

Doing more with less

A credible strategy for restoring the public finances



Doing more with less

A credible strategy for restoring the public finances

The CBI's public services strategy board

The UK's economic prosperity depends on everyone having access to properly funded, high-quality public services. Business is keen to influence the debate on how to design and improve the country's schools, health and welfare provision, prisons and other services. After all, it is corporate taxes that help fund public services, and employees rely on public services every day in order to work effectively. These services are going to be under greater pressure than ever before to make substantial savings. Doing more with less is a challenge businesses face every day – government should explore truly innovative ways to deliver our public services, and be more effective in measuring and managing their performance.

The PSSB leads the CBI's campaign to improve the quality and efficiency of the UK's public services and comprises a range of companies already delivering a wide range of public services. Competition has been used successfully to cut maximum

waiting times for hospital treatment, improve results in schools, reduce re-offending, build and maintain modern public buildings, release more resources to the military front line, make streets cleaner and safer, and much more. It has challenged poor performance and incentivised providers to take more account of what the public needs.

If we are to get public finances back into balance we need more bold thinking about the structure of our public services and where and how we use competition. This is why the PSSB will continue to pursue a modernising agenda vigorously. For more information visit: <http://publicservices.cbi.org.uk>

The Treasury's budget forecast shows public sector borrowing rising to £175bn or 12.4% of GDP this year – a peace-time record and the highest level of borrowing in the OECD. The Treasury expects cumulative borrowing between 2009-10 and 2013-14 to build to over £700bn. With a lacklustre recovery in prospect and a structural loss in output, the CBI estimates that borrowing could even exceed this projection by £50bn.

The CBI believes there needs to be a fully credible strategy for restoring the public finances. This must include:

- An earlier date for budget balance of 2015-16, rather than 2017-18 as in current Treasury plans
- A focus on current spending restraint rather than tax increases to reduce the deficit
- Protection of the capital budget to support future economic growth
- A robust strategy for achieving reform of public service delivery using private and third sector skills to help deliver such change
- Detailed plans for delivering savings while protecting vital services
- A new fiscal framework.

The combination of an earlier date for budget balance and a greater focus on spending reform means that current spending will need to grow more slowly from 2012 to 2016 than Treasury plans currently imply. Achieving budget balance by 2015-16 would require a reduction in nominal spending growth of around 1% between 2012-13 and 2015-16, relative to that implied by the 2017-18 target. The CBI calculates that this means a reduction in nominal spending growth over this period from around 3% to 2% a year, reducing nominal current spending over the same period by around £70bn compared with the Treasury trajectory.

Spending restraint should be seen as the catalyst for reform

Reductions on this scale, even over a number of years, cannot be delivered through a piecemeal approach. They will require a fundamental change in the government's approach to delivering public services to ensure quality outcomes are maintained under tight budgetary conditions. No areas of the public sector can be excluded from the drive for improved efficiency.

This brief sets out ideas – building on existing good practice – for the government to implement radical reform to the way public services are delivered. The CBI believes government cannot avoid tackling the difficult issues: the political parties need to tell the electorate and business what their priorities are – and what can and cannot be afforded. To guide the process government, Whitehall departments, regional and devolved bodies and local authorities should review their services against five core questions:

- Is this something the government needs to continue?
- Is this something the government can afford to continue?
- Is this something that could be done more efficiently?
- Is this something that could be delivered better by the private or third sectors?
- Is this something that can be re-engineered to deliver a better service?

In this brief we show how good, if not improved outcomes can be achieved at less cost and without a ‘slash and burn’ approach to achieve savings. Instead, a strategic and considered approach to identifying ways of reducing spending is needed. In some areas of service delivery, there is a need to invest to save: spending money in the short term to enable service redesign that will deliver improved, more cost-efficient outcomes in the long run. This investment could come from various sources – it is not just up to government. The private and third sectors have shown their ability and willingness to invest to achieve better outcomes across a range of policy areas, from skills development to the delivery of welfare to work services.

This brief identifies savings of £136bn which can be made from 2010-11 to 2015-16: these savings are indicative and conservative – good practice already exists and much more can be achieved through political drive and leadership. The proposals do not represent an exhaustive list of savings, instead they illustrate what could be achieved if new ways of thinking are applied to public services. Our proposals are primarily drawn from private sector delivery of public services but we know there are good practice pockets in public sector organisations and among third sector providers. It is competition among providers from the different sectors that has been critical to improving outcomes and delivering value for money.

But good ideas alone will not result in the change we need – effective implementation is critical. The challenges associated with achieving change will need to be identified and addressed, and considering such issues will be a next step in progressing the ideas presented in this brief.

Overall, with strong political will and effective implementation strategies, we believe that:

- 1 Radically re-designing the delivery of public services could improve or maintain quality and deliver a total of £63bn of savings by 2015-16
- 2 Learning from private sector practice on managing workforce costs can yield £27bn savings by 2015-16; improvements in productivity can also be achieved
- 3 Non-core activities are best provided by the private and third sectors unless it is essential for them to be provided in-house. Changes here could save £30bn by 2015-16
- 4 Cutting waste on lengthy procurements, consulting and advertising could save a minimum of £16bn by 2015-16
- 5 Funding mechanisms must be reformed, with greater use of co-funding, individual budgets and pooling funds at local level to maximise successful outcomes.

1 Radically re-designing the delivery of public services could improve or maintain quality and deliver £63bn of savings by 2015-16

The government needs to show determination to get more for less across all areas of public spending. But it is not a matter of crude cuts in staff numbers or budget lines. A 'slash and burn' approach, without proper consideration of how to strategically redesign service delivery in a way that maintains and even improves outcomes, would be disastrous. It could result in long hospital waiting lists, unsafe communities, understaffed schools and a workforce without the skills needed to ensure a strong economy.

Instead, there needs to be a fundamental change in the government's approach – it is possible to deliver quality services while saving money if there is reform and innovation – re-engineering services will deliver good outcomes.

This paper identifies savings of £136bn which can be made from 2010-11 to 2015-16

Introducing new technology and improving workforce productivity could raise performance and achieve £20bn cost savings across local government by 2015-16

A recent Local Government Chronicle survey¹ found that a third of council chief executives expect funding cuts of between 10% and 15% over the next five years – with many expecting cuts of significantly more. Based on an assumption that the local government grant remains at £83bn (2010-11 funding level) up to 2015-16, a 5% saving target would deliver £20bn.² The following shows some examples of how this saving can be achieved through introducing new technology, improving workforce productivity and delivering efficiencies through supply chains.

- Lancashire County Council's Business Improvement Programme has delivered efficiency savings of over £10m across its IT portfolio. By merging its pay and HR functions, Lancashire has saved £1.5m a year and through rationalising office space the council will save £1.6m a year – similar savings across the 59 two-tier shire county and London borough councils would deliver £773m in total by 2015-16. The council's achievements have been recognised as best practice by the Treasury.
- A transformational programme called Worksmart at Wakefield Metropolitan District Council has dramatically improved the efficiency of customer service and productivity of staff to release substantial financial savings and improve customer satisfaction. With the support of partner Microsoft, Wakefield's Worksmart programme encompasses flexible and mobile working solutions for over 1,000 employees. Processes such as benefits claims can now be completed on a tablet PC at the customer's side which has halved processing time from 50 days to 25 days. This new way of working has enabled the council to reduce the number of office buildings from 34 to six. This has released £1.6m in revenue efficiencies and £1m in capital receipts. Similar savings across the 68 city and metropolitan district councils and London borough councils would deliver total savings of £177m by 2015-16.
- Working with Serco, Glasgow City Council has overhauled its internal systems and processes. With an ageing infrastructure, 200 disparate legacy systems and increasingly complex reporting requirements, there was need for system and business process integration across the council's ten service departments. Over 70 business processes have been redesigned resulting in reduction to costs, lifecycles and errors and providing citizens with faster, more effective services. Savings have been significant with £1.7m from the sales stream alone by the end of 2008. If the 68 English city and metropolitan district councils and London borough councils replicated this £116m of efficiencies would be generated by 2015-16

¹ LGC, 17 September 2009

² PESA 2009 numbers, which show £82.7 billion for English councils in 2010-11
http://www.hm-treasury.gov.uk/d/pesa09_chapter7.pdf

- Hertfordshire Highways is a three-way alliance between Hertfordshire County Council, Mouchel and AmeyLafarge, bringing together the knowledge and expertise of the three partners to deliver excellent highway services to the citizens of Hertfordshire – improving safety, managing traffic and benefiting the environment. A minimum target of £13m has been set for the next four years of the contract. The incentive for the partners is that any shortfall is required to be made up from their own funds. The CBI estimates that if the 59 two-tier shire county and London borough councils were able to replicate Hertfordshire's target over a four-year period, £767m of savings could be realised by 2015-16.
- Birmingham City Council has set an ambitious target to reduce its CO₂ emissions by 60% by 2026. As a key step towards achieving this target, the council partnered with Alto Digital to implement a sustainable printing solution. By converting to multi-functional printers, the council has reduced the total number of printers needed, which has saved energy, reduced running costs and freed up floor space. The highly efficient cartridge-free printers also consume far less raw materials than laser printers and this has greatly reduced the amount of waste taken to landfill. The new printers have saved the council a total of £3.1m so far. A similar programme across the five next biggest councils could generate £16m of savings.

Tackling unemployment to minimise social and economic costs and prepare the UK for the economic recovery could save £20bn by 2015-16

The consequences of prolonged unemployment: financial hardship, adverse impact on family and social life, detrimental effects on physical and mental health and skills erosion are all damaging in the short and long-term for individuals. In addition to the social costs, unemployment harms the economy by failing to use the resources available for productive activity and comes with substantial financial costs for the government. A person on Jobseeker's Allowance, Incapacity Benefit (IB) or Employment Support Allowance (ESA) costs the government around £11,000 to £13,000 a year – which equates to a total annual cost of almost £50bn.

The government must take a long-term view of welfare reform and invest to save – spend now to help workless individuals into work in the shortterm, in order to minimise the number of people needing unemployment benefits in the long run. This will involve investing to provide tailored support for individuals to address barriers to employment, enabling independent providers from the private and third sectors to help jobless people tackle problems such as skills deficiencies, poor health and debt. The government has plans to pilot invest to save models, but these plans must be fast-tracked and expanded. It is important that workless people are helped into the jobs that are created as the economy recovers – we cannot afford to let another wave of economic growth pass people by.

Effectively implementing reforms based on the invest to save principle will require the government to have data on the total amount of public funds being spent on individuals through income support, training, health, housing and measures to

tackle worklessness and deal with the consequences of unemployment. There is a significant overlap of spending between government departments, and between central and local government, resulting in duplication, cost inefficiencies and unnecessary administrative burdens. Government needs to ensure it is spending this money strategically and effectively. Rather than a siloed approach to planning, funding and delivering services, there needs to be greater co-ordination and integration and, where possible, budget pooling. This requires more customised support such as that delivered in Employment Zones, where personal advisers work with jobless individuals to 'spend' amounts from a 'personal job account' that can provide more innovative and flexible use of the resources available to help individuals back to work.

This approach of citizen-centred spending will ensure that people on ESA and IB who can work are assisted into the workforce. Around 2.6 million people receive these benefits, and around one million say that they can and do want to work. All political parties recognise that using independent providers leads to substantially improved job prospects. If, by expanding the use of the private and third sectors in delivering welfare to work services for ESA and IB claimants more people could be helped in to sustainable jobs, savings would start to accrue from when the labour market starts to grow in 2011. If around 15% of these people could be helped in to jobs each year, with half these people staying in their job, savings could total around £20bn by 2015-16.

Reforming the delivery of health services will improve patient care and deliver around £20bn in savings by 2015-16

We believe there is a real opportunity to radically reform the ways in which health and social care services are delivered so that patients get the type of care they want, when and where they want it. NHS chief executive David Nicholson has stressed the need for the NHS to make between £15bn and £20bn of efficiency savings between 2011 and 2014 and the examples below give a flavour of what can be achieved. They would deliver £20bn in total cost savings by 2015-16 and improve health outcomes by giving patients greater control over their own health and social care and the knowledge of who to go to for help when something goes wrong.

At present there is an over-reliance on hospitals to deliver healthcare services, particularly for the 15 million people with long-term conditions such as diabetes and COPD lung disease, which can be provided by local health care professionals in communities and in patients' homes. In addition, health and social care services are poorly co-ordinated, leaving people, particularly older people, feeling like passive users of healthcare rather than involved in the management of their health. Currently around 60% of hospital bed days are accounted for by people with long-term conditions and many of these hospital stays could be avoided. The following provides just a few examples of how patient care improves when services are delivered in different ways and how significant savings can be achieved at the same time:

- Better use of innovative service delivery such as, using telecare technology – for example, fall prevention technology and monitors – could prevent 70,000 older people from entering residential care every year. This would deliver in the range of £5-7bn of cost savings to the adult social care budget by 2015-16, giving older people and their families the confidence to stay independently in their own homes
- The Department of Health's Cancer Reform Strategy calculated that £1.8bn could be saved by 2015-16 simply by reducing the number of unnecessary days cancer patients spend as inpatients³
- Tackling bureaucratic and inefficient NHS procurement processes, would mean commissioning bodies procure goods from the best provider, including from small and medium-sized enterprises manufacturing innovative health equipment. One example is Radox Laboratories, a diagnostic reagent and equipment manufacturing company which has experienced significant barriers when tendering for NHS work. Radox specialises in improving medical testing procedures to make them faster, simpler and more effective for patients. Taking as an example the testing of patients for colon cancer, around 50% of colonoscopy procedures could be prevented through earlier and better testing. Each operation costs £1,000, and substantially reducing the number of operations could make significant savings
- South East Health Ltd is involved in a three-year pilot with East Sussex and Brighton & Hove PCT to help GPs talk to clinicians about patients directly through a 'single telephone access number', which has reduced avoidable admissions to hospital. In 2008-09, 1,026 patients avoided a stay in hospital because of this service, saving between £1.3-2.5m. Potentially, this service could save the NHS £1.2bn by 2015-16
- Improved community support and installation of telehealth care monitors in the homes of patients suffering from the lung-related illness COPD has enabled Sheffield PCT with Tunstall to reduce the number of admissions to hospital by 50%. If half of hospital emergency admissions across England were avoided – around 50,000 patients – the total saving by 2015-16 would be £666m
- Providing expert treatment centres to enable better outcomes. It is estimated that independent sector treatment centres will have reduced costs of procedures such as cataract removals, hip replacements and knee operations to 85% of the NHS tariff by the end of their five-year contracts. Were this best practice price used for the elective tariff price for all of these procedures this would deliver a cumulative saving of £125m by 2015-16 while improving patient satisfaction rates
- A number of hospitals are running pilots with BUPA where patients who only need ongoing antibiotic treatment are discharged early and treated under the care of a consultant at home. If the pilot was extended to just 5,000 suitable patients the total saving of treating patients at home would be £105m by 2015-16
- Patients with long-term conditions in Newham are managing their care at home through the help of Serco's visiting community matrons. A 2007 study of the scheme found emergency hospital admission had fallen by 26%, A&E admission had fallen by 16% and non-routine contacts with primary care had fallen by 57%. The project is on target to save the NHS £5m over the next five years.

There is also more that can be done in promoting wellbeing and offering preventative healthcare that would remove the necessity for costly hospital treatment. Greater accessibility – in the high street and at people’s place of work – means that patients present their concerns earlier, allowing them to be treated before they worsen and complicate. The informality of community settings for care also encourages preventative screening and advice to be directed at patients who are at risk of poor health, but would not use traditional GP practices:

- Making primary healthcare more visible and accessible by co-locating services in high street sites, such as Boots’ community pharmacies, means that a wider range of patients raise their health concerns earlier. The regularity with which pharmacists see a large number of people means they can offer healthy lifestyle advice to prevent illness later in life but also spot the symptoms of costly conditions such as hypertension, early-stage osteoporosis and pre-diabetes, allowing them to be treated before they develop and worsen
- Pharmacy is also proven to be cost-effective in providing services such as preventative advice, blood tests and contraception advice in-store. It is estimated that some 57 million GP consultations each year involve minor ailments, which could be dealt with at pharmacy stores. The average GP surgery consultation lasts 11 minutes and costs £32. The same 11-minute consultation in pharmacy would cost £18. If these patients could be moved to pharmacy then £4.8bn could be saved up to 2015-16
- Walk-in centres such as those operated by Atos Origin in Manchester and Canary Wharf can divert patients with minor injuries away from more costly attendance at accident & emergency clinics. A walk-in centre visit costs around £44 whereas a visit to A&E costs around £69.⁵ Only 24% of A&E attendances are admitted to hospital, suggesting that many could be dealt with in either a minor injury unit or a walk-in centre. Given that a walk-in centre appointment is £25 less expensive than a visit to A&E, over £1.5bn could be saved by 2015-16 if non-essential cases were seen in a walk-in centre rather than in A&E.⁶

4 Personal Social Services Research Unit, Unit Costs of Health and Social Care 2008, 23 December 2008

5 Inappropriate A&E use could mean fines for family doctors, A&E, 17 April 2008

6 Calculation of £255.520m based on annual A&E attendances, Department of Health, 22 May 2009 and Emergency admission through accident and emergency, Department of Health, 22 May 2009

Criminal justice funding needs to be spent more wisely to prevent and deal with crime at lower cost – £3bn could be saved by 2015-16

The UK has one of the highest crime rates in Europe, and the public does not feel safe – fear of crime remains high. A decade of pumping in more resources to deliver justice services has had little impact on crime: although spending has increased by over 40% in real terms since 1997, more than half of offenders go on to be convicted of another crime. Providing police services costs each household in England and Wales about £550 a year – 0.9% of GDP. This is considerably higher than many other European countries, which spend around 0.5% to 0.6% of their GDP on these services and raises questions about whether the UK's level of spending masks inefficiencies.

Throughout the justice system, from custody suite provision to legal aid services, there is much scope to introduce more efficient ways of operating, and to use providers from the private and third sectors to improve effectiveness. For example, using private contractors to process people when they are arrested and to run custody suites has freed police officers to deal with policing activities.

In other areas of criminal justice, innovative ways of thinking and delivering services should be explored. For example, legal aid is essential for those with inadequate resources but the £2bn the government spends each year could be reduced: present costs are around £38 per person in the UK – four times that in countries with comparable legal systems such as Canada and Australia. Costs would be reduced and quality of service would not be impaired, indeed could well be improved, if those eligible for legal aid were initially directed to a telephone advice line, with professionals providing advice and seeking to resolve issues for clients. This would help to avoid immediate recourse to professional solicitors – as typically happens at present. Such a move, which is already the norm in other areas of civil justice such as employment tribunals (where ACAS provides advice to employers and employees), could deliver better help for individuals, as well as huge savings to government. At present around 2% of the civil legal aid budget is spent on telephone advice, yet the cost of providing advice via the telephone is around half the cost of providing advice face to face, with the same high level of outcome achieved. If the legal aid bill was reduced by 25% from next year, £500m would be saved each year, delivering £3bn by 2015-16.

The government must thoroughly review defence spending so that the armed forces on the front-line can deliver their mission

The Ministry of Defence spends approximately £40bn a year (3% of GDP) and the armed forces have been among the most pressured area of spending for at least the last decade. The UK's overseas commitments are likely to remain stretched for the foreseeable future.

Questions have also been asked about the ratio of MoD staff to those in the field and why the armed forces still recruit and fill many typically civilian roles with uniformed non-specialists, training them to military standard, only to make them office-based. For example, the Army's Adjutant General's Corps recruits and trains soldiers to become human resource specialists, whose role primarily involves the storage, retrieval, distribution and security of electronic documentation, provision of banking services on operations, advice on allowances and payroll and provision of secretarial personnel assistant duties to senior officers. Its officers join the Army's Legal Services, Staff and Personnel Support or Educational and Training Services. The Royal Logistics Corps recruits and trains soldiers to become chefs, drivers, port operators – who use forklift equipment to load and unload ships – petroleum operators, postal & courier operators and laundry operators. There are equivalents in the Royal Navy and RAF.

Many of these roles are based far from the front-line and could be more effectively provided by non-uniformed civilian staff, as they are in the police service for instance. The fact that most of these roles also involve regular rotation reduces

the ability to specialise and become proficient. Other branches of the state have outsourced such functions, delivering cost-reductions, service improvement and refocusing organisational attention to front-line, core functions.

In some areas, the defence sector has led the way in public-private joint working to deliver professional performance and cost-effectiveness. The initial use of the private sector to take on facilities management, security and training activities has been successfully built on. Today, there are some cutting-edge pockets of private sector provision of defence services. For instance Babcock manages the Faslane naval base, home of the Trident nuclear submarines, Serco trains front-line military helicopter aircrew and G4s guards several very high-risk military sites in the UK, such as the Government Communications Headquarters (GCHQ).

These examples raise the possibility that these types of arrangements could be spread more widely and other areas could be explored.

There is also potential to realise savings and improve the quality of housing management services across the Defence Estates by challenging the efficiency and effectiveness of these services which are currently provided in-house. Drawing on comparisons with social housing managed by the public and private sectors suggests there is scope to achieve savings between £15-17m a year. Crucially, changes in delivery could also lead to more consultation with residents and the release of essential staff to military duties.

2 Learning from private sector practice on managing workforce can yield £27bn cost savings by 2015-16; improvements in productivity can also be achieved

There are steps the government can take to replicate the approach taken by the private sector to manage the pay, pension provision and absence rate of the public sector workforce. Public sector productivity has declined by an average of 0.3% over the period 1997-2007, across the same period labour productivity in the private sector increased by an annual average of 2.8%.⁷ These diverging trends are undesirable and unsustainable. They indicate that businesses and their employees as taxpayers have received declining value for money, with increasing resources having to be committed to achieve a given level of public services. There is a clear opportunity for independent provider expertise to be brought into the provision of public services. Through techniques such as job redesign, absence management and enhanced training and performance management much can be done to improve outcomes. With an increasingly constrained budget and poor productivity performance, new solutions will be needed if the squeeze on spending is not to lead to a severe decline in both the volume and quality of frontline services.

Freezing the public sector pay bill in 2011-12 and 2012-13 could save £19bn

The public sector pay bill has increased by an average of over 5% a year over the last ten years. Significant savings could be achieved through controlling pay. Freezing the pay bill at 2010-11 levels for two years could save a total of £19bn by 2012-13.

This is not a pay freeze but rather a freeze to the total public sector wage bill. It would be a matter for individual departments or bodies to decide what strategy they might take for all or part of their workforces. A pay freeze may well be appropriate for some areas or for certain types of staff where staff salaries are competitive; freezing incremental pay systems which cover a high proportion of civil servants might also need to be explored. A CBI report has shown that at most levels except the most senior, public sector pay is higher than in comparable jobs in the private sector. In addition, pay has on average risen by 77% across the public sector during 1999-2008, compared with only 59% across the private sector, while public sector productivity has actually fallen.

⁷ Total Public Service Output and Productivity report 2009 (ONS)
<http://www.statistics.gov.uk/cci/article.asp?ID=2212>

Achieving better sickness absence management could save £8bn over the next five years

The CBI's 2008 absence survey showed that public sector employees took on average nine days per year sick leave – private sector employees took only 5.8 on average; with public sector employees more likely to take longer periods off work (this is not a function of organisational size, the CBI's absence surveys show). Absence in the public sector is now 55% higher than the private sector average compared to only 30% higher in 2003 – clearly the public sector has not kept pace with improvements in the private sector. Even if the public sector managed to reduce average days off each year by one day this would achieve £439m savings. If the public sector could reduce its average absence to the average level in the private sector, £1.4bn would be saved each year, resulting in total savings of £8.4bn by 2015-16.

This is not an unreasonable expectation. For example, a government-commissioned report published in August 2009 showed staff absence in the NHS costs £1.7bn a year. More days were lost in the NHS than elsewhere in the public sector, with a total of 10.3 million days a year, amounting to an average of 10.7 days a year for each employee, compared with a public sector average of 9.7 days. As the report pointed out, cutting sick leave by a third could save more than £0.5bn a year.

Taking action now to deliver long-term savings on public sector pensions

It is right that public sector employees have access to a good pension, but the current system of public sector pensions is badly out-of-line with good pensions practice elsewhere in the labour market. What is more, the amount the government claims the schemes cost public sector employers only reflects about two thirds of the full cost. With £1tn of liability in the pay-as-you-go schemes alone, taxpayers are writing a blank cheque which is no longer sustainable. Firms have had to reassess what is affordable in pensions terms – government must do the same.

In the short term, government should move quickly to adapt its schemes to private sector norms on retirement ages. With longevity at age 65 approaching 20 years on average, we can no longer pretend that 40 years of low employee and employer contributions will buy 25 years of retirement at two thirds of salary. Retirement ages for all public sector employees must rise to 65 as soon as possible, and track the state pension age after that. It would be possible to announce a rise in the retirement age for all staff below the age of 50 immediately: this would mirror practice in the private sector and give workers time to adjust their plans.

In the longer term, only a fundamental overhaul of the public service schemes will bring them back to sustainability. The CBI wants an independent investigation into the reforms necessary, which should be set up soon so that its recommendations can be rolled out for all new accrual of pension benefits in the public sector within the next parliament. Ideas such as notional funding, which adjusts contribution rates and benefit levels to ensure that schemes do not get too costly, must be explored. This is an area which offers significant scope for savings but more analysis is needed.

3 Non-core activities are best provided by the private and third sectors unless it is essential for them to be provided in-house. Changes here could save £30bn by 2015-16

Ministers and civil servants should focus on their core tasks – deciding policy, rather than running the back-office or service delivery. Sharing back office services can improve efficiency and reduce bureaucracy – if handled well. The Treasury’s Operational Efficiency Programme (OEP) estimates that £4bn could be saved by sharing back office functions such as HR and finance administration across the public sector. Outsourcing such services allows public sector organisations to gain specialist providers as partners skilled in project management experience, and with proven IT infrastructure and the innovation that comes from real knowledge and a passion for improvement. The Treasury OEP also estimates that savings of £3.2bn a year could be made from using IT, around £6.1bn a year from an extended programme of collaborative procurement, and £1.5bn from running the public sector’s property estate more efficiently. Added together, the government has concluded that annual savings of £15bn are achievable. But the CBI believes there is scope for the government to expand its programme of collaborative procurement and make a further £24bn of savings from total expenditure on goods and services by 2015-16.

The CBI believes that private and third sectors should deliver facilities management as it has a proven track record for delivering high quality, value for money support services such as cleaning, catering, ground maintenance and security maintenance. We believe across the NHS alone there is significant potential to make efficiency savings by opening up the 65% of cleaning and catering services in hospitals – currently provided by in-house teams – to competition. Support services account for approximately 8-10% of total NHS budget – about £5.2-£6.5bn is still being managed by in-house teams. The Cleaning & Support Services Association estimate savings of £6bn could be achieved by 2015-16.

Local government has taken a lead in the shared services agenda – but much more can be achieved. There are a number of initiatives already delivering cost savings, for example to improve citizen services and deliver value for money. The London Boroughs of Hounslow and Bromley have established a shared services partnership with private sector partner Liberata. The shared service centre, based in Barrow-in-Furness, is also serving the London Borough of Southwark and Barrow Borough council. It is expected to provide cost savings of £10m over ten years for Hounslow Council and has already improved the benefit processing time in Bromley from 144 days to 27. If the 150 top-tier councils in England achieved this same saving, £0.5bn could be saved over ten years.

There is also a significant opportunity for Whitehall departments to make savings by delivering facilities management services in innovative and sustainable ways. Defra and Interserve have set up a joint board to manage a 15-year project for 186 sites in England and Wales. In addition to providing strategic leadership its remit is to secure sustained economic financial performance, support adaptive and evolutionary thinking, provide positive people engagement, establish successful workplace management and ensure embedded sustainability. Critical to the overall financial model was the need to make upfront investment in the estate to improve both the condition and sustainable performance of the estate. The project has delivered immediate and guaranteed savings from day one of the contract (cashable savings of £126m (£8.4m a year) over the 15 years).

4 Cutting waste on lengthy procurements, consultancy and advertising could save over £16bn by 2015 16

Improving procurement and reducing wasteful procurement delays could save £13bn

While there have been substantial improvements in procurement processes, delays and administrative burdens still remain and inflate project costs for government and the private sector. The private sector has delivered more facilities and services on time and to budget than the old system of public design and construction ever did. Future action to address procurement delays for major public projects could release significant cashable savings.

In education, the total procurement costs to set up a local education partnership (LEP) – the procurement vehicle for schools built or refurbished under the Building Schools for the Future programme – are estimated by the National Audit Office (NAO) to be about £10m, based on the first 15 operational LEPs. These initial procurement costs remain a major concern. Excessive procurement costs are inefficient and waste resources that could be saved.

The NAO estimates the initial cost of procuring a LEP could be reduced by around a third (to £6.5m) if the time taken in planning and procurement is speeded up to meet the guideline of 30 months set by Partnership for Schools. It is expected that 60 of the 70 remaining local authorities will procure a LEP, generating savings of £210m over the next three years. In addition, savings of up to £100m could be made by reducing the number of detailed sample designs required from each shortlisted bidder from two to one. Finally, repeat procurements through existing LEPs will produce savings of up to £60m between now and 2020 when the BSF programme ends.

In addition there is an urgent need to address the problems and cost implications caused by the poor management of procurements for complex government projects and manufactured products. In defence, Bernard Gray's recent report for the defence secretary on the performance of defence procurement has identified significant inefficiencies in the way in which the Ministry of Defence acquires and supports military equipment. Addressing delays and inefficient specifications would go some way to making the £2.2bn a year efficiency saving Gray has identified as required.

Reducing non-essential expenditure could deliver savings of £3bn by 2015-16

A review to determine what is essential and non-essential government expenditure on consultants and advertising could result in a saving of £3bn by 2015-16 through halving both budgets. Consultants must only be used to provide real value when the skills and experience is not available across government. Spending on advertising must be better managed so that only campaigns which have a real impact are used for example, £74m was spent during 2008-09 on a stop-smoking campaign, during which the number of people trying to quit dropped from 680,000 to 670,000, and the number of those people who managed to stay off cigarettes for more than four weeks fell from 350,000 to 337,000.

5 Funding mechanisms must be reformed, with greater use of co-funding, individual budgets and pooling funds at local level to maximise successful outcomes

Ideas for co-funding should be explored and there needs to be discussion and agreement to clarify what is the state's responsibility and what individuals or business should provide. Co-funding has already been permitted in health for many decades, with patients paying for dental treatment and spectacles and in education with students paying tuition fees for university.

In some areas of public spending individual budgets – such as those successfully trialled in adult social care – are being used to allocate resources more effectively by, in effect, making the user the procurer. This approach could and should be extended into new areas of public services such as training and leisure. While personalised budgets are not appropriate in every area their potential is significant. Their value is that they give the public some choice about the services they receive. Indeed providing services that meet people's needs, rather than what public sector bodies believe their needs to be, will deliver better outcomes at lower cost and raise satisfaction rates. Early evidence from adult social care pilot schemes indicates that direct payments can lead to reduced levels of expenditure on care services as users make different choices and selections from those made by professional social workers and commissioners on their behalf. In adult care, direct payments have not led to lower user satisfaction levels and in many cases it has increased. Wider use of co-funding alongside greater personalisation creates a shared incentive between users and providers, ensuring services are appropriate and deliver the desired outcomes.

Pooling local authority budgets will deliver better public service outcomes and save money

Pooling funds at the local level is an option increasingly being considered within local government to better ensure the efficiency and effectiveness of public spending. Through the use of Multi Area Agreements (MAAs) many local authorities are pooling resources and developing innovative solutions to deliver improved services to citizens. The Pennine Lancashire MAA, for instance, is being used to strengthen and connect the member authorities' stretched local economy. To break down the economic barriers of rural areas, they are pooling funds to improve routes to Manchester, Leeds and local business areas – developing change which could not happen without shared working.

Under the 'total place' initiative all the public money that goes into an area – covering local government, education, welfare, police, courts, skills – is added up to identify the synergies and overlaps. The aim is to improve quality by joining up services but also to cut out duplication, reduce overheads and decide how much is really making a difference. While this is not a magic bullet, the potential to save money by taking action to prevent problems and costs further down the line is significant. For example a convincing case can be made for spending more on children's services to prevent children ending up in care, with all the social consequences of poor educational attainment, poor health outcomes and higher crime. Birmingham's chief executive has suggested that for every £1 spent on children's services there was a £4 saving – for the police, courts and probation. But budgets need to be pooled for this sort of savings to be realised.

Cumbria is one of the first places to pilot the total place initiative. A total of £7.1bn of all public money is going into the region, or £14,000 per head of population. If all the public agencies found a 10% improvement a saving of £710m would be made. In Birmingham, the figure is £7.3bn, or about £7,500 per head – with the potential to make £730m saving. It is not possible to extrapolate a total saving across local authority areas but clearly there is significant potential to achieve savings.

For a copy in large text format, contact:

James Fothergill
Head of policy, CBI public services directorate,
T: +44 (0)20 7395 8229
E: james.fothergill@cbi.org.uk



**INVESTORS
IN PEOPLE**

October 2009

© Copyright CBI 2009

The content may not be copied,
distributed, reported or
dealt with in whole or in part
without prior consent of the CBI.

CBI

The CBI is the UK's leading business organisation, speaking for some 240,000 businesses that together employ around a third of the private sector workforce. With offices across the UK, as well as representation in Brussels, Washington, Beijing and Delhi, the CBI communicates the British business voice around the world. The CBI's membership includes over 130 financial services firms, including all the major UK clearing banks and many major UK insurers and asset managers.

<http://publicservices.cbi.org.uk>