been assessed for eligibility, benefits can be paid directly into a bank account. For some services, actions may have to be delivered face-to-face, for example social care for the elderly or disabled.

The following factors determine the optimal choice of channels for service delivery:

- The complexity of authentication, assessment or action. A social security appeal through the Appeals Service is likely to be highly complex and personalised. It may therefore involve a range of channels that includes face-to-face contact for professional advice, email and post for distributing correspondence and telephone for progress updates.³⁶
- The need for a 'human touch'. A person receiving medical test results is likely to prefer to receive them in person or by post rather than by email or text. However, this is not just an issue of sensitivity. The National Debtline's (NDL) online planning and budgeting service is successful partly because the lack of human involvement provides anonymity and avoids the perception of shame.
- The legitimacy of process. A person applying for Disability Living Allowance, Carer's Allowance or Attendance Allowance requires documentation from a GP to complete a claim.
- The capability of customers. Health advice on the NHS Direct website can be too complicated for customers. A survey by the University of Bath found that the diabetes page included language that was above the level of understanding and technical ability of the average British reader.³⁷
- The volume of transactions. Automation of processes through electronic channels could improve efficiency given economies of scale. This is because the fixed costs of building new infrastructure are high, while the variable costs are low. In the United States, the Internal Revenue Service (IRS) found that unit costs for electronic tax returns would almost halve over a four-year period, as fixed costs were amortised.³⁸

Knowing your channels

Over the last decade, mobile telephones, the Internet and digital television have joined more traditional means of service delivery such as the telephone, the postal system and old-fashioned, face-to-face contact. This has forged a new frontier of possibilities for service delivery.

Navigating this frontier is the second key element to optimising the channel mix. This requires an understanding of how channels differ in terms of their cost and in their reach.

Figure 7 summarises the most common channels used by the public sector. It is rarely appropriate to use the full range of channels all at the same time, yet only by understanding the characteristics of each channel can organisations determine the optimum channel mix for their end-to-end product offerings.

Channel costs

Channel costs vary significantly. The cost of delivering a service via an electronic channel can be much cheaper than a human one as shown in Figure 8.³⁹ The rule of thumb is that online channels are often much cheaper than contact centres, which, in turn, are cheaper than face-to-face or postal channels. Many types of customer, however, will always be likely to require more human contact in their interactions. This explains why the continued existence of more costly channels in the range of choices is necessary.

Figure 7: Most commonly used public sector channels in the United Kingdom

	Suitability			Characteristics		
	Enquiry	Marketing	Service delivery	Security	Accessibility	Speed
Advertising media		✓		○	●	●
Intermediary (e.g. charity, priest)	✓	✓		○	●	●
Face-to-face	✓		✓	●	○	●
Telephone	✓	✓	✓	●	●	●
Post		✓	✓	●	●	○
Email	✓		✓	○	○	○
Text message			✓	○	●	●
Web (G2C)*	✓	✓	✓	●	●	●
Web (C2C)**	✓			○	●	●
Digital television			✓	●	○	●
Interactive kiosk	✓	✓	✓	●	○	●

* Web (G2C): Government-to-Citizen, e.g. Directgov, businesslink

** Web (C2C): Citizen-to-Citizen, e.g. www.theyworkforyou.com⁵

§ See http://www.cabinet-office.gov.uk/newsroom/news_releases/2007/070405_power.asp

● = High

○ = Low

Source: Deloitte Research, 2007.

Figure 8: Use and costs of channels for accessing Tameside Borough Council's services

2004-2005	Customer visits	Cost per visit	Total cost
Face-to-face	104,986 unique visitors	£14.65	£1,538,039
Customer contact centre	314,602 unique calls	£1.39	£437,296
Self service: website	679,813 unique visitors	£0.25	£168,703

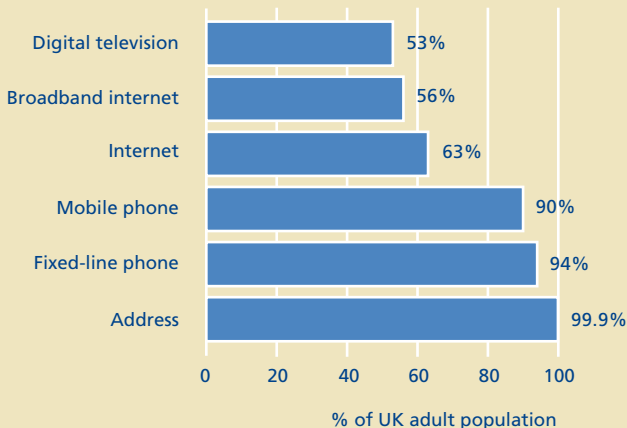
Source: Tameside Council, 2006

While the unit costs for contact centres and websites are much lower than face-to-face channels, investment required to build them is likely to require significant capital input. Whether the high fixed-cost is justified by the lower variable costs may depend on the volume of transactions to be processed. It has been estimated that cumulative build and operating costs for HMRC online services could be over £160 million in seven years. This investment is justifiable because of the significant savings that are likely to be generated if this calculation is correct.⁴⁰

Channel reach

The recent focus on electronic channels has reflected a need to cut costs and capitalise on the ever increasing adoption of new technologies.

Figure 9: Proportion of UK adult population with access to channel in 2007



Source: National Statistics, 2007⁴²

While electronic channels have attained mainstream adoption, a significant chunk of the population has still not adopted digital television and the Internet. (See Figure 9). A third of the UK population has never used the Internet.⁴¹ And although a growing proportion has two or more mobile phones, ten per cent of the UK population does not even have one (see Sidebar for more discussion on the United Kingdom's digital divide).

While penetration rates for electronic channels continue to rise, growth is slight in some areas. Uptake of the Internet has been slow for the last few years.⁴³ Between mid 2003 and mid 2005 Internet adoption in households rose by just three per cent.⁴⁴

Thus the government should not assume that everyone is likely to adopt electronic channels in the near term.

The United Kingdom's digital divide

There is a divide in access between identifiable demographic groups. Those in socio-economic groups A and B are three times more likely to have home Internet access than those belonging to groups D and E.⁴⁵ While the number of DEs who shop online is increasing, from 0.9 million in 2004 to 1.7 million in 2005, it is still much lower than in higher income groups.⁴⁶

Age is also a factor. Internet penetration among the over-55s remains low. Their use of e-commerce, for example, is almost half the national average, at 16 per cent. But, it is starting to grow, and since 2000 the number of over-55s shopping online has doubled to 2.7 million.⁴⁷ Compared with an average of 30 per cent across all age groups, however, that means just one out of six people over 55 uses the Internet to shop.

Knowing your customer

Gaining greater insight into customers’ needs and preferences when interacting with government is crucial if efficiency gains and service improvements are to be realised. This insight should include information on how a customer currently uses channels to access a service, and how they may do so in future.

Segmenting the public sector customer

In the private sector, customer segmentation is driven principally by profit. By contrast in the public sector, there are two key, occasionally conflicting metrics: efficiency and accessibility.

Public sector customer segmentation requires:

- Defining and sizing the chosen segments. For example, customers could be grouped by access requirements or channel preferences.
- Assigning appropriate channels for each segment.
- Determining what channel migration can be achieved for different segments and how best to achieve it.

Developing a more detailed understanding of government customers does not require investment in expensive and occasionally unnecessary Customer Relations Management (CRM) solutions. Public bodies should create a simple segmentation that makes sense to their business and resist the urge to overanalyse data. Figure 10 shows how one department, HMRC, has segmented its customers by specific characteristics and preferred channels.

A key element is to understand why a segment chooses one channel rather than another. For example, HMRC’s ‘segment 2’ may be intimidated by self-service transactions. Mapping services to customer segments effectively can identify, for example, that for this group online channels are inappropriate.

Figure 10: HMRC customer segmentation

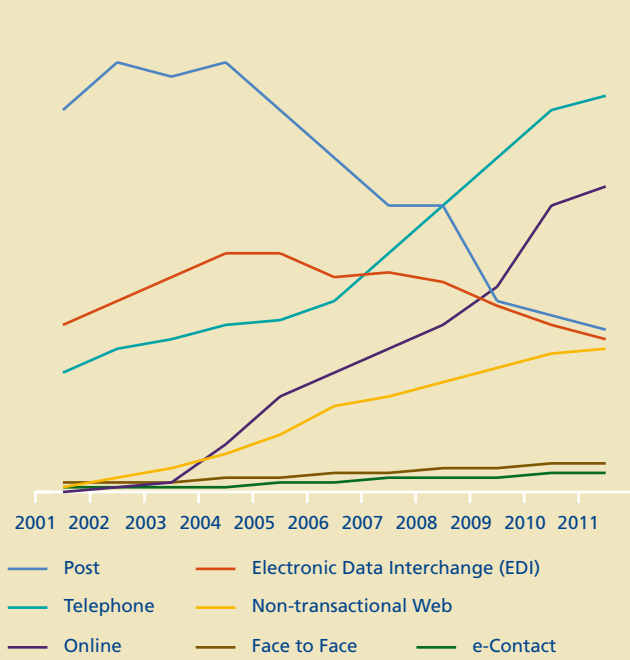
Business Segment Summaries

	Size % of population	Defining characteristics	Channel behaviour and preferences	Methods to achieve channel migration
Segment 1	12%	Older than average age, lower than average income and education level. Face-to-face choice driven by habit and need for human interaction. Not PC-literate.	Preferred channel: Face-to-face/phone. 2nd choice: Phone/face-to-face.	Educate on benefits of using self-service for non-complex contacts. Ensure face-to-face signpost to phone.
Segment 2	18%	Slightly older than average, lower than average income and education level. Reject online and face-to-face strongly, unlikely to have PC or Internet access.	Preferred channel: Phone. 2nd choice: Post.	Reduce cost of serving segment by automating more phone contact. Educate in this automation. Do not try to push segment online.
Segment 3	37%	Use post through habit and need to keep records. Some own PC/Internet. Would switch if they felt they understood channel, would strongly consider phone.	Preferred channel: Post. 2nd choice: Phone/online.	Educate in possibilities of keeping records using low cost channels, emphasise speed and convenience. Promote use of phone and educate in online use.
Segment 4	25%	Younger than average. Positive attitude to online use, may use home banking and online shopping. Choose phone for convenience, lack information on online services.	Preferred channel: Phone. 2nd choice: Online.	Educate on benefits of using online channels, focus on speed and efficiency. Emphasise phone support available with Web usage. Use internet advertisements and ensure good signposting to online.
Segment 5	8%	Higher earnings than average. Very positive about online services. Find processes easier to follow. Will use phone when they feel they need human interaction.	Preferred channel: Online. 2nd choice: Post/phone.	Ensure online usage maintained by improving services and focusing communications. Use signposting. Aim for email contact.

Source: Deloitte & Touche LLP, 2007 (based on Cabinet Office, 2006) ⁴⁸

Figure 11: Channel volumes to 2006, with projections to 2011 (HMRC)

Volume (millions)



Source: Deloitte & Touche LLP, 2007 (based on Cabinet Office, 2006)⁵⁰

Collecting usage data

Good customer segmentation helps to set realistic targets for channel migration. HMRC's target was to encourage a significant shift away from post, to telephone and online channels; segmentation made this more achievable.⁴⁹ (See Figure 11).

HMRC's projections show that many customers may be more willing to use electronic channels than current usage levels indicate. The significant disparity between public and private sector in the use of the Internet to access services supports this. While 14.6 million in the United Kingdom were happy to shop online in 2005, with 24.9 million forecast by 2010,⁵¹ only 1.8 million people used the Government's flagship portal, Directgov, in December 2006.⁵² Government should analyse usage data, using results to refine or change existing policy.

Choosing channels

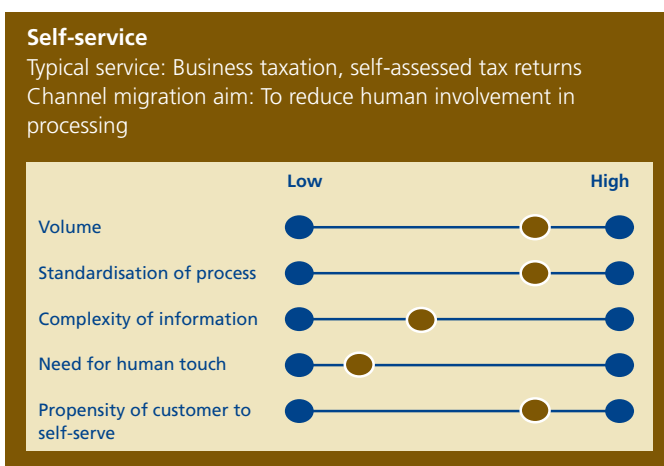
Once knowledge of the service characteristics, customer segmentation and preferences, and channels suitability has been established, a choice of channels can be made.

Public services are likely to be delivered by a growing mix of channels, which may be both electronic- and people-based. Delivering a number of channels successfully requires significant organisational capacity in terms of staff and systems. For an example of the difficulties in providing a mix of channels see the Sidebar on Jobcentre Plus (page 17).

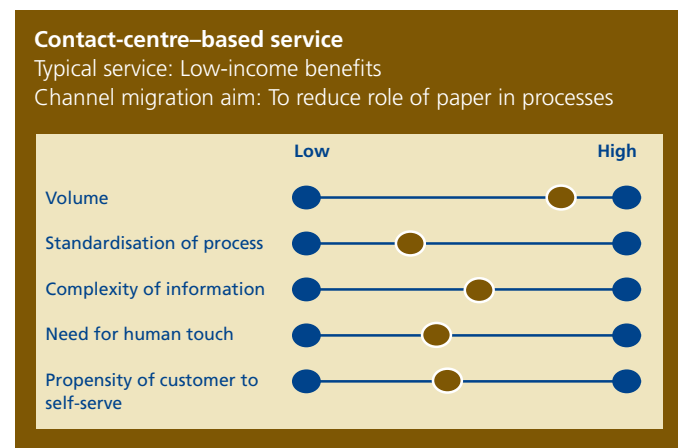
Typically five key factors drive choice, or choices, of channel:

- **Volume:** Given the high fixed-costs of creating self-service channels, greater volume could give them greater economic viability.
- **Standardisation of process:** Self-service is less viable if service delivery needs to respond to unpredictable demands.
- **Complexity of information:** Personal contact is generally more appropriate when dealing with more complex information.
- **Need for the human touch:** Services requiring sensitivity or human judgement are more appropriately delivered in person.
- **Propensity of customer to self-serve:** Customers have different capabilities and access to self-service channels. Their propensity to self-serve often correlates to distinct demographics such as age or class.

The degree to which a service has these characteristics determines the choice of channels. The number of potential variations of the drivers means that a large number of channel choice scenarios is possible. The three dominant delivery mechanisms for services are self-service, contact centres and a targeted traditional approach.



Self-service channels offer the greatest potential for efficiency savings, driven by automation and a reduction in human processing. Taxes, from Corporation Tax to VAT returns, are well suited to self-service. Initially, traditional channels may be required to assist first time self-servers, as well as to market the availability of a service. Self-service can be appropriate for complex interactions as long as the level of standardisation is high. For example, tax returns provided via self-service channels can become more accurate and drive efficiency in service delivery.



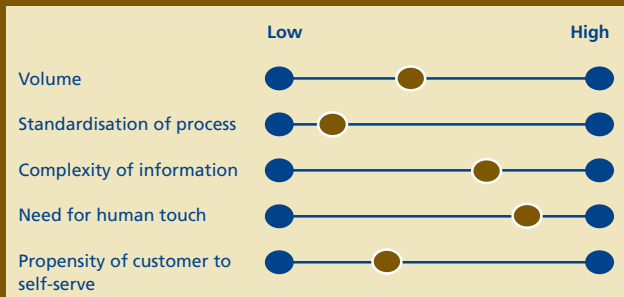
Contact centres provide a highly flexible way of handling a wide range of interactions, including both enquiries and service delivery transactions. Contact centres have become a mainstream way of dealing with a wide range of private and public sector institutions over the last few years in the United Kingdom. Indeed, three per cent of the United Kingdom’s labour force are now employed by contact centres.⁵³

By reducing expensive face-to-face interactions, and cutting down error-prone and time-consuming processing based on paper, contact centres enable public services to be delivered at a much reduced cost. For example, the shift of State Pension and Pension Credit applications from paper forms to contact-centre-based processing is core to the Pension Service’s reduction of its headcount by several thousand posts.⁵⁴

Targeted face-to-face

Typical service: Social care

Channel migration aim: To promote take-up of high quality intensive service



The face-to-face channel is required for the delivery of many services, especially if the service is complex, conditional or needs a human touch. Services within the criminal justice system and social services are often best delivered through targeted face-to-face delivery. In such cases, the benefits of the face-to-face channel could be integral to the end goals of the service. Other examples of where face-to-face delivery is likely to be required include the physical inspection of a building or location; where a risk assessment is needed, for instance in social services' assessments of domestic violence; or where legal requirements make face-to-face contact compulsory, for instance Jobseekers' work-based interviews.

Jobcentre Plus' use of channels

Jobcentre Plus shows some of the problems that can occur when offering a mix of channels. The Jobcentre Plus programme helps match employers with jobseekers using a broad mix of channels:

- Jobcentre one-stop shops.
- Kiosks, known as Jobpoints.
- Telephone-based services: Jobseeker Direct, Employer Direct, freephone facilities within Jobcentres.
- Jobcentre Plus and Worktrain websites.

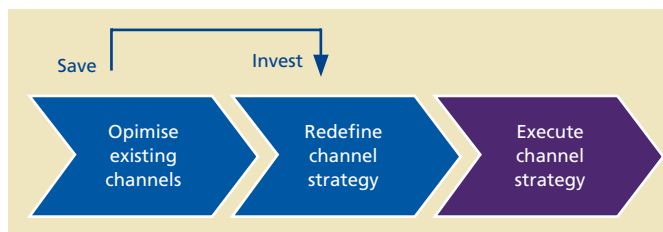
Localised pilot schemes introduced yet more channels, specifically: text messaging, interactive digital television, Jobpoints in supermarkets and council offices and freephone lines.

Given the customer base of an organisation such as Jobcentre Plus, a broad but effective mix of channels is a sensible means of promoting access to its services. DWP's research has found that the mix of channels has not lived up to expectations. This is partly because customers received mixed messages. They were encouraged to use alternative channels, but not given assistance on how to use them, as staff lacked adequate training. Further, some managers felt wider organisational change had not occurred, while the large number of new channels had damaged staff morale.⁵⁵

Achieving channel migration

Once public bodies have exploited the opportunities to improve what they have already got, and have removed complexity wherever possible, the last remaining step before complex cross-departmental change is to instigate a channel shift that moves customers towards more efficient and effective electronic channels.

Drawing together the three dimensions discussed earlier in this report – knowing your services, knowing your customers and knowing your channels – results in a redefined channel strategy. But this does not necessarily ensure success in executing that strategy. Encouraging consumers to switch to more efficient and effective channels is the key to realising major savings.



Achieving channel migration requires not just the process and technologies to execute them, but also persuasive tactics to encourage people to move. Experience in the United Kingdom and overseas demonstrates that a combination of advertising, incentives, assistance and legal requirements can have a significant effect on the take-up of different channels.

Advertising

Raising awareness of channels available to customers is the key to improved take-up. In Norway, extensive marketing campaigns were run to promote the take-up of electronic filing by individuals, businesses and tax professionals. Activities included radio and cinema commercials, print advertisements and press releases. The campaign was followed by sharp increases in the take-up of electronic channels. The proportion of individuals filing online rose by more than a half from 36 per cent in 2004 to 55 per cent in 2005. The proportion of tax professionals filing online rose from 24 per cent in 2003 to 60 per cent in 2005. For VAT returns the rate rose from 20 per cent in 2003 to 40 per cent in 2004.

Cross-fertilising

Simple steps that refer customers from one channel to another are often easy to implement, yet are very effective at accelerating channel shift. For example, the telephone and Internet channels for the Universities and Colleges Admissions Service (UCAS) each reference the other. Customers phoning the Customer Service Unit are signposted towards the kinds of queries the website can answer, and vice versa. A well-considered channel strategy utilises all the opportunities available for cross-fertilising, and uses signposting to point customers towards the lowest cost channel that is appropriate for their enquiry.

Incentives

Financial incentives are another useful tool in encouraging take-up of online channels. South Korea offered a number of incentives to individual taxpayers and tax professionals. The government offered taxpayers a rebate equivalent to £10 when they filed returns electronically and tax professionals up to £500. Such schemes have helped make South Korea one of the world's leaders in terms of rates of electronic filing with 75 per cent of individual tax returns filed online.⁵⁶

Assistance

Some consumers are unlikely to be responsive to advertising and financial incentives. Unfamiliarity with technology or processes is a major barrier to the use of electronic channels – and, indeed, to the take-up of many benefits.

The experience of improving the take-up of benefits by offering labour-intensive support suggests that such encouragement should also be used to help consumers to switch channels. In the United Kingdom, the DWP's Partnership Fund has worked in collaboration with voluntary groups and other public sector organisations to boost take-up of benefits among more vulnerable groups. It is certainly not a cheap option – the DWP programme can involve spending as much as £1 for every £7 in benefits paid. But it illustrates the costs to the public sector of reaching some of the most needy and vulnerable consumers.

A well-designed channel mix can point customers in the direction of self service, whilst providing the option of a human touch if necessary. For example, the NDL's new, online debt-assessment tool is backed up by a telephone helpline that users can call at any time if they want human assistance. Giving telephone numbers on websites usually goes against the perceived wisdom in the public sector, which all too often tries to isolate channels from each other. However, this is a sophisticated example of using channels to complement each other.

Mandatory channel shifts

The final and most sensitive method of encouraging the take-up of electronic channels is by making their use compulsory. Public bodies can simply remove traditional channels or provide penalties for those who fail to migrate.

Austria introduced legislation that required all companies with Internet access and an annual turnover of more than £68,000, to return online monthly VAT statements, annual Income Tax and Corporate Tax. Though this law was not enforced for the first year the electronic filing rate for the monthly VAT statement increased from ten per cent in 2003 to 75 per cent in 2005. Austria is now the leading country for online VAT returns.⁵⁷

Of course where a significant proportion of customers are not ready to switch, the introduction of legal requirements is likely to be either untenable or, at least, unpopular. This could be the case especially where government is seen as responsible for providing universal access, as illustrated by the ongoing debate about the closure of rural post offices. Nonetheless, those public bodies that are willing to shut down inefficient channels are likely to save money and be more productive.

Conclusion

Channel optimisation: An end in itself and an opportunity

Every public body can emulate the success of the best by making the most of what it has got, improving and optimising its existing customer channels. Significant savings can be generated quickly by focusing on people and working practice intervention, without the need for complex technology investment. This should build the skills and momentum for future activities.

Our proposals would enable organisations to build self-funded programmes that start with optimising existing channels, followed by redefining their channel strategy, then executing this new strategy in a pragmatic and risk-controlled manner.

In the longer term, successful channel optimisation is likely to pave the way for greater cross-government collaboration in the delivery and management of services. It should be key in enabling the more substantive change required under the Comprehensive Spending Review (CSR) 2007 settlement.

The practical steps identified in this paper should take government along this road. These steps are pragmatic and can be implemented quickly, without new governance mechanisms or complex, cross-departmental collaboration. Most importantly, we believe they can deliver real improvements in public sector efficiency and service quality.



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