

House of Commons Public Administration Committee inquiry into public service reform and public service ethos: CBI evidence

1. At the last General Election, the public made it abundantly clear that their priority was improvements in public services. The Prime Minister has since acknowledged that reform of health, education, transport and community safety were the key issues on which the Government would be judged at the next election. These concerns are also shared by business, which relies upon a competitive economy, healthy public finances and effective public services to create jobs and build socially inclusive wealth.
2. The public and the business community are demanding customers. The Local Government Association commissioned an attitudes survey on public services. Eighty-five percent of senior managers in local government thought public services had improved over the last four years. Only 20% of the public and 23% of business agreed.
3. The CBI believes that the private sector has a vital role in helping to improve public services, not just through leveraging in higher levels of capital investment but by raising standards and improving the quality of public services. There is already a considerable track record of achievement where the public and private sectors have worked together. It would therefore be inappropriate to rule out private sector involvement due to dogmatic beliefs and a misunderstanding of the motives of the private sector. Instead government should make a clear-headed decision to work with the private sector (or the voluntary sector) where this will lead to better quality services to the public.
4. This paper aims to demonstrate that:
 - ? Effective strategies for reforming public services require revolve around strong political and managerial leadership and commitment and skills at all levels to achieve improvements
 - ? A wide range of public private partnerships are delivering effective services. The public and private sectors are becoming better at working together. The goals are becoming more ambitious and there is a concerted effort to solve previously intractable problems.
 - ? The discussion should revolve around a 'public service ethos', not a 'public sector ethos'. Profit does not act as a barrier to effective public services – it can motivate the private sector to deliver better quality services. And PPPs can strengthen accountability to citizens and end-users
 - ? But there is more to do to reach the stage where PPPs are delivering optimum results.

- ? Business has useful ideas on wider policy and the public service reform agenda, and is keen to share them. Government's aim should be a good return on this investment of business's time.

PRINCIPLES AND STRATEGY FOR REFORMING PUBLIC SERVICES

5. Effective strategies for reforming public services revolve around strong political and managerial leadership and commitment and skills at all levels. The following requirements always apply, though how they should be put into practice will vary:
 - ? *Leadership.* Strong political and managerial leadership is required, from "front line" spending departments, local authorities and NHS Trusts to central units such as the Delivery Unit, the Treasury and the Office of Government Commerce. It is no coincidence that leadership is strong in local authorities that are achieving step changes in service delivery. The Office of Government Commerce is making a difference because it has clout and buy-in from spending departments.
 - ? *Performance management, not micro-management.* There is a growing recognition that public sector bodies should be managed through output and outcome based targets, as opposed to the prescription of inputs and detailed processes. Examples of this shift include the introduction of Public Service Agreements across the public sector and efforts to stop micro-managing Regional Development Agencies.
 - ? *Management tailored to the needs of individual organisations.* The CBI welcomes steps towards using different management and regulatory approaches towards high performing, struggling and mid-range bodies such as NHS Trusts and local councils.
 - ? *A commitment to 'what matters is what works'.* This requires an open mind, a focus on service user requirements (not producer interests) and skill in discerning what would deliver the best result in terms of service quality and cost.
 - ? *A culture that supports risk-taking – when it is well thought through.* Experimenting with new approaches will inevitably mean that not every project will deliver the perfect result. The public sector needs to develop a less risk-averse culture, and have the support of Parliament and other scrutiny bodies in doing so.
 - ? *Capacity and skills.* The public sector needs practical help in developing skills in areas such as managing change, project and performance management, procurement and managing relations. Smaller organisations face challenges and need cost effective support. The CBI has been a strong supporter of practical support networks such as the PFI Treasury Task Force, the IdeA and Partnerships UK.
 - ? *Local ownership of the challenges.* This is required at all levels of any organisation. Good communication and staff involvement to build support for change is important in effective leadership. The public sector faces huge challenges. The table below, from the LGA attitudes survey, shows that the public sector is more optimistic than the public or business about services improving over the next four years.

How public services will change over the next four years if present trends continue

	Local authorities %	Health authorities %	Police authorities %	Voluntary sector %	Unions %	Business %	General public %
A lot better	36	40	10	20	20	0	7
A little better	64	50	50	50	60	31	28
Not changed	0	10	20	10	0	8	24
A little worse	0	0	0	20	20	38	20
A lot worse	0	0	10	0	0	23	16
Can't say	0	0	10	0	0	0	4

THE CONCEPT OF A PUBLIC SERVICE ETHOS AND THE INVOLVEMENT OF THE PRIVATE SECTOR

What characterises public services

6. It is worth briefly examining some of the characteristics of public services, which then have implications for the way in which they are delivered. The following list is not exhaustive, and not all services share all the characteristics, but many services:
 - ? Are provided collectively to achieve scale economies. The consequence is often a monopoly provider in the locality (eg refuse collection) or a limited choice of providers (eg education). Service users often have only a limited power to express their satisfaction through remaining with or switching from a particular provider.
 - ? Amount to “citizenship entitlements”, so the service provider cannot refuse to deal with “awkward customers” or those in difficult or complex circumstances.
 - ? Are funded through public money, which demands high standards of public accountability.
 - ? Are of fundamental importance to the service user, eg education or delivered at a point of crisis, eg health, typically prompting front line staff to “go the extra mile”. Also, market failure is not acceptable, eg a company can go out of business but there will always be compelling pressure to rescue a failing hospital or school.
 - ? Are the subject of highly political choices about the level of provision, the balance of cost and quality, the balance of short and long term factors and the balance between fairness or uniform standards and local discretion or performance.

The role of the private sector

7. None of the above factors rule out private sector delivery of public services, though they do have a bearing on the partnering relationship that is required between the public and private sector. Earlier instances of outsourcing often failed to live up to their expectations through:
 - ? a failure to understand the rationale for involving the private sector, with polarised debates and the public and private sectors being labelled intrinsically “good” or “bad” at each extreme.
 - ? a failure to achieve genuine partnership and to strive for whole life value for money and continuous improvement. Too often in the past the relationship has been adversarial and the goal has been short term lowest price.
8. By contrast, more recent and emerging models of public private partnership are putting business between the public and private sectors onto a much sounder basis. They have higher ambitions and attempt to solve previously intractable problems, either within the public sector or in the way public sector bodies worked with each other or with the private sector.

PPPs bring new ideas and a healthy competitive pressure

9. The rationale for PPPs is certainly not one of “private good, public bad”. This is as false and unhelpful as the opposite extreme. Rather PPPs have an important role because having a range of service providers provides different approaches and sources of innovation. And a healthy competitive pressure provides a useful spur to all providers to improve their performance.
10. For example, private sector involvement in the Prison Service has made the public sector part of the Prison Service considerably more competitive. Work commissioned by the Prison Service in 1998 suggested that they could not compete competitively. That may now be changing, with a contract for the running of a prison, run very successfully by the private sector, returning to the Prison Service because the public sector bid was judged better. Martin Narey, Prison Service Director, says of the impact of PFI, “It has allowed me to introduce a competitive element into the prison service which we otherwise could not have had”. He argues that the private sector retains substantial advantages in designing, financing and building new prisons, that it also achieved a “massive step forward” in the flexible use of staff and that the prison service has now caught up and arguably overtaken the private companies in this.
11. PPPs are established to address a wide range of issues. Consequently their remits and structures vary considerably. Current models include:
 - ? *The Private Finance Initiative (PFI)*, which is a particular form of PPP. The PFI is not just about the private sector financing capital projects in return for an income stream. It uses private sector skills and management to deliver a “capital and services package solution”, giving whole life value for money.
 - ? *Strategic service delivery partnerships*, covering instances where the Government enters into partnership with the private sector to deliver public services. Examples include recent major outsourcings by local authorities and the NHS Concordat with the independent sector to put in place a partnering based approach to using the independent sector’s spare capacity in clinical services to treat NHS patients.

- ? *Joint ventures*, where the public sector takes an equity share in projects, sharing and sharing in both up-side and down-side risks. NHS Lift (Local Improvement Finance Trust) will be a PPP set up as a limited company with the Department of Health, NHS and the private sector as shareholders. It will build and refurbish primary care premises, which it will own and then rent to GPs and other parties (e.g. chemists, dentists) on a lease basis. The intention is particularly to make it more viable and provide better support for GPs in deprived inner city areas.
- ? “*Wider markets*” PPPs have the purpose of exploiting Government assets (physical or knowledge based). *Inventures* is being set up as a PPP joint venture with the private sector, covering what has been the trading activity of NHS Estates. It aims to maximise the value from the redundant NHS Estate and expand the activities of the trading group. *Inventures* will sit outside the NHS Estates Agency (which will retain policy functions such as advising on building and maintaining healthcare facilities).
- ? *Partnership models for decision making*, such as Task Forces and Local Strategic Partnerships.

Why PPPs work

12. PPPs can and do fail where the remit or the structure is not suited to the situation, or where implementation suffers from a lack of skill or commitment from the public and/or private sector partner. The final section suggests an agenda for solving these sorts of problems. But fundamentally, successful PPPs deliver by aligning the motivations of the public and private sector to deliver an agreed outcome.

A public service ethos: putting the public first

13. The most successful businesses and public sector bodies achieve their success above all by putting their customers first. Effective public services require a public services ethos - not necessarily a public sector one.
14. The argument that private companies tend to sacrifice the interests of customers in order to put the shareholder first is fundamentally flawed. It fails to understand that if a company does not put its customer first, it quickly finds there is no profit to distribute to shareholders. The private sector has been forced over the past twenty years to radically redesign the way it delivers services to the public, from e-enabling services to developing a highly sophisticated understanding of individual customer needs.
15. The HM Inspector of Prisons commented in his report on Altcourse Prison, delivered through the PFI, that the prison ‘was a very impressive establishment in many respects and a delight to inspect. It was a very strong candidate for being the best prison we have seen and we had to keep reminding ourselves that it had been open for less than two years at the time of our inspection’. There is clearly a strong commitment to public service in this prison. In his evidence to the House of Lords Select Committee on Public Service in 1998 the then Director General of the Prison Service Agency said, ‘I find a good commitment in private sector establishments to the principles, the goals and the values of the main Prison Service. We require them to be run to the same policies, the same standards, the same rules, and we specify quite clearly what sort of regime we want and what they must deliver on a daily basis’
16. The Institute for Public Policy Research’s Commission on Public Private Partnerships conducted qualitative research into the attitudes of nurses, patients

and health managers on the ethos and motivations of public and private sector providers of health care. Nurses and health care managers strongly felt there was no difference in ethos between providers. Patients maintained that the attitudes of nurses to patients did not differ significantly between the sectors. But the commitment and dedication of NHS nurses was felt to be more noteworthy because they were typically working under worse conditions and in worse working environments than their private sector counterparts.

A focus on outputs, or even outcomes

17. Under PPPs, the public sector sets out the required outputs or even outcomes, giving the private sector provider maximum scope for innovation. Initially, the public and private sectors clearly found this challenging. But an output-based approach is being embedded and, in some cases, the goals are being set in outcome terms. For example, Dovegate Prison PFI contract includes a performance bonus for reducing re-offending rates.

Whole life value for money

18. PPPs must strive for best value for money, setting them apart from the lowest price tendering which characterised initiatives such as Compulsory Competitive Tendering. Moreover, they aim to achieve best value for money over the life of a project. A major benefit from the PFI programme is the contractual commitment to maintain the newly built or refurbished assets. The backlog maintenance liability in the health sector alone is £3.1 billion.

A “win-win”: better quality services and a better deal for staff

19. Public private partnerships have done more than most public services initiatives to promote a “win-win” of better quality service and a better deal for staff. Staff suffered most, along with service quality, through the lowest price tendering of the past. PPPs ought to be quality driven. The Government client should demand a quality service, be prepared to pay a fair price for it and accurately identify the best bid. And this should drive the successful bidder to have the good employment terms which are necessary to recruiting, retaining and motivating staff of the necessary calibre to deliver the quality service. The long-term nature of PPPs also provides a better environment than short term, arms length contracts for developing staff.
20. The Government, the CBI and the trade unions have worked together to improve the handling of workforce issues in PPPs. This has included jointly producing Government guidance to give certainty and consistency in the handling of staff transfers and arrangements for protecting the pensions provisions for transferees. More work is needed on this agenda, though, and ideas are set out in the next chapter.

True partnership at all levels

21. Handled well, PPPs align the goals of the public and private sector partners, and motivate them to work jointly towards these aims. PPP is also driving the private sector to work as a team - designers, builders, financiers and service providers collaborating to provide complete solutions.
22. Successful partnerships are managed in a strategic and positive way. A partnering culture permeates all levels of both organisations. Strategic partnerships achieve outstanding results through aligning wider “business” goals

of the public and private sector partner. Partners need to be happy with the cultural fit between them.

Holding the private sector to account, rewarding the good management of risk

23. PPPs are founded on the principle that risks should be allocated to the party best able to handle them. Complex contract or joint venture structures and, above all, the payment mechanism holds the private sector provider to account. If the service is not available, under a PPP contract, the private sector does not get paid.

On time and on budget

24. PPPs are proving successful in ensuring that projects are delivered to budget and on or ahead of time. This benefit should not be underestimated. Over-runs remain a serious problem in conventional public sector capital procurement. For example:

- ? Guys Hospital Phase III redevelopment was completed three years and four months late, at a total cost of £151.8 million - £68.7 million more than the approved budget cost, and with a funding gap of £26.8 million.
- ? The Jubilee Line extension was delivered nearly 2 years late and £1.4 billion over budget
- ? The British Library's new £511 million building cost three times more than the original estimate.

Addressing the misunderstandings

25. The arguments against a partnership approach between the public and the private sectors are typically couched either in terms of:

- ? Public opposition in principle.
- ? A misunderstanding of profit.
- ? Partnerships failing to deliver on the ground.

Public opinion

26. Public opinion surveys can be manipulated through the phrasing of the question. The public is hostile when asked whether the NHS should be "run for profit" or "privatised". But where the questions are more clearly seeking views on partnership working, the answers are much more positive. In June 2001, a MORI survey for the Economist indicated 69% of people supported the policy of "having more NHS patients treated in private hospitals". In a MORI poll in September 2000, 79% of respondents agreed that "the country's healthcare needs would be better served if the NHS and the private sector worked hand in hand". And 84% of people were confident about a future health service where there is some degree of partnership between the public and private sectors.

The role of profit

27. It is important to understand the role of profit. Too often profit is poorly understood and sometimes misrepresented to politicise outsourcing decisions. Profits are a return on risk and the investment of scarce resources. There is no

reason for that scarcity not to be reflected in the prices (or costs) the public sector bears when it procures services at best value for money. Whoever carries a risk should benefit from the up side as well as suffering from a downside. In a successful partnership, the public sector benefits from better quality services. The private sector partner is able to:

- ? Return a profit to its shareholders – Profits paid out by government to private companies are not a net cost to society. Pensioners, for example, rely on profits for their income. 80% of shares are held by pension schemes that provide for the retirement of the vast majority of private and public sector workers.

AND/OR

- ? Share the profits with the public sector partner. For example National Savings receives half of the amount by which Siemens Business Services annual net profit margin exceeds expected profits in their 15 year deal.
- ? Reinvest the profits back into the company
- ? Use the money to fund research or development and invest in other projects

28. Working Links is a good example of a PPP that has reconciled the profit motive with providing a high quality service to the public. This partnership between the Employment Service and the private sector (Cap Gemini Ernst & Young and Manpower PLC) was formed to address the issues facing long term unemployed in an innovative way:

- ? The private sector is rewarded: Last year the company made a profit of £0.8 million
- ? The Treasury is rewarded: Working Links paid £0.3 million in tax.
- ? The public sector as a whole benefited: In its first year Working Links placed over 4000 long term unemployed people into jobs and nearly 85% were still in work three months later. That is more than double the success rate of any comparable programme. So the Treasury also benefited through extra tax revenues (and reduced benefit claims) from those now in work.
- ? Working Links receives its main income - £2,500 for each jobseeker - only when somebody has been in work for 13 weeks. This means there is an incentive to provide 'aftercare' support to those individuals settling back into employment.

Track record

29. Too often, there is a lack of balance in presenting the record of private sector delivery. For instance, press stories about the opening of the Cumberland Royal Infirmary in July claimed flooded wards, raw sewage in operating theatres and many other failings. These were wide exaggerations. A broken pipe did cause a small amount of water to drip into a ward and caused damage to four ceiling tiles, but cardiac patients were never drenched. And a temporary soil pipe bung was erroneously left in place causing a waste water overflow in an ancillary room (not an operating theatre). Also, most of the problems related to last Spring, when the hospital (the first major PFI hospital to be completed) was initially handed over, and were put right before the hospital opened to patients.

30. These scare stories and simplistic assessments of the problems that do occur are damaging because they stifle informed debate about how to make progress.
31. Data aggregating the total value of all PPPs is not available. This is inevitable given the spread of activity. Over 400 PFI contracts have been signed to date, worth a total capital value of nearly £19 billion. But PPPs are certainly not the only option for capital spending. Over the period 1997-2000, PFI capital spending mounted to only 9% of publicly sponsored capital spending.
32. In January 2000, the Treasury commissioned Arthur Andersen, together with the LSE to examine the value for money drivers in PFI. The study concluded that PFI contracts were achieving on average 17% value for money savings against the public sector comparator. Applying this average across the PFI programme to date implies a total saving to date of £3.2 billion.
33. The headline value for money statistics only highlight the financial dimension of what PPPs are achieving. The PricewaterhouseCoopers report published earlier this month, "Public Private Partnerships: A Clearer View", sets out findings of a survey of 27 PFI projects which are already delivering services, including 6 hospital projects. They questioned public sector clients, private sector partners and service users where possible. The conclusion was that PFI projects are delivering to time, to budget and to plan. The report rightly identified where improvements could be made, but the feedback from senior public sector managers and service users was overwhelmingly positive, and the following quotations were typical:

"The PFI has delivered a new hospital on time, and it is working."

Chief Executive, NHS Trust

"We have come from something which was, in my case, appalling, to something which works well with everything in close proximity on one site."

Senior Clinician, NHS Trust

Accountability Issues

34. Issues of accountability are important whoever provides a service but as the boundaries of public and private change, the issue has become more high profile. Business has an interest in this issue as a provider of public services but also as a user and an important contributor to the funding of public services. Accountability issues are not new to the private sector.
35. Experience has shown that where responsibility for service delivery is transferred to the private sector, accountability can be improved. The public sector is typically prompted to review current service levels and draw up revised (and improved) service specifications. Experience to date has shown that before investigating the PPP option, public sector bodies often did not have an accurate assessment of their current cost base or quality of service being delivered. Performance management arrangements have also often been poor.
36. Successful handling of the accountability issues that arise in PPPs requires:
- ? *Recognition of the distinction between ultimate accountability and responsibility for delivery.* In a public private partnership the client does not simply hand over their responsibilities to the private sector. The client specifies the requirements and the contract holds the service provider to meeting them.

- ? *Effective governance arrangements.* Increasingly under PPPs, the partners are establishing partnership boards and other mechanisms for ensuring accountability in new partnership arrangement.
- ? *Consideration of how best to incorporate service user attitudes in specifying and monitoring the service.* This is an obvious ideal. It is sometimes complicated. For example, clients must be open when their decision to reduce a budget was the reason for the reduction in service levels. A major issue in the community that affects the overall perception of, say, the local authority could distort service user feedback on a completely separate issue.

37. It is encouraging that these sorts of issues feature more prominently now than previously in debates about improving public services. There are already examples of good practice. For example, the partnership between the National Savings and Siemens Business Services ensures accountability through a joint governance structure for the contract. To help monitor the contract at a strategic level and on a day to day basis, National Savings has established a relationship management unit that includes professionally qualified senior staff who negotiated the contract. And in Stoke the refurbishment of all LEA schools will be accomplished through a PFI. 'Stakeholder days' were arranged for governors, unions and head teachers and all schools were regularly updated through evening meetings and briefing pamphlets.

38. The Committee asked specifically about accountability and probity issues where the private sector is contributing to Government decision making as opposed to delivering public services. Generally speaking the Civil Service does not have enough people at a senior level with genuine, successful operational delivery experience. As a result Government has increasingly drawn on business involvement in task forces, ad hoc advisory groups and reviews to seek ideas that go beyond traditional approaches to policy making. Since 1997 the Government has created more than 300 task forces and similar bodies to advise on public policy. Civil Servants have benefited from access to new information and insights of the impact of policy in the real world.

39. The CBI recommends a report by the Public Management Foundation (PMF), "In the Public Interest", which investigated how to achieve a greater "return" on the investment of business time given through involvement in task forces. Rather than rely on further regulation, the CBI believes that the priority should be for further action to design a process that effectively captures private sector expertise. We support the PMF's recommendations for creating a climate where business people can contribute effectively to policy making. This includes a process which:

- ? Has clear and specific objectives.
- ? Moves quickly and is well managed.
- ? Is listened to by senior managers and has a discernible impact on outcomes.

An agenda for progress

40. PPPs are not yet delivering to best possible effect. Further policy improvements are needed. And even where the policy is more or less sound, better practice is needed on the ground. Here follows a suggested agenda:

- ? *Strengthen the emphasis on value for money.* The public sector needs to be more focused on securing whole life value for money, particularly on

assessing quality and securing the gains that come over time through a diverse and contestable market. Quality still suffers through lowest price decisions and a failure to recognise that “you get what you pay for”. Many local councils pay independent nursing homes £2.00 an hour per resident, which does not easily cover basic costs. Council run residential care homes are paid on average 48% more than comparable independent sector provision.

- ? *Improve public sector planning, procurement and contract management.* Priorities include better initial planning (and more realistic outline costing of projects), better procurement to reduce bid costs and more exploration of how public bodies can procure collectively
- ? *A commitment to and an understanding of what works.* There needs to be a more minded approach and a better understanding of what does work in different circumstances. The optimum model of public private partnership will vary from case to case, depending on issues like how best to package the work and to share the risks.
- ? *Improve the handling of staff issues within PPPs.* The CBI has worked with the public sector and trade unions, for example to produce Cabinet Office guidance giving more certainty on TUPE (staff transfer arrangements) across the public sector. More work is needed to address the “2-tier” workforce problem (of new starters and transferred staff being employed on different terms). More employment legislation is not the answer. Seconding staff from the public sector to private sector partners is also deeply problematic. Workers would lose out on promotion and development opportunities with the contractor. Meanwhile the contractor and the public sector client could too easily blame each other where problems did arise. Better procurement is the key to achieving the “win-win” of better quality services and a better deal for staff. Lowest price tendering damaged service quality and employment conditions. The Government must behave as a “quality driven” client: requiring and paying for a quality service, which would then require service providers to maintain high standards of HR, terms and conditions and pensions.
- ? *Give the private sector confidence in deal flow.* The Government must give the private sector confidence in future deal flow in all areas where it wants to have a strategic relationship. This is key to persuading firms to innovate and build capacity specifically to meet Government customer needs. A “stop-go” approach from Government clients is extremely damaging. Specifically, the PFI programme in health (which has arguably stalled while some pilot projects investigate the option of seconding staff instead of transferring them) should pick up pace.
- ? *End the confusion over issues of funding and delivery.* There needs to be a mature and informed debate about the need in some areas, such as health and transport, for more private funding of services or charges at the point of use. But this must be clearly separated from the question of how to optimise the benefits from partnership working between the public and private sectors to deliver best value high quality services that are publicly funded through taxation.