

One year on

Progress towards transformed public services



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Foreword



The wealth of announcements, green papers and legislation in the last year is a clear demonstration of the government's commitment to improving our public services. One year on from the election, it is time to assess the progress that has been made.

The new government started this parliament with the urgent need to restore public finances, and a year ago we set out three actions the government would have to take to restore the fiscal health of the nation, not just in England but also in the devolved regions.

The CBI welcomed the government's deficit reduction plan and its ambition to prioritise spending cuts over tax rises and promote private sector growth. And in line with our first recommendation, the government applied the brake to make immediate cost savings, finding reductions of £6bn, including through freezing pay and spending on advertising.

Our second recommendation was to ensure that every pound is spent well by reducing duplication and waste. In this area progress has been mixed – while there are excellent examples of services being shared and procurement being streamlined, many of the best ideas from outside government are not yet being listened to.

Finally, we showed that efficiency savings are not enough, and that the way services are funded and delivered needs to be re-engineered. This is a challenging task, and one that will take time. However, we cannot afford to delay. The transformation of services has been on the agenda for many years, and reduced budgets are a new imperative for change.

Some departments are acting boldly, taking a holistic approach to tackling public services issues and incorporating innovative models of delivery in their plans. However, we are still a long way from the prime minister's vision of a system where the state is not the 'default provider'. The forthcoming white paper on public services reform is an opportunity for

the government to clearly outline its vision for public services, and the role it intends to play in ensuring that citizens get the services they need, at a cost taxpayers can afford.

We acknowledge that there are political challenges with maintaining momentum with reform. But it is only through transforming service delivery that it is possible to cut spending while minimising impact on the frontline. The government must continue to prioritise long-term economic growth and better public services, working with partners from the private and social sectors to achieve this.

The government has defined the dimensions of the fiscal consolidation and taken initial steps to restore public finances. Continuing the journey, pursuing public services reform with vigour and enthusiasm, will bring about the transformation we need.

John Cridland
CBI director-general

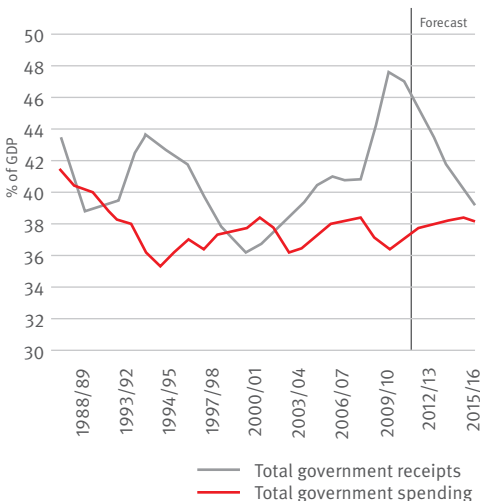
1. Public services reform is essential to lower government spending

A year on from the formation of the coalition, the budget position at the end of 2010-11 shows that while the deficit is still large, it is narrowing.

Looking ahead, the government's plans for fiscal consolidation remain close to those set out in the emergency budget of June 2010. This has helped to strengthen the financial markets, but much remains to be done to reduce spending without undermining frontline service provision.

Executing its plans will require the government to focus on public services reform, not only to avoid a fiscal crisis but also to support the long-term growth of the economy. Economic success relies on the UK having quality public services that support a skilled workforce, a healthy population and fit-for-purpose infrastructure. Essential for this to happen is service re-engineering – finding ways to deliver more with less.

Exhibit 1 The government has a credible plan to restore public finances



In our *Time for action* report published just before the election we called for the current budget to be balanced by 2015-16 through a focus on restraining current spending. The government's plans to restore the fiscal health of the nation are consistent with this objective. (Exhibit 1)

The outlook for economic growth, however, remains subdued. As a result, the government cannot rely on strong growth to pay off its debts. It also cannot be complacent about achieving the spending cuts it has outlined. The fiscal forecasts in the budget 2011 are similar to those of 2010, and longer-term demographic factors will further weaken the underlying budgetary position. A recent report¹ suggested that using current projections for tax revenues and sustaining current levels of spending over the long term would increase the budget deficit by a further 6.5% of GDP.

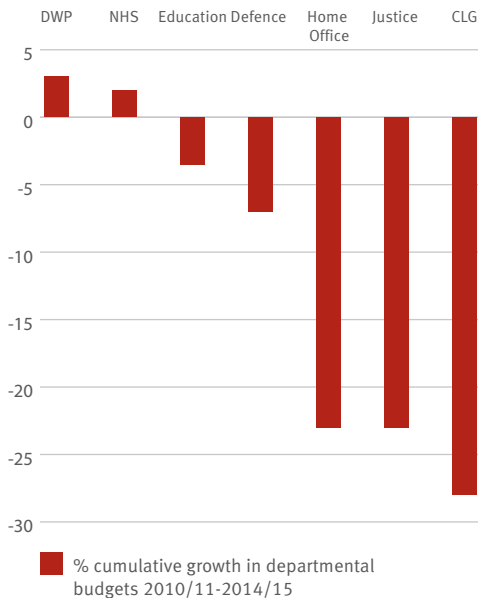
Overall, the government's progress with reducing spending has been impressive: £6bn of in-year spending cuts announced soon after the election and the emergency budget outlining a faster pace of deficit reduction with an increased focus on reducing current spending. The autumn spending review provided more detail by setting out departmental budget allocations for the period of the parliament.

Spending for most departments after adjusting for inflation will reduce over the course of the parliament. Some, such as education and defence, will experience only small falls, while health spending is expected to increase slightly (Exhibit 2). But many departments will see declines of between 20% and 30% over the same period.

The dimensions of the fiscal consolidation have been defined. The actual delivery of the spending plans has only just begun.

“The dimensions of the fiscal consolidation have been defined. The actual delivery of the spending plans has only just begun”

Exhibit 2 Most departmental budgets are decreasing



Source: Office of National Statistics, Spending Review 2010

2. The government has made good progress, but more needs to be done

Before last year's general election, the CBI emphasised that the new government must, as a priority, set out a sustainable path for the public finances. We said this should be done chiefly through cutting current spending, rather than further tax increases or capital spending cuts, and identified three actions the government needed to take to achieve this. Now, one year on, it is apparent that the government has made a good start – but it needs to do much more.

The government acted fast to make immediate cost savings

It was essential that the government acted quickly to **make immediate cost savings**. Labour costs needed to be frozen across public services and spending on advertising, marketing and consultancy needed to be cut.

The chancellor made an encouraging start by announcing a two-year public sector pay freeze in June 2010. But its impact on curbing spending has been reduced by limiting the freeze to those earning more than £21,000 and making provision for an annual pay rise of at least £250 to the one third of public sector employees with basic pay² below this level. In addition, roughly half of public pay groups have automatic incremental systems, so a large proportion of employees in the public services will still receive pay increases in the next two years. There is also evidence of 'grade drift' in recent years, with the number and proportion of higher graded staff increasing without solid justification.³

Local government has taken a tougher line than the centre, freezing basic pay for all employees covered by national bargaining machinery, and in instances such as the Scottish Borders Council, implementing a freeze on incremental progression as well. Flexibility in earnings and containment of total paybills played a key role in limiting the rise in unemployment in the private sector in 2009/10. There is a pressing need

for equivalent flexibility now across the public sector, with paybills kept under tight control.

The government moved promptly to start tackling the growing burden on taxpayers of unfunded public sector pensions. Lord Hutton's final report is a big step forward towards making public sector pensions affordable and sustainable. It contains well-balanced measures to reduce costs while retaining good pension provision, through moving to a career-average basis and raising the retirement ages and higher employee contributions, to better share the cost and risk between employer and employee.

The proposals rightly make a break with the past by recommending the closure of all accrual in final salary schemes. The report also recognises people will need to work longer to pay for the fact that they are living longer so, apart from exceptions in very demanding jobs, public sector retirement ages should also match the state pension age, as is the case in the private sector. The essential step is now to implement Lord Hutton's recommendations in full.

Recommendations

- Public sector organisations should replace automatic incremental pay systems with effective schemes to manage performance and, where appropriate, recognise employee performance through the pay system.
- Organisations need to exert effective control over staff numbers and roles to halt – and, if possible, reverse – grade drift.
- Public sector employers need to keep tight control of total pay bills and review how the spend can best be used, including the potential for changing workforce structures to improve performance.

- Government and public sector employers must press forward to put the principles of the Hutton report on pensions into practice and resolve pension obstacles to labour mobility between the public, private and third sectors.

Further improvements to cut waste and inefficiency will result in greater savings

The CBI also called on the government to **ensure every pound is spent well** by cutting duplication and waste. Better management of the government estate, improving procurement and sharing or outsourcing services also had an important role to play.

There is much encouraging practice as ministers, officials and managers have recognised that budget cuts mean there cannot be ‘business as usual’. Estate consolidation, centralised procurement and shared back offices are back on the agenda and there’s an increased focus on partnership working and collaborative approaches. But it often seems to be the same organisations and individuals making change happen, while many others are moving too slowly. For example, one third of public buildings are not used and should therefore be closed or used more innovatively. There is scope for greater sharing of back office functions, such as HR, payroll and IT, as well as some frontline services.

Like many businesses, the government has looked to reduce costs by renegotiating with its major service providers. The Cabinet Office sought £800m savings⁴ and businesses engaged constructively in the process, agreeing to find savings to help the government decrease its spending immediately. As part of the process, businesses identified ways to make longer-term savings – although few of these proposals have been implemented.

Recommendation

- Government should ensure public sector bodies collaborate to share back office functions and frontline services that are being duplicated.

Public services spend over £230bn a year on goods and services, so it is vital that procurement is efficient and streamlined.

Since the election, the government has been implementing new lean procurement techniques and strengthening central oversight for major projects, to ensure that more are delivered on time and to budget. In addition, it is seeking a more strategic relationship with the main suppliers of public services and to position government as a ‘single client’ to achieve long-term savings. These initiatives are welcome, and if well-implemented should lead to significant savings.

The government’s three-year moratorium on major IT procurements led to a welcome reassessment of questionable projects.⁵ But it is important to recognise the potential of innovative technology to transform services. The public has increased expectations of technology: people are familiar with using the internet to easily and quickly engage with banks, airlines, shops and other organisations. They expect this with public services too, so it is essential to consider ways IT can help improve public services. Streamlining internal structures, ‘channel shifting’ so people can self-serve online and increasing the visibility and availability of frontline staff, including police officers and community health workers, through mobile and remote working are ideas which are already improving public services in some communities.

Recommendation

- The government should set out where joint ventures can be used to enable investment in transformational IT to ensure the modernisation of UK public services, delivering long-term savings.

The CBI also suggested that ministers and decision makers should consider which activities government needs to continue, and to withdraw from service provision if other organisations can do it better.

The government should start from the principle that while it will fund and set the scope of services, there are many services – such as such as pensions and benefits administration and assessment of legal aid entitlement – that do not need to be delivered by government.

Having a diversity of providers – whether from the public, private or third sectors – competing to deliver services results in innovation, and can also reduce costs and improve service quality.

While public services are delivered by a mix of organisations, they are still largely provided by the state. In many areas of activity, government needs to consider whether it is best placed to provide the service or whether joint ventures, mutuals or independent organisations could perform the role more effectively. If other organisations can provide the service better, government should withdraw from delivery.

For example, the private sector has a proven track record in efficient large-scale processing and running call centres. Harnessing this experience and expertise will result in better services, provided at a cheaper cost.

The forthcoming public services white paper is an opportunity for the government to clearly outline its role in public services provision, ensuring that it only delivers services when best placed to do so. Withdrawing from some areas of activity would enable the wider use of more innovative models such as joint ventures and mutuals to improve services.

Recommendation

- The government must identify where joint ventures or independent providers could deliver improved services and better value for money. As a start it should publish costs of running large transactional services under public providers, in line with requirements for transparency on independent sector contracts.

Bolder approaches will deliver public services transformation and cut costs

We stressed that the government ultimately needs to **re-engineer public services** in order to realise savings while maintaining or improving services. This means taking a holistic approach to identifying and overcoming public services challenges. It can do this through introducing innovative ways of funding and delivering services and being collaborative, linking with partners from the public, private and third sectors to reconfigure services.

This is a challenging task, and the ministers, officials and managers who are introducing bold new approaches are to be congratulated. The Department of Work and Pensions' Work Programme, with an outcomes focus on reducing unemployment, and the Ministry of Justice's work with organisations from all sectors to provide integrated housing, counselling and rehabilitation support to ex-offenders are both examples of centrally driven, re-engineered approaches.

At the local level, the Community Budgets pilots, bringing together funding streams to tackle social problems around families with complex needs, show there is a willingness to take an integrated approach to address issues. But the initiatives that have been introduced, while welcome and needed, aren't enough.

The government seems to have made little progress with re-engineering so far. One year after the election, the CBI believes it should have detailed plans for wide-scale re-engineering over the next four years and be trialling or implementing a large number of ideas. Instead, the approach has been piecemeal.

The government could, and should, be much more ambitious. For example, Community Budgets should be more than just pilots, and address more needs, encompass more agencies and include more funding streams than the current plans. Across all services there is scope for a more collaborative and holistic approach. Improving healthcare for offenders by introducing an integrated offender health system with single commissioners and accountable providers is one such example.

Government should not retreat from some of the reforms to which it committed itself. In health, shifting care from hospitals to homes and communities will take years and must begin now. It is vital the government does not back down from its commitment to reform.

Of course, transforming public services is no easy task. We recognise the scale of the challenge, as do political leaders, officials, managers and employees involved in public services. In all areas of government there are many able teams, each with good ideas for ways to improve public services and a willingness to play their part in public services reform.

But it's not feasible for the government to re-engineer alone. Instead, a collaborative approach, working with partner organisations – businesses, social enterprises, charities, joint ventures and mutuals – will bring about the change we need. Over the coming months, the CBI will continue to work with government and all its partners to provide practical steps to transform as many public services as possible.

Recommendation

- The government must continue its current reform agenda, and outline further plans to integrate and re-engineer services, with a clear timeframe for delivery. Readily deliverable ideas, from organisations and individuals in all sectors, should be considered and implemented.

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All areas of public services can be more effective and efficient

From educating young people to looking after the elderly, from tackling crime to reducing unemployment, all public services need to be more efficient and effective – with resources focused on improving the public’s experience and achieving the desired outcome. One year on from the formation of the coalition government, new approaches to delivery are being considered and implemented for some services. Yet in many cases change has been piecemeal and too often occurring in silos. Reform is challenging, but essential. The CBI believes the government must build – and maintain – the momentum for reform in every taxpayer-funded service.

Supporting a healthy and productive population

The UK’s prosperity depends on having a healthy population and a productive workforce. This requires health services designed around the needs of individual patients with involved in making decisions about the care they receive. The NHS must also ensure those who are temporarily incapacitated are able to return to work, with quick and easy access to a GP and support from rehabilitation services. With employee absence costing the UK over £17bn in 2010, the case for doing so is clear.⁶

Total government spending on the NHS is £102bn in 2010-11 – up 70% from 2000-01.⁷ Yet over the same period productivity declined by 0.2%.⁸ While the NHS budget will increase slightly over the parliament, it has been tasked with finding savings worth £15-£20bn to reinvest while simultaneously responding to the challenges of an ageing population and rising costs of healthcare treatments.

The need to invest in pharmaceuticals and pioneer new approaches to treatment is greater than ever before, and delivering savings to enable this must be a priority.

A new approach will help the NHS meet its savings targets

There is much scope for the NHS to meet its savings target. Improving procurement needs to be a strategic priority for the NHS, given its purchasing power. Yet procurement practices are inconsistent, and NHS hospital trusts pay widely varying prices for the same items: at least 10% of hospitals’ spending on consumables – some £500m a year – could be saved if trusts collaborated to buy products.⁹

The under-performance of some hospitals also needs addressing. The government’s decision to tackle sustained under-performance at Hinchingsbrooke Hospital was welcome. But there are up to 20 other hospitals in a similar position where communities are not well served. The evidence shows independently run hospitals are liked by patients and outperform NHS hospitals in areas such as cleanliness.¹⁰ Government should ensure more poorly performing hospitals are transferred to providers who will provide good quality services and value for money.

In some cases, improvements in patient health can be achieved through simple changes. For example, ensuring patients have a healthy diet in hospital and in their homes improves well being.

New medical technologies, such as telehealth and dialysis in the home, should be used to improve patient outcomes, and deliver long-term savings.

A re-engineered NHS will reduce ill health by supporting patients at home or near to home

Lifestyles in the UK have changed dramatically since the NHS was created. More and more people work flexibly (moving between home and office) and commute long distances to work. Yet patients are still expected to register with one GP clinic, which is often far from the main transport hubs or town centre, with inflexible opening hours. So for too many, health and wellbeing is often neglected. Access to GPs and wider primary care is still not good enough: around a fifth of patients find it hard to book an appointment on the phone. Some are completely unable to see their GP due to a lack of available appointments; 40% do not know who to turn to for out of hours services and of those that do, a third think it takes too long to access help.¹¹

The government set out bold plans to re-engineer the health system. Reform is necessary and overdue. The Department of Health has indicated that 20% of the required savings between 2011-12 and 2014-15 must come from 'deep service change'.

There is patchy progress in reducing the NHS's dependence on hospital care and preventing more ill health. But solutions exist. For example, hospital readmissions, which have risen by 7% in five years and cost the NHS around £1.5bn each year, could be reduced in the short term by effective management of long-term conditions in community settings.¹² Introducing more effective public health strategies on smoking and alcohol, working in partnership with schools and/or police can deliver long-term improvements in health.

Overall greater emphasis also needs to be placed on education, prevention and early diagnosis. The NHS needs to prevent people becoming ill in the first place and engage the unwell at an optimal time to minimise the impact of illness on them and the NHS. Such engagement is best done in a community setting and at an early age.

Community pharmacies have an important role in delivering many services currently provided by the NHS. With over 10,000 community pharmacies and a daily footfall of approximately 1.8 million people, they represent a real opportunity to engage and guide the public on early diagnosis and prevention without resorting to the use of other NHS primary care services.

Joining up with other government bodies and agencies to develop innovative approaches to care across public services is an essential part of re-engineering the NHS. More collaboration enables a range of social and health issues to be tackled through prevention rather than cure. Good examples already exist, such as the government's plans for the government's plans for the NHS to work with the Ministry of Justice to divert mentally-ill offenders from mainstream prisons and improve their care and support.

Recommendations

- Commissioners should assess health services on the basis of clinical effectiveness and patient satisfaction. Where joining up with other public bodies and agencies to deliver integrated services is feasible, it should be the norm.
- There must be proper economic monitoring to ensure access, choice, competition and price setting for health and social care.
- Patients need the same meaningful choice of primary and community care services as they have started to receive in secondary care.

“There is patchy progress in reducing the NHS' dependence on hospital care and preventing more ill health. But solutions exist”

Educating young people well

Schools and colleges should provide all young people with the education they need to get jobs and become responsible citizens. This means good literacy and numeracy skills, high level science knowledge and maths and a broad set of employability skills such as teamwork and problem solving. These are essential as the UK needs well-educated young people to help deliver economic growth and prosperity. Jobs for low-skilled school leavers are drying up and sectors requiring high-level skills, including engineering and creative industries, are experiencing skills shortages.

The Department for Education is one of the highest spending departments, with a budget of £50.8bn in 2010-11.¹³ Yet over the last decade the UK has fallen down the international rankings in science, reading and maths,¹⁴ and the UK's performance is around 75-80% of best practice in other countries.¹⁵ A considerable number of schools are underperforming: 319 are in special measures and 247 are on notice to improve.¹⁶ With the schools budget rising just 0.1% over the parliament¹⁷ and significant spending cuts being made to related services, radical action is needed. This can be achieved without lowering standards: the OECD suggests there is scope to deliver better results at lower cost in primary and secondary schools.¹⁸

Collaborative approaches will help achieve further education savings

Good progress has been made in support for schools to become more efficient, with a target of around £1bn of procurement and back office savings by 2015 to be re-invested in the classroom. The DfE has sought to reduce schools bureaucracy and provide more information on how they can procure effectively, but significant work is needed to build procurement capacity.

Improved capital procurement will deliver savings. Sebastian James' review of school capital investment estimated that as much as 30% of school building spend could be saved while also improving quality.¹⁹ The government needs to move quickly to replace the Building Schools for the Future programme to ensure procurement of new or improved school buildings.

Many more local authorities too must begin to make savings by sharing children's services departments. Not enough councils are following the example of Kensington & Chelsea, Westminster and Hammersmith & Fulham councils, which are sharing children's services departments to deliver savings of up to 20% by 2014.

Effective implementation of ambitious plans to re-engineer schooling is critical

The government has made re-engineering the schools system a priority, with the number of academies tripling from 203 to 658 between May 2010 and May 2011.²⁰ The academies programme has already significantly improved educational attainment²¹ and its expansion should raise standards through the school system. But the Department for Education is already stretched when it comes to administering and monitoring the programme,²² which could hold back further expansion.

Free schools will stimulate competition and drive innovation through the schools system, but developing them is proving challenging. The number of schools opening in September 2011 could be under 20, despite over 300 applications being made.²³ New guidelines for establishing schools have resulted in more bureaucracy and financial risk for groups wanting to set them up, while the capital funds available are constrained.

The department should do more to ensure schools and local authorities partner with private, voluntary and social enterprise providers to benefit from their capacity and expertise. Such organisations have proven track records in supporting schools, and a culture of greater collaboration is definitely required to drive up standards.

The government's commitment to invest in early years education and children's services for the most disadvantaged is welcome: the returns to the economy as a result of higher employment, reduced crime and a healthier population could amount to billions of pounds.²⁴ But most spending on children's services is disbursed through local authorities which, under budget pressure, have earmarked many children's centres and other facilities for young

people for closure. Forward thinking authorities are avoiding this by sharing facilities, management and administration, involving independent providers and pooling funds through Community Budgets. Such good practice should be extended.

Recommendations

- The government should take an early intervention approach to the most needy families to deliver long-term savings.
- Local authorities should share children's services departments and pool funding through the new Community Budgets in order to increase the effectiveness of their spending.
- The Department for Education needs to simplify the guidelines and bureaucracy around setting up Free Schools.
- The department should also support schools and local authorities which want to engage with independent providers to help them raise attainment.

Supporting local communities

Every community needs good services to prosper: affordable housing, effective social services, clean streets, pleasant parks, decent roads and quality leisure facilities. Councils have a key role in enabling this, yet only 45% of residents are satisfied with their local council's performance.²⁵ Annual spending by local authorities in England is now £122bn, but with central government funding to local government decreasing by 26% by 2014-15,²⁶ councils must find new ways of delivering the services people need, for less money.

A bold approach to sharing services will create much-needed efficiency savings

Local government acted fast to make some savings. Around 1.4 million council workers had their pay frozen for two years; nine out of ten councils have reduced the cost of senior officers either by cutting numbers or pay.²⁷

Authorities are making progress sharing services to deliver efficiencies. There are over 130 shared services arrangements in local government, which together will save £240m a year.²⁸ The most popular types of collaboration are back office, in functions such as revenue and benefits, legal services and procurement.

But sharing back office functions such as HR and IT will save councils a maximum of 3.6% of their current spending²⁹ – not enough to meet the savings challenge. The big gains come through sharing frontline services, particularly the high spending areas such as adult social care. The 'tri-borough' model being used by Westminster, Kensington and Chelsea and Hammersmith and Fulham councils is expected to save £35m a year by sharing services such as adult social care and education. These arrangements must become the norm if councils are to maintain good services for residents on reduced budgets.

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Yet even where councils are sharing frontline services, it is often only a small fraction of those services, such as the administrative functions. Too often, local authorities wish to remain as sole provider, rather than joining existing shared services arrangements. Such territorial thinking is outdated, and no longer affordable. With over 450 local authorities, significant gains could be made if they were all prepared to work with partners to streamline services.

Community Budgets will transform services

Community budgeting is an essential part of re-engineering local government services. It brings together agencies involved in different areas under a joint approach to designing, funding, and delivering services. It has the potential to save local areas up to 15% of their annual budgets by joining-up services and cutting waste:³⁰ Birmingham's Total Place pilot unearthed 18 separate funding streams for offender management alone.³¹

Community budgeting increases the effectiveness of programmes by encouraging organisations to combine funding sources to tackle the causes of problems, rather than just their impacts. For instance, it has been calculated that the taxpayer would save £9.50 for every £1 spent upfront on drug treatment.³²

This government and its predecessor recognised the importance of a coordinated approach to services. The previous Labour administration's 13 Total Place pilot schemes across 63 councils³³ showed the positive impact of bringing together previously separate public spending streams. The government has launched a further 16 pilots, focusing on families with complex needs. While clearly a worthwhile endeavour, these new pilots cover only 28 councils.³⁴ A full rollout of Community Budgets is needed to truly re-engineer local services.

Re-engineering also involves forming innovative partnerships to keep services running. In Northumberland, for instance, a Sure Start children's centre and fire station are now sharing a disused ambulance station. This has saved Northumberland County Council over £1m up front and enabled it to keep both services open.

Recommendations

- The government needs to implement a full rollout of Community Budgets by the end of the parliament. This must be championed across Whitehall as it requires all government departments to buy in to the idea of their spending being managed at a local level.
- The government should incentivise all local authorities to share frontline services in the largest areas of spending, such as social care, through linking progress on shared services to future local authority funding settlements.

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Growing the employed workforce

The UK's welfare system must encourage and incentivise all people that can work to do so and contribute productively to the economy, while supporting those who genuinely cannot. The CBI's 'Getting the UK working' campaign will define the action that is needed from business and government to tackle unemployment and economic inactivity. Welfare-to-work services must provide all unemployed people, as well as those previously designated as incapacitated, with the personalised support they need to find sustained and meaningful employment, from updating their CV to debt counselling or help with literacy or numeracy.

The number of people unemployed stands at 2.46 million, of which 626,000 adults and 334,000 young people classified as long-term unemployed. Around 274,000 of households in the UK are classified as 'never-worked households'³⁵ and 2.59 million people are on Employment Support Allowance/Incapacity Benefit,³⁶ adding around £7bn a year to the benefits bill.³⁷

A large portion of funding for welfare services comes from the Department for Work and Pensions which spends £7bn annually. While its budget will increase by 0.25% by 2015, the additional funds are to enable the introduction of Universal Credit, and the DWP will still need to reduce its resource expenditure by 26% over the lifetime of the parliament.³⁸

Tackling benefit fraud and error will achieve substantial savings

Government organisations providing welfare services have made good progress in delivering savings and efficiencies. The Department for Work and Pensions is moving welfare services online and Jobcentre Plus has implemented savings ideas proposed by staff and is reviewing its network of offices.

The government is committed to reducing fraud and error in the benefits system with the introduction of the Universal Credit, but more concerted action has to be taken now to reduce costs. Around £1.1bn of overpayments are being made each year as a result of administrative error by the department alone,³⁹

while total overpayments including fraud and other errors amount to around £3.3bn.⁴⁰

The government could do more to realise savings that could be made through outsourcing services that do not need to be provided by the state. This does not just mean back office and administrative functions such as pensions and benefits administration, but also customer facing services such as helpline advice and support delivered by the Pension, Disability and Carers Service, and Jobcentre Plus.

Reforms to welfare-to-work will help more people into work and could be expanded

The government is making good progress in re-engineering welfare-to-work services. Its new Work Programme will give private and third-sector organisations greater flexibility to help people find employment. Providers will only be paid based on their success in helping people find jobs and keeping them in work, with the programme funded out of resultant benefit savings (the 'invest to save' approach). The government is clearly on the right track here; but looking forward, it has to ensure the Work Programme actually delivers on its promise.

While it is welcome that Jobcentre Plus advisers now also have greater autonomy and flexibility to meet the needs of jobseekers when they first become unemployed, savings and outcomes could be further improved if some of those jobseekers could access intensive support through the Work Programme from the outset, rather than via Jobcentre Plus.

More could be done to local services to better tackle worklessness, as well as save money.⁴¹ Jobcentre Plus centres should, for example, share offices with other local public services and employment and skills providers, delivering a more comprehensive, connected service for unemployed people. Local authorities should also work closely with Work Programme providers to align provision and resources to help different customer groups and reduce duplication of effort, while a more joined-up approach to employment and skills funding and provision would also deliver savings and improve outcomes.

Recommendations

- To join up welfare services effectively, more services should be co-located, while Work Programme providers and councils should work closely to reduce duplication of effort and drive up outcomes.
- More jobseekers should be referred to the Work Programme before they have been out of work for a year, to realise savings through reduced benefit payments and increased taxes as a result of such early intervention.
- The government should consider whether benefit administration and some frontline customer facing services delivered by the Pension, Disability and Carers Service and Jobcentre Plus should be subject to greater competition to improve services, while delivering savings. This could be done by setting up mutuals, joint ventures with a private or social enterprise, or more traditional outsourcing.

Ensuring safe streets and communities

Although the public wants and expects a responsive and accountable police service with police officers deployed as a visible presence in communities, public satisfaction with the police stands at only 57% and is low among those who have had recent dealings with police. Even as crime falls, fear of it rises, yet resources will be lower for all constabularies.⁴²

This is a challenge facing all forces. Total police spending was £12.9bn in 2010-11 and funding from the Home Office will be reduced by 14% in real terms by 2014-15.⁴³

Cutting police numbers and spending doesn't mean there have to be cuts to the front-line; yet at least 19 forces⁴⁴ have said they will cut police officers and/or staff, and across the 43 territorial forces in England and Wales around 12,600 police officers and 16,500 staff posts will be lost by 2015. Some forces are offering back-office staff voluntary redundancy, while simultaneously redeploying frontline police officers to replace them. In contrast, other forces aim not just

to become smaller but to fundamentally change the way they police, with the public at the centre.

A collaborative approach by more police forces will increase efficiencies

The Home Office is achieving savings by centralising efficiencies in IT and the procurement of vehicles and uniforms, and is reviewing terms and conditions of service. Some forces are following suit: by April 2014, London's Metropolitan Police will have saved £39m by selling, downsizing or moving high-street police buildings which are not fully used and a further £36m by new officers completing training in their own time. There is no reason why all police forces could not introduce similar initiatives.

Collaboration between forces and with partner organisations is already achieving savings. Kent and Essex are sharing marine facilities, roads policing and IT services, saving £12m by 2015. Cleveland Police is externalising its finance, HR and fleet management to save £50m over ten years. Cheshire Police will reduce supervisory grades and staffing levels in operational support departments and share specialist functions and equipment with other forces or agencies. Some forces are already sharing assistant chief constables.

Yet half of all collaborations are still at the scoping stage and only a quarter of forces in England and Wales account for 60% of the established collaborations. Too often, personality clashes amongst chief officers and police authority members stand in the way of progress. Much more could be achieved if the Home Office operated a 'comply or explain' policy, so that not sharing services would be the exception rather than the rule.

Re-engineering will strengthen frontline policing

Forces must prioritise resources to the front-line so that policing can be maintained (and in some areas improved) even in a challenging spending environment. Right now 43% of police officers work in office-based roles.⁴⁵ Some forces are trying to change this: Kent is reducing its workforce by 500 officers and 1,000 police staff, but will increase the number of neighbourhood officers and staff from 800 to 1,200. Hertfordshire is finding £36m in savings (17% of its budget over four years), but will ring-fence funding for neighbourhood policing. Bedfordshire and Hertfordshire share 12 units including firearms, traffic, dogs and major crimes – described as 75% of a merger – but are keeping their local identities. A strategic alliance with Cambridgeshire Constabulary means all three will share ‘everything except neighbourhood policing’, saving £20m each year by 2015. But despite these positive steps, other forces are diluting the frontline.

Yet it is possible for police officers to be freed up to perform their primary policing tasks. Civilian staff are cheaper and more efficient in providing support roles which do not require a highly-trained police officer – such as call handling, front-desk operation, case management after arrest, training, investigation support, taking fingerprints and looking after detainees.

Despite this, across all forces only 36% of the workforce is civilian. Surrey Police’s ratio is more than 50% and its investigation support officers, working under the guidance of a detective, show what can be done. Surrey now plans to reduce the number of police station front counters to single figures. But other forces are sticking with the idea that stations are the public’s only gateway and every town needs one.

Chief constables and their forces have a ‘can-do’ attitude, but need to let go, allowing other providers to run services on their behalf as long as they can meet the values of the service.

The public ‘self-serving’ can also help. Leicestershire Constabulary has cut the number of armed police deployments in rural incidents by 80% by encouraging members of the public to inform them in advance when they are going shooting in public view. Hampshire Police has 160,000 households registered for local updates and involvement and has expanded into Streetwatch and Speedwatch community schemes. It finds that confidence in police rises with higher public involvement, even in high-crime areas. Many processes also lend themselves to moving online, such as reporting basic offences, submitting intelligence and accessing information.

Recommendations

- Police chiefs should define operational (neighbourhood and response police officers/teams), non-operational (such as facilities management and catering) and operational support functions (such as custody, offender profiling and intelligence) and prioritise the ‘visible’ over the ‘invisible’.
- Give forces the power to manage their workforces. Applying a proper strategy to voluntary redundancies, early retirements, recruitment and promotion freezes will help chief constables and police authorities avoid simply thinning all areas of activity.
- Frame plans within a model that puts local policing within a national infrastructure with forces required to comply and collaborate or justify their divergence.
- The Home Office should encourage experienced and skilled officers back to front-line operational policing roles, not limited to implementing Tom Winsor’s recommendations.

Improving the rehabilitation of offenders

Citizens need to feel safe, secure and well-protected. The UK's criminal justice system must ensure offenders are punished appropriately but also rehabilitated. Yet custodial and community sentences are evidently not currently rehabilitating offenders effectively.

Over 40% of adult offenders are convicted of a further crime within a year of completing a custodial or community sentence⁴⁶ and reoffending costs the UK economy approximately £12.5bn a year.⁴⁷ Annual spending on prisons and probation is £5.5bn⁴⁸ yet reoffending remains high. With the Ministry of Justice's budget reducing by 23% by 2015⁴⁹ it is essential that the government finds ways to tackle reoffending more effectively, with less money. The benefits of doing so are clear: a reduction in reoffending of 20% could save the criminal justice system £1bn each year.⁵⁰

Reforming legal aid will deliver efficiency savings

After the election, the Ministry of Justice took steps to freeze spending and cut waste, announcing £325m of savings in 2010-11.⁵¹ Plans to build a new 360-place juvenile prison were stopped and an adult prison project was cancelled. Two further prisons will be closed as the prison population has not grown as fast as first thought, while others run by the Prison Service are being market-tested to reduce costs.

In addition, measures were taken to slim-down the National Offender Management Service. But while changes to its management structure have been implemented, more detail is needed on how the department intends to save £1bn through administrative reform and frontline efficiencies.

As the government recognises, further efficiencies could be found with reforms to the Legal Services Commission. Over £2bn is spent on legal aid each year.⁵² More frequent outsourcing of functions such as the assessment of legal aid entitlement and providing more advice by telephone rather than expensive face-to-face legal support would lower costs, without affecting access to justice.

Expanding initiatives to re-engineer services will help reduce reoffending

The Ministry of Justice has embraced the opportunity to drive fundamental change. Importantly, recognising that short custodial sentences have not been effective, it is taking steps to reform the sentencing framework so that tough community options are used more frequently instead. Reducing the prison population by 3,000, as is planned, could save over £100m each year.

The department's commitment to pay a diverse range of providers according to the results they achieve in reducing reoffending rates⁵³ is welcome – but its plans need to be bolder. While the 'social impact bond' scheme being trialled at Peterborough Prison is a high-profile example of re-engineered offender management, it is the only operational pilot. Waiting six years for the results of this scheme before rolling out the initiative is too long: action is needed now.

The MoJ's commitment to involve independent providers in criminal justice services is being backed up with action. It recently announced the results of four competitions for prison management, and new partnerships are resulting in innovative approaches to reducing reoffending. At HMP/YOI Hollesley Bay a joint initiative between public and private sectors will see offenders given in industry-grade training at a new enterprise centre. In Lancashire, an integrated offender management unit will bring multiple agencies and independent organisations together to lower reoffending. Despite such progress, though, only around 11% of the prison population is managed outside the public sector.

More could and should be done. The MoJ needs to extend market testing throughout prison and probation services. It must work with other agencies – including those in the voluntary and social enterprise sectors – to join up programmes that tackle reoffending by addressing all the complex issues involved. Single lead caseworkers across agencies would help tailor interventions to improve rehabilitation rates.

Recommendations

The Department of Work and Pensions should include a reduction in reoffending incentive in the Work Programme, to encourage providers to help ex-offenders find employment.

The MoJ must outline a clear programme for market testing prison management with at least five competitions to be initiated each year, in order to reduce costs and increase efficiency.

Set up frameworks of willing and able providers to increase the scope of probation services that can benefit from the expertise of independent organisations.

Implement proposals in the green paper on legal aid to save £350m a year⁵⁴ and realise further savings by promoting more competition for the delivery of legal advice and expanding the use of telephone advice services.

Maintaining effective armed forces

The UK's servicemen and women do a tough and vital job and need good equipment to help them defend us and the nation's overseas interests. But the process of getting the equipment and support they need – where and when they need it, at a price which provides good value for taxpayers – could be further improved. The UK's defence spending commitments exceed forecast budgets over a ten-year period by £36bn.⁵⁵ This is not sustainable.

With an annual budget of £32.9bn,⁵⁶ it is crucial that the Ministry of Defence gets maximum value for each pound spent. This is all the more necessary as the resources available to it are being reduced by 8% by 2014-15.⁵⁷ It also has to meet the capability challenges outlined in the government's Strategic Defence and Security Review.⁵⁸

Reforming procurement will help balance the budget

The Ministry of Defence has launched a number of initiatives to increase value for money, and sought proposals from suppliers for innovative ways to improve current and future defence capabilities.⁵⁹ It received more than 100 proposals, yet the evidence is that few of these have been implemented.

The ministry is also seeking to improve its procurement practices, which is welcome. Lord Currie is leading an independent review of non-competitive procurement, which covers 40% of procurement spending, to recommend how value for money can be improved. In addition, it has appointed Bernard Gray as chief of defence materiel, to reform defence acquisition strategy. Good ideas to improve the efficiency of the MOD must be implemented as soon as possible, and long-term goals to achieve best value for money, while welcome, should not obstruct the achievement of better value for money in the short term.

As part of the reforms, we believe the MOD must move away from a culture which tries to manage its in-year expenditure by delaying and re-scoping individual projects. Such decisions are the root cause of the £3.3bn in-year cost increase of major projects between 2009 and 2010. For example, just seven months after it signed a contract to build two new aircraft carriers, the ministry attempted to balance the defence budget by delaying the project, without understanding the £1.6bn cost implications.⁶⁰ Such practices increase the longer-term cost of defence projects.

Re-engineering services will maximise frontline capability

With a limited defence budget, the MOD must ensure as much of its spending as possible is concentrated on frontline services. Through re-engineering services it can release extra resources for frontline operations. It should follow the lead of other departments and bring in commercial best practice to improve procurement and commissioning skills. This will enable the ministry to get better value from its

equipment, training and facilities support, enabling servicemen and women to concentrate on their core role of defending the nation.

By encouraging innovation in the defence industry, the government can help it find cutting edge solutions to improve our military capabilities. Innovation in the defence sector often comes from small firms working in partnership with major contractors, and the government needs to do more to encourage these firms to grow and invest. It should work with major suppliers to help foster and capture the ideas these companies have, providing incentives for them to develop the capabilities of these companies.

Recommendations

- The Ministry of Defence must make best and ongoing use of the ideas suggested by its own suppliers to reduce costs and increase productivity. The process should be clearly owned and outcomes clearly understood.
- The ministry must be more strategic about the way it scopes projects upfront, to try and achieve a more balanced and fully costed programme of activity.
- It should identify where external commercial expertise can be used to help it achieve better value for money, freeing up resources for frontline operations.

“By encouraging innovation in the defence industry, the government can help it find cutting edge solutions to improve our military capabilities ”

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